

Mark Scheme with Examiners' Report

GCE AS Level Accounting (6001)

January 2005

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ACCOUNTING 6001, MARK SCHEME

Question 1

(a) (i)

Hansa Tennis Club Bar Trading Account for the year ending 31 December 2004.

	£	✓ £
Bar sales		42 000 ✓
less		
Opening bar stocks	1 800 ✓	
Bar purchases 26 400 ✓ - 350 ✓ + 7 400 ✓	<u>33 450</u>	
	35 250	
Closing bar stocks	<u>1 650</u> ✓	
Cost of sales		<u>33 600</u>
		8 400
Bar stewards' wages		<u>9 500</u> ✓
Bar loss		<u>(1 100)</u>

(4)

(ii)

Subscriptions Account

	£		£
Balance b/d	600	Balance b/d	960
Income and Expenditure A/c ✓	9 600 ✓ OF	Income and Expenditure a/c /Bad Debts ✓	240 ✓ OF
		Receipts and Payments a/c ✓	9 480 ✓
		/Bank	
Balance c/d	<u>1 200</u> ✓	Balance c/d	<u>720</u> ✓
	<u>11 400</u>		<u>11 400</u>

Income and Expenditure OF must be consistent with Income and Expenditure a/c

(4)

(iii)

Income and Expenditure Account for the year ended 31 December 2004.

	£	£
Income		
Subscriptions 80 x £120	9 600 ✓	
Profit on raffles 1 100 ✓ - 700 ✓	400	
Interest on deposit 40 ✓ + 40 ✓	80	
Rentals and lettings	<u>650</u> ✓	
		10 730
less		
<u>Expenditure</u>		
Loss on bar	1 100 ✓	
Bad debts 9 600 less 9 480 ✓ + 960 ✓		
-1 200 ✓ - 600 ✓ + 720 ✓	240	
Rent and rates 5 000 + 200 ✓ - 300 ✓	4 900	
Electricity 970 - 125 ✓ + 180 ✓	1 025	
Loan interest	850 ✓✓	
Repairs to courts	6 200 ✓	
Depreciation - old mower/loss on sale	250 ✓✓	
new mower	600 ✓	
fixtures	<u>350</u> ✓	
		<u>15 515</u>
Deficit	✓ OF	<u>(4 785)</u>

Raffle expenses may recorded in expenditure

(12)

(b)

Amount stolen: COS £33 600 + 33.33% = £44 800 - £42 000 actual sales
= £2 800 stolen. ✓ OF

(2)

(c)

Where life memberships are paid, consideration must be given to the period over which the service must be provided ✓ and therefore the payment must be apportioned ✓ over that estimated period. ✓ This would therefore be an application for the accruals/matching concept ✓✓ and also the prudence concept. ✓✓

Therefore the members' proposal is invalid ✓ as it stands and only a proportion of the £1 000 ✓ could be charged to the Income and Expenditure Account as income. ✓

Maximum (4)

Total 26 marks

Question 2

(a) (i), (ii), (iii)

Overhead Recovery

	Preparation and Printing		Finishing and Packing		Administration	
	£		£		£	
Rent etc	15 000	✓	12 000	✓	3 000	✓
Heat etc	10 000	✓	8 000	✓	2 000	✓
Depreciation	24 000	✓	12 000	✓	4 000	✓
Supervision	24 000	✓	12 000	✓	-	
Salaries					81 000	✓
	73 000		44 000		90 000	
Re-allocation	54 000	✓ OF	36 000	✓ OF		
	127 000		80 000			
Labour Hrs	8 280	✓✓	4 140	✓✓		
Recovery Rate	£15.34	✓ OF	£19.32	✓ OF		
	per hour		per hour			

(6)+(1)+(3)

(b)

It will be appropriate to use machine hour rates when the major activity/cost driver ✓✓
of the cost centre is machine driven. ✓✓

(2)

(c)

Customer's Order

		£	£
Raw Materials			
200 packs of A4 paper	100 ✓ x £2.20 ✓	450 ✓	
	100 ✓ x £2.30 ✓		
Specialist materials		560 ✓	
			1 010
Labour	✓ ✓✓		
Preparation and Printing	50 hrs x £10	500	
Finishing and Packing	40 hrs x £10	400	
	✓ ✓✓		900
Overheads	✓ ✓		
Preparation and Printing	50 x £15.34 OF	767	
Finishing and Packing	40 x £19.32 OF	773	
	✓ ✓		1 540
			3 450
Profit Margin 25%			1 150 ✓✓ OF
			4 600

Profit must be one third of total cost or one quarter of selling price.

(9)

- (d)
(i) Labour productivity is the relationship between the labour inputs and the output of the activity. ✓ It could be described, for example, as the number of items per labour hour. ✓

(1)

- (ii) Valid points may include:
Piecework
Group bonus scheme
Individual bonus scheme
✓✓ mark for identification + ✓✓ mark for development x 2

(4)

Example:

Piecework may be used as an alternative method of remuneration ✓ paying staff by the individual output completed in a set period of time. ✓ Staff will tend to produce more output in return for greater pay reward ✓ reducing the labour cost per unit produced. ✓

Total 26 marks

Question 3

(a)(i)

Appropriation Account of Angela and Belou for the six months ended 31 December 2004

	£		£
Net profit			13 600
less			
<u>Interest on Capital</u>			
Angela	200	✓	
Belou	<u>300</u>	✓	
			<u>500</u>
			13 100
Less			
<u>Share of Profit Residue</u>			
Angela	6 550	✓ OF	
Belou	<u>6 550</u>	✓ OF	
			<u>13 100</u>

OF for share of profit if equal shares and no extraneous items in account.

(2)

(ii)

<u>Current Accounts</u>			
	Angela Belou		
	£	£	
Balance b/d	460	✓	
Drawings	7 000	✓	6 500
Balance c/d	<u>7 460</u>	✓ OF	<u>1 650</u>
			<u>8 150</u>

	Angela Belou		
	£	£	
Balance b/d			1 300
Interest on Capital	200	✓ OF	300
Share of profit	6 550	✓ OF	6 550
Balance c/d	<u>710</u>	✓ OF	
	<u>7 460</u>		<u>8 150</u>

(3)

(iii)

Capital Accounts							
	Angela £	Belou £	Con'ou £		Angela £	Belou £	Con'ou £
	✓	✓	✓			✓	✓
Goodwill	7 000	14 000	14 000	Balance	10 000	15 000	✓
Withdrawal	10 000 ✓			Capital		25 000	
	✓ OF	✓ OF	✓ OF		✓	✓	
Balance c/d	10 500	18 500	11 000	Goodwill	17 500	17 500	
	<u>27 500</u>	<u>32 500</u>	<u>25 000</u>		<u>27 500</u>	<u>32 500</u>	<u>25000</u>

(6)

(iv)

Balance Sheet of Angela, Belou and Constanou as at 1 January 2005 ✓

	£	£	£	
<u>Fixed assets</u>				
Leasehold premises		60 000 ✓		
Delivery van		4 800 ✓✓		
Fixtures and fittings		<u>8 000 ✓</u>		
			72 800	
<u>Current assets</u>				
Stock 12 350 ✓ + 6500 ✓	18 850			
Debtors	1 750	✓		
Prepaid	150	✓		
Bank(2 500)✓ +13 700✓ -10 000✓	1 200			
Cash	<u>970</u>	✓		
		22 920		
<u>less Current liabilities</u>				
Creditors	8 950	✓		
Accrued	<u>830</u>	✓		
		<u>9 780</u>		
Working capital			<u>13 140</u> ✓ OF	
			85 940	
<u>less Long Term Liabilities</u>				
Mortgage on premises			<u>45 000</u> ✓	
			<u>40 940</u>	
Financed by:				
Capital				
Angela	10 500	✓ OF		
Belou	18 500	✓ OF		
Constanou	<u>11 000</u>	✓ OF		
		40 000		
<u>Current Accounts</u>				
Angela	710 DR	✓ OF		
Belou	<u>1 650 CR</u>	✓ OF		
		940		
			<u>40 940</u>	

Mortgage mark only awarded if shown as long term liability.
Working capital OF only if Mortgage not included in current liabilities.

(11)

- (a) Constanou has joined as a 'sleeping partner' ✓ and Angela has reduced her involvement in the business to 50%. ✓ Therefore the day to day operational management ✓✓ will be reduced. ✓ However, with the increase to three partners they have a range of management skills ✓✓ and therefore the strategic long term planning ✓✓ of the business may be increased. ✓

Maximum (4)

Total 26 marks

Question 4

- (a)(i) Liquidity is the ability of the business to meet its short term liabilities ✓✓ by ensuring that it can convert stock into cash ✓ in sufficient quantities and in sufficient time to meet its current liabilities. ✓

(2)

- (ii) When a business commences trading it will have no credit record. ✓ Therefore, business will limit the credit and credit period to that business. ✓ When goods are then resold, probably on credit, it will be essential that the debtors are encouraged to pay quickly ✓ so that cash can be obtained to pay those creditors. ✓

(2)

(b)(i) Current ratio $\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{56\,000 + 28\,000}{45\,000 + 25\,000} = 1.2:1$ ✓✓✓✓

(2)

(ii) Liquid(acid test) $\frac{\text{Current assets} - \text{stock}}{\text{Current liabilities}} = \frac{28\,000}{45\,000 + 25\,000} = 0.4:1$ ✓✓✓✓

(2)

(iii) Debtors payment $\frac{\text{Debtors} \times 365}{\text{Credit sales}} = \frac{28\,000 \times 365}{180\,000} = 56.8 \text{ days}$ ✓✓✓✓

(2)

- (c) Valid points may include:

- Benchmark for current ratio 1.4 - 2:1, Liquid ratio 0.7 - 1:1
 - Current ratio low but not critical.
 - Liquid ratio poor.
 - Debtors payment period too long at 56.8 days.
 - Stock may be too high, reduce and creditors will reduce.
 - No funds in the bank, payments to creditors dependent upon debtors paying.
- ✓✓ Mark per point x 4

(4)

- (d)

- (i) The current ratio will decline ✓ because current liabilities will be £32 000 higher. ✓
- (ii) The current ratio will improve ✓ because a short term debt is converted to a long term debt and the current liabilities will decrease. ✓

(2)

Total 16 marks

Question 5

(a)

Provision for Bad and Doubtful Debts Account

		£			£
	Bad debts ✓	✓ 670	1 Jan	Balance b/d ✓	2 250 ✓
	Bad debts 31 Dec ✓	✓ 2 700	31 Dec	Profit and Loss ✓	2 434 ✓✓
31 Dec	Balance c/d ✓	✓✓ OF 1 314			
		<u>4 684</u>			<u>4 684</u>

(6)

(b)

Prudence/conservatism ✓✓ because it can be recognised that not all debtors will meet their debts in full, resulting in the need for a provision to be made against potential future losses. ✓✓

Consistency ✓✓ because although the provision for doubtful debts will vary from year to year, the basis of its calculation should be consistent. ✓✓

For development marks, concept must be applied to problem not described.

(4)

(c) Valid points may include:

- Trade references and bank references should be sought from all credit customers for all credit customers.
 - Letters demanding payment should be sent after one month and legal action should be threatened sooner, possibly after 3 months.
 - Debt recovery is more effective if supported by personal contact. It is easier to ignore letters.
 - Legal action should be taken where debts are of sufficient size and significantly overdue. Customers may become aware that legal action is not taken.
 - There seems to be no policy of stopping supplies.
- ✓✓ Marks for recognition plus ✓✓ marks for development x 3

(6)

Total 16 marks

Question 6

(a)(i)

Telephone Account

		£			£
15 Feb	Bank	440	1 Jan	Balance b/d	150
5 May	Bank ✓	615	31 Dec	Profit and Loss ✓	2 075 ✓
18 Aug	Bank	520			
2 Dec	Bank ✓	480			
31 Dec	Balance c/d ✓	✓ 170 ✓			
		<u>2 225</u>			<u>2 225</u>

(3)

(ii)

Rent Receivable Account

		£			£
			1 Jan	Balance b/d	190
31 Dec	Profit and Loss ✓	1 230 ✓	3 Mar	Bank	600 ✓
31 Dec	Balance c/d ✓	✓ 220 ✓	31 Aug	Bank	660 ✓
		<u>1 450</u>			<u>1 450</u>

(3)

(iii)

<u>Stationery Account</u>					
£			£		
1 Jan	Balance b/d	365			
13 Mar	Bank	95	31 Dec	Profit and Loss	525 ✓
26 Oct	Bank	✓ 295	31 Dec	Balance c/d	✓ 230 ✓
		<u>755</u>			<u>755</u>

(2)

(iv)

<u>Office Equipment - Provision for Depreciation Account</u>					
£			£		
1 Jul	Disposal ✓	✓ 320	1 Jan	Balance b/d	1 500 ✓
31 Dec	Balance c/d ✓	✓ 2 180	31 Dec	Profit and Loss	✓ 1 000 ✓✓
		<u>2 500</u>			<u>2 500</u>

(4)

(b)(i) Capital expenditure, such as office equipment, will provide an asset which will last for several accounting periods.✓ Only a proportion of that expenditure, measured as depreciation, will be charged as a revenue expenditure.✓
Revenue expenditure, such as stationery, relates to the period in which it is incurred.✓✓

(2)

(ii) Distinction must be drawn between payments made and payments incurred.✓✓
Adjustment must be made to the level of expenses which have been used up ✓
during the trading period.✓ The matching principle. The adjustments are by way of prepayments and accruals.

(2)

Total 16 marks

Question 7

(a)(i)

<u>Sales Ledger Control Account</u>					
£			£		
Balance b/d ✓	8 270 ✓	Bank	21 250	✓✓	
Sales on credit/	23 680 ✓ OF	Discount Allowed	600	✓✓	
Receipts from debtors		Returns Inwards	310	✓✓	
✓		Balance c/d ✓	9 790	✓	
	<u>31 950</u>		<u>31 950</u>		

(6)

(ii)

Trading Account for the month of December 2004.

	£		£
Opening stock	6 250 ✓	Sales - credit	23 680 ✓ OF
Purchases	13 600 ✓	Returns In	310 ✓
Less Returns Out	<u>450 ✓</u>		<u>23 370</u>
	13 150	Sales - cash	3 700 ✓
	<u>19 400</u>		
Less Closing stock	<u>5 300 ✓</u>		
	14 100		
Gross profit	<u>12 970 ✓ OF</u>		
	<u>27 070</u>		<u>27 070</u>

OF for Sales on Credit if not containing cash sales.

(4)

(b)

Valid points might include:

The variance is due to:

- Possible fraud
 - Error such as
 - (i) Incorrect posting from day books
 - (ii) Incorrect addition of eg sales or debtors accounts
 - (iii) Failure to post complete double entry due to loss of documentation
 - (iv) Transcription of information.
- ✓✓ marks per reason plus ✓✓ marks for development x 3 points

(6)

Total 16 marks