

Mark Scheme (Results)

January 2011

GCE O Level

GCE O Level Accounting (7011/01)
Paper 01

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Question 1

- (a) Prepare the ledger accounts in the books of Freda Payne for the month of October 2010 using the information provided in the books of original entry and in the cash book. Balance these accounts and bring the balance down on the 1 November 2010.

Capital Account

Date	Narrative	Amount	Date	Narrative	Amount
Oct 31	Balance c/d	5 000*	Oct 1	Cash Book	5 000*
			Nov 1	Balance b/d	5 000

Purchases Account

Date	Narrative	Amount	Date	Narrative	Amount
Oct 20	Cash Book	500*	Oct 31	Balance c/d	1 200*
Oct 31	Purchases Book	700*			
		<u>1 200</u>			<u>1 200</u>
Nov 1	Balance b/d	1 200			

Purchases Returns Account

Date	Narrative	Amount	Date	Narrative	Amount
Oct 31	Balance c/d	36*	Oct 31	Purchases Returns Book	36*
			Nov 1	Balance b/d	36

VAT Account

Date	Narrative	Amount	Date	Narrative	Amount
Oct 1	Journal	100*	Oct 31	Purchases Returns Book	3.60*
Oct 20	Cash Book	50*	Oct 31	Cash Book	200*
Oct 31	Purchases Book	70*	Oct 31	Balance c/d	16.40*
		<u>220</u>			<u>220</u>
Nov 1	Balance b/d	16.40			

Note : This mark is for 70 only - it may not be split into 45 and 25

Vileda Supplies Account

Date	Narrative	Amount	Date	Narrative	Amount
Oct 12	Cash Book	455.40*	Oct 1	Purchases Book	495*
Oct 15	Purchases Returns Book	39.60*			
		<u>495</u>			<u>495</u>

Note : There is no mark to be awarded here if a balance is included.

Happy Mops Account

Date	Narrative	Amount	Date	Narrative	Amount
Oct 31	Balance c/d	275*	Oct 20	Purchases Book	275*
			Nov 1	Balance b/d	275

Shop Fittings Account

Date	Narrative	Amount	Date	Narrative	Amount
Oct 1	Journal	<u>1 000*</u>	Oct 31	Balance c/d	<u>1 000*</u>
Nov 1	Balance b/d	1 000			

Fitter Shops Ltd Account

Date	Narrative	Amount	Date	Narrative	Amount
Oct 31	Balance c/d	<u>1 100*</u>	Oct 1	Journal	<u>1 100*</u>
			Nov 1	Balance b/d	1 100

Sales Account

Date	Narrative	Amount	Date	Narrative	Amount
Oct 31	<u>Balance c/d</u>	<u>2 000*</u>	Oct 31	Cash Book	<u>2 000*</u>
			Nov 1	Balance b/d	2 000

Business Rates Account

Date	Narrative	Amount	Date	Narrative	Amount
Oct 29	Cash Book	<u>670*</u>	Oct 31	Balance c/d	<u>670*</u>
Nov 1	Balance b/d	670			

Drawings Account

Date	Narrative	Amount	Date	Narrative	Amount
Oct 30	<u>Cash Book</u>	<u>150*</u>	Oct 31	Balance c/d	<u>150*</u>
Nov 1	Balance b/d	150			

Rent Account

Date	Narrative	Amount	Date	Narrative	Amount
Oct 31	Cash Book	<u>720*</u>	Oct 31	<u>Balance c/d</u>	<u>720*</u>
Nov 1	Balance b/d	720			

(30)

Only award balancing mark if both balances present and account has been correctly balanced off

Note : Alternative narrative for Cash book may be Cash or Bank in every case. The balances may be OF in every case.

(b) Prepare a trial balance at 31 October 2010.

Freda Payne

Trial Balance

as at 31 October 2010

Account	Debit	Credit
	£	£
Capital		5 000*
Purchases	1 200*	
Purchases Returns		36*
Vat	16.40*	
Happy Mops		275*
Shop Fittings	1 000*	
Fitter Shops Ltd		1 100*
Sales		2 000*
Business Rates	670*	
Drawings	150*	
Rent	720*	
Bank	4 554.60*	
Cash	100*	
Totals	8411*	8411

Award mark for correct figure or own figure from (a)

Note : Mark for total is OF but awarded only if the two totals agree (If the totals do not but a Suspense a/c is introduced to make them agree then 1 mark is given - no mark awarded for the Suspense a/c entry itself)

(14)

(c) State, with reasons, whether you agree or disagree with this statement

The marks here are to be awarded (2) for disagreeing with the statement, a further (2) for stating that a trial balance only checks the arithmetical accuracy of the accounts a final (2) for identifying one of the six types of errors which would not be revealed.

(6)

Sample Answer

No, I disagree** with this statement. A trial balance only checks the arithmetical accuracy** of the accounts, it does not reveal certain errors, for example, errors of omission**, commission, original entry, principle, compensation, complete reversal.

Note : marks gained can only be 0,2,4 or 6

Question 2

- (a) Prepare journal entries for all the above items. Date your entries 31 December 2010 and include suitable narratives.

Date	Narrative	F	Debit (£)	Credit (£)
Dec 31	Drawings*		15000	
	Wages*			15000
	Being the correction of error or principle*			
Dec 31	Bad Debts*		650	
	Debtors Control Account*			650
	Being the writing off of the debt of A Patel - in liquidation*			
Dec 31	Profit an Loss*		587	
	Provision for Doubtful Debts**			587
	Being the creation of a provision for doubtful debts*			
Dec 31	Motor Vehicles*		10000	
	Purchases*			10000
	Being the correction of an error of principle*			
Dec 31	Depreciation Expense/Profit and Loss*		2500	
	Provision for depreciation - MV**			2500
	Being the annual depreciation charge on a new vehicle *			
Dec 31	Prepayments**		400	
	Rent and Rates*			400
	Being the prepayment of rates for the period 1 January to 30 June 2010*			
Dec 31	Heat and Light*		175	
	Accruals**			175
	Being electricity accrued for the period ended 31 December 2010*			

(25)

b)

Ahmed Khan

Trading and profit and loss account

Year ended 31 March 2009

	£	£	£
Sales			500 000
Cost of goods sold			
Opening stock		40 000	
Purchases		<u>245 000*</u>	
		285 000	
Closing stock		<u>45 000</u>	
Cost of goods sold			<u>240 000*</u> OF
Gross profit			260 000* OF
Expenses			
Salaries and wages		90 000*	
Motor vehicle expenses		4 000	
Rent and rates		1 400*	
Insurance		7 000	
Heat and light		12 175*	
Depreciation - Equipment		3 000	
Depreciation - Motor Vehicles		7 500*	
Bad Debts		650*	
Provision for Doubtful Debts		587*	
			<u>126 312</u>
Net Profit			<u>133 688**</u>

(10)

**Note : All answers are for correct figure apart from the two marked OF.
Also Net profit gains two marks if correct and one if OF**

Only award mark for correct adjusted figure or own figure from (a)

(c) Using the adjustments for accruals and prepayments as an example, evaluate the importance of the prudence concept in the preparation of the final accounts

(10)

Award up to 4 marks for explanation of the prudence concept and up to 6 marks for an explanation of how adjusting for accruals and prepayments results in a more accurate set of final accounts

Sample Answer

The prudence concept requires that final accounts should always report a conservative figure for profit* or the valuation of assets*. To this end, profits are not to be anticipated* and all known liabilities* should be provided for at the year end

The adjustment for accruals and prepayments is a good example of the application of this concept as by making these adjustments the business is able to report a profit* which accurately reflects the true* cost that has been incurred for the year* instead of simply the amount that has been paid*. The year end balance sheet will also show a true figure for both assets* and liabilities* by taking account of the prepayments and accruals* respectively.

(Total 45 marks)

Question 3(a)

Sandip Ltd
Profit and Loss Account
For Year Ended 30 June 2010

	£	£	£
Gross Profit			185 652*
Profit on Disposal			500*
			186 152
<u>Running Expenses</u>			
Wages (77000 + 7000) (1 + 1)		84 000**	
Heating and Lighting		10 804*	
Postage and Telephone		2 798*	
Advertising		1 782*	
Sundry Expenses		9 450*	
Debenture Interest (750+ 750) (1 + 1)		1 500**	
Bad Debts		250*	
Provision for Doubtful Debts		28**	(2 or 0)
Depreciation - Motor Vehicles		3 750**	(2 or 0)
Fixtures and Fittings		10 000**	(2 or 0)
			124 362
Net Profit			61 790* OF

(18)

Question 3(b)

Sandip Ltd
Appropriation Account
For year ended 30 June 2010

	£	£	£
Net Profit			61 790* (OF)
Retained profit b/f			<u>71 171*</u>
			132 961
<u>Appropriations</u>			
Transfer to general reserve		10 000*	
Ordinary share dividend: Interim paid	5 000*		
Final proposed	5 000** (2 or 0)		
		10 000	
			20 000
Retained profit c/f			<u>112 961*</u> (OF)

(7)

Question 3(c)

Sandip Ltd
Balance Sheet
As at 30 June 2010

Fixed Assets	£	£	£
Land and Buildings	250 000	-	250 000*
Motor Vehicles	20 000*	8 750** (OF)	11250* (OF)
Fixtures and Fittings	50 000*	35 000** (OF)	15000* (OF)
	<u>320 000</u>	<u>43 750</u>	<u>276 250</u>
Current Assets			
Stock	17 480*		
Debtors (4260 - 213) (1 + 1)	4 047**		
Cash at Bank	19 302*		
Cash in Hand	1 124*		
		41 953	
Current Liabilities			
Creditors	17 492*		
Wages and Salaries Accrued	7 000*		
Debenture Interest Owing	750*		
Proposed Dividend	5 000*		
		30 242	
Working Capital*			11711* (OF)
			287 961
Long Term Liabilities			
10% Debentures (2020)			15000*
			<u>272961</u>
Financed by:			
Ordinary Share Capital		100 000*	
General Reserve		60 000*	
Profit and Loss Account		(OF) 112 961*	
Shareholders Funds*			(OF) 272961*

(25)

Note : Because of clip marks for Depreciation of Fixed Assets need to be awarded as follows

Motor vehicles 5000 - 1 mark ; a number less than 5000 - 1 mark ; a number between 5000 and 10000 - 2 marks

Fixtures and Fittings 25000 - 1 mark ; a number less than 25000 - 1 mark ; a number between 25000 and 50000 - 2 marks

(Total 50 marks)

Question 4

4 (a) Calculate for both 2009 and 2010:

(i) Gross profit.

2009	2010
$\text{£}25\ 000 - \text{£}10\ 000 = \text{£}15\ 000^*$	$\text{£}29\ 000 - \text{£}17\ 500 = \text{£}11\ 600^*$

(ii) Net profit.

2009	2010
$\text{£}15\ 000 - \text{£}1\ 000 = \text{£}14\ 000^*$	$\text{£}11\ 600 - \text{£}1\ 200 = \text{£}10\ 400^*$

(iii) Gross profit margin.

2009	2010
$15\ 000 / 25\ 000 = 60\%^*$	$11\ 600 / 29\ 000 = 40\%^*$

(iv) Net profit margin .

2009	2010
$14\ 000 / 25\ 000 = 56\%^*$	$10\ 400 / 29\ 000 = 36\%^* \text{ (or } 35.86, 35.8 \text{ or } 35.9)$

(v) return on capital employed .

2009	2010
$14\ 000 / 5\ 000 = 280\%^*$	$10\ 400 / 19\ 000 = 55\%^* \text{ (or } 54.74 \text{ or } 54.7)$

(

(b) Evaluate William's claim (giving reasons backed up with figures) that the financial performance of the business in 2011 was superior to that of 2010. In your answer you are expected to make equal reference to **profitability** and **liquidity**.

The key here is for the candidate to find reasons (identify a strategy) to explain their contention. Reasons must have validity and must be backed up by figures.

Evaluation of performance between 2009 and 2010

Comment on profitability (2) with figures (2)

Comment on liquidity (2) with figures (2)

Decision based on evidence (2)

Sample answer:

Since William has decreased his gross profit margin* (from 60% to 40%) it may be that he has reduced his selling price or suffered an increase in his cost of stock. It is possible that he may have had more wastage during 2010 due to the nature of his business*. There has been no increase in his overheads over the two years as the only change in the net profit margin was due to the decrease in his gross profit margin*. This indicates that he is maintaining the same level of overhead expenditure. The return on capital employed also indicates a decrease in his profitability situation from 280% in 2009 to 55% in 2010. This may be due to the fact that his profit from 2009 has not yet been used to expand his business*.

In terms of liquidity the situation has worsened between the two years*. His current ratio has diminished from 2:1 in 2009 to 1:1 in 2010*. If this trend continues then he may have difficulty meeting his short term debts*. The acid test also shows a diminishing trend, down from 1.2:1 to 0.8:1*.

Overall although William has sold more goods in 2010 his profitability has deteriorated* . Similarly his liquidity position has worsened. So both in terms of profitability and liquidity William is incorrect *in his belief that his business performance in 2010 is superior to 2009.

(10)

(Total 20
marks)

Question 5 (a)

- (i) The profit and loss appropriation account

Harsha, Omid and Jasmine
Profit and loss account appropriation account
Year ended 31 December 2009

	£	£
Net Profit		96 000*
Share of Profits: Harsha	32 000*	
Omid	32 000	
Jasmine	32 000	
(Salary not allowed)		96 000

1 mark for all three shares

- (ii) The partners capital accounts

Capital Account (Harsha)

Date	Narration	£	Date	Narration	£
			Jan 1	Bank	30 000*

Capital Account (Omid)

Date	Narration	£	Date	Narration	£
			Jan 1	Bank	400 00*
			July 1	Bank	10 000*

Capital Account (Jasmine)

Date	Narration	£	Date	Narration	£
			Jan1	Bank	100 000*

- (iii) The partners current accounts

Current Account (Harsha)

Date	Narration	£	Date	Narration	£
Dec 31	Drawings	6 000*	July 1	Business Expenses	1 000*
			Dec 31	Share of Profits	32 000*

Current Account (Omid)

Date	Narration	£	Date	Narration	£
Dec 31	Drawings	10 000*	Dec 31	Share of Profits	32 000*

Current Account (Jasmine)

Date	Narration	£	Date	Narration	£
Sept 30	Drawings (Purchases)	2 500*	Dec 31	Share of Profits	32 000*
Dec 31	Drawings	80 000*			

Note: For Drawings allow 82 500 (2 marks)

Only allow mark if appropriate narrative included

Question 5 (b)

Outline the accounting procedures which could be included in the new agreement to take account of these points.

Harsha could receive a **partnership salary*** (or greater profit share) in recognition of this additional responsibility

Partners s to be charged **interest on drawings*** to discourage Omid from withdrawing excessive amounts of money from the business

Partners to be awarded **interest on capital***(or greater profit share)

Question 5 (c)

Describe the double entry that would be required to record these financial details

	Debit Entry	Credit Entry
(i) Partnership salary	Appropriation account	Harsha Current account*
(ii) Drawings	Partners' Current Account	Appropriation account*
(iii)Interest on capitals	Appropriation account	Partners' Current account*

Only award mark if both entries present

(Total 20 marks)

Question 6

(a) Prepare the subscriptions account for the year ended 31 December 2010 clearly showing the amount to be transferred to the Club's income and expenditure account. Balance the account on 31 December 2010 and bring the balances down.
(10)

Subscriptions Account

Date	Narration	£	Date	Narration	£
Jan 1	Balance b/f * (10 x 30)	300*	Dec 31	Bank	5400** N1
Dec 31	Income and Expenditure	5340*	Dec 31	Balance c/d (12 x 30)	360*
Dec 31	Balance c/d (4 x 30)	120*			
		<u>5760</u>			<u>5760</u>
Jan 1	Balance b/d N2	360* (OF)	Jan 1	Balance b/d N2	120* (OF)

Notes : N1 Bank 4500 - 1mark Bank 900 - 1mark Bank 5400 - 2marks
Balance narrations must be correct apart from N2 where any reasonable alternative may be accepted

(9)

(b) Explain the treatment of subscriptions in advance and subscriptions in arrears in the balance sheet of the Keswick Sports Club.

(5)

The key here is has the candidate clearly identified that subscriptions in advance is a current liability and stated a valid reason for this and similarly identified that subscriptions in arrears are a current asset and stated a valid reason. A further mark can be awarded if the candidate mentions that this provides club members with a true and fair view of the clubs finances

Sample Answer

Subscriptions in advance should be shown as a current liability* in the balance sheet as the member has paid for a service that they have not yet received*. Subscriptions in advance should be shown as a current asset* in the balance sheet as the member is owing* this amount of money to the club. This will ensure that the members are provided with a true and fair view of the club's finances*.

(Total 15 marks)

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