

Mark Scheme (Results)

June 2011

GCE Accounting
(6001) Paper 01

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Question Number	Answer	Mark																																																																		
1(a)(i)	<p style="text-align: center;">Statement of comprehensive income (Trading and profit and loss account) for the year ended 30 April 2011</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: right;">£</th> <th style="width: 20%; text-align: right;">£</th> </tr> </thead> <tbody> <tr> <td>Revenue (sales)</td> <td></td> <td style="text-align: right;">85 524 ✓</td> </tr> <tr> <td>Less</td> <td></td> <td></td> </tr> <tr> <td>Opening inventory (Stock)</td> <td style="text-align: right;">3 810</td> <td></td> </tr> <tr> <td>Ordinary goods purchased (Purchases)</td> <td style="text-align: right;"><u>33 290</u></td> <td style="text-align: right;">✓</td> </tr> <tr> <td style="padding-left: 20px;">(32 890 + 400)</td> <td style="text-align: right;">37 100</td> <td></td> </tr> <tr> <td>Less Closing inventory (Stock)</td> <td style="text-align: right;"><u>4 630</u></td> <td></td> </tr> <tr> <td>Cost of sales (Cost of goods sold)</td> <td></td> <td style="text-align: right;"><u>32 470</u> ✓</td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right;">53 054</td> </tr> <tr> <td>Less</td> <td></td> <td></td> </tr> <tr> <td>Motor vehicle running</td> <td style="text-align: right;">4 250</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>General expenses</td> <td style="text-align: right;">6 910</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Repairs to fixtures and fittings</td> <td style="text-align: right;">2 000</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Telephone and broadband</td> <td style="text-align: right;">1 450</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Wages (23 860 - 1 600)</td> <td style="text-align: right;">22 260</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Loan interest (1 750 + 650)</td> <td style="text-align: right;">2 400</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Depreciation - Property</td> <td style="text-align: right;">800</td> <td style="text-align: right;">✓</td> </tr> <tr> <td style="padding-left: 20px;">- Motor vehicle</td> <td style="text-align: right;">1 400</td> <td style="text-align: right;">✓</td> </tr> <tr> <td style="padding-left: 40px;">- Fixtures and fittings</td> <td style="text-align: right;">1 800</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Bad debt</td> <td style="text-align: right;">600</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Increase in PDD</td> <td style="text-align: right;"><u>90</u></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Profit for the year (Net profit)</td> <td></td> <td style="text-align: right;"> <u>43 960</u> <u>9 094</u> ✓ OF <u>53 054</u> </td> </tr> </tbody> </table>		£	£	Revenue (sales)		85 524 ✓	Less			Opening inventory (Stock)	3 810		Ordinary goods purchased (Purchases)	<u>33 290</u>	✓	(32 890 + 400)	37 100		Less Closing inventory (Stock)	<u>4 630</u>		Cost of sales (Cost of goods sold)		<u>32 470</u> ✓	Gross profit		53 054	Less			Motor vehicle running	4 250	✓	General expenses	6 910	✓	Repairs to fixtures and fittings	2 000	✓	Telephone and broadband	1 450	✓	Wages (23 860 - 1 600)	22 260	✓	Loan interest (1 750 + 650)	2 400	✓	Depreciation - Property	800	✓	- Motor vehicle	1 400	✓	- Fixtures and fittings	1 800	✓	Bad debt	600	✓	Increase in PDD	<u>90</u>	✓	Profit for the year (Net profit)		<u>43 960</u> <u>9 094</u> ✓ OF <u>53 054</u>	(15)
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1(b)(i)	Error of principle ✓	(1)

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1(b)(ii)	Valid answers may include: <ul style="list-style-type: none"> • Repairs are classed as day to day expenses OR • Repairs are revenue expenses ✓✓ • Fixtures and fittings contain capital expenditure only OR • Fixtures and fittings will last for many years ✓✓ 	(4)

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1(d)	Valid answers may include: <p>In favour</p> <ul style="list-style-type: none"> • Motor vehicles lose more in value in the early years of ownership • Statement of financial position (balance sheet) valuation will be more accurate • When depreciation costs are added to repair costs the total cost of owning the asset are fairly even <p>Against</p> <ul style="list-style-type: none"> • Benefit to the business will be the same over the early and later years • After initial loss, motor vehicle loss in value is constant although depreciation charge will be variable <p>✓✓ per point x 2 in favour plus ✓✓ per point x 2 against.</p>	(8)

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2(d)	<p>Accounting concepts - In the search for objectivity, the rules which lay down the way in which the financial information of the business is recorded. <i>∕∕</i></p> <p>Accruals concept - Calculates profit for the year on the basis of the difference between revenues and expenses for the year rather than the difference between cash receipts and expenditures. <i>∕∕</i></p> <p>Going concern concept- Unless the opposite is known accounting always assumes that the business will continue to operate for an indefinite period. Therefore, it is not necessary to show what assets would fetch. <i>∕∕</i></p>	(6)

Question Number	Answer	Mark
2(e)	<p>Valid answers may include:</p> <p>In favour</p> <ul style="list-style-type: none"> • Profit figures can be relied upon/asset values are accurate • Comparison between accounts is possible • Users can trust the accounts prepared/make decisions based on the accounts <p>Against</p> <ul style="list-style-type: none"> • Use of concepts often open to a wide interpretation • Different interpretation in different businesses e.g. materiality • Concepts can contradict each other <p><i>∕∕</i> per point x 2 in favour plus <i>∕∕</i> per point x 2 against</p>	(8)

Question Number	Answer	Mark
3(a)	<p>Profit is the difference between revenue and expenses for a period <i>///</i></p> <p>Profitability compares the profit for the period with resources used to generate that profit e.g. capital employed to obtain a percentage return on capital employed/e.g. percentage mark-up on sales <i>///</i></p>	(4)

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3(c)	<p>Valid non-financial factors may include:</p> <ul style="list-style-type: none"> • Future market potential • Location of business • Quality of products sold • Reputation • Skill of workforce / Quality of service • History of industrial relations • Good relationship with suppliers • Brand image <p>✓ x 4 factors</p>	(4)

Question Number	Answer	Mark
3(d)	<p>In favour of Hilltec:</p> <ul style="list-style-type: none"> • Net profit to revenue is better due to lower wage costs • Return on capital employed is at a good level • The business has no loans • The business has a higher level of non-current assets <p>In favour of Microtech:</p> <ul style="list-style-type: none"> • Gross profit to sales is higher possibly due to more efficient buying • Net profit to revenue/ Return on capital employed could be much improved if wage costs could be reduced. • Current ratio at benchmark level at 2:1 • Efficient collection of debts at 18.25 days <p>Candidates may recommend either business. Allow OF arguments. ✓✓ per valid reason x 3 reasons</p>	(6)

Question Number	Answer	Mark
3(e)	<p>Valid points may include:</p> <p>Points in favour</p> <ul style="list-style-type: none"> • Provide a 'yardstick' of comparison • Can be compared with other similar businesses or previous periods • Provide investors/purchasers etc with an independent assurance <p>Points against</p> <ul style="list-style-type: none"> • Do not consider non financial factors such as potential/ work force • Look at individual/specific measurements only e.g. liquidity • Difficult to interpret/may be subjective • May not be accurate/representative <p>∩∩ per point x 2 in favour plus ∩∩ per point x 2 against.</p>	(8)

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4(b)	<p>Possible reasons:</p> <ul style="list-style-type: none"> • Retirement • Death • Disagreement • Admission of a new partner • Sale of business • If a partner wants to leave <p>✓ per reason x 2 reasons</p>	(2)

Question Number	Answer	Mark
4(c)(i)	<p>Goodwill is the value/price paid for a business over and above the net value of the assets ✓✓</p>	(2)

Question Number	Answer	Mark
4(c)(ii)	<p>Possible reasons:</p> <ul style="list-style-type: none"> • Location • Reputation • Specialist product or service <p>✓✓ per reason x 2 reasons</p>	(4)

Question Number	Answer	Mark
4(d)	<p>Valid points may include:</p> <p>Points in favour:</p> <ul style="list-style-type: none"> • More capital available • Greater skill base • Decisions made jointly and possibly more considered • Holiday/sickness cover <p>Points against:</p> <ul style="list-style-type: none"> • Profits shared • Cannot make decisions alone • Conflicts may arise <p>✓✓ per valid point x 2. MAXIMUM one point in favour and one against</p>	(4)

Question Number	Answer	Mark
5(a)	<p>Stock valuation relates to the price attached to the issue of stock to the production department or for resale/for the valuation of closing stock. A method such as FIFO will be used resulting in the issue price probably being different from the price paid. //</p> <p>Stock rotation relates to physical rotation of stock, the oldest stock will be issued first to avoid deterioration. //</p>	(4)

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5(b)	<p style="text-align: center;">Stock valuation - FIFO</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: center;">£</td> <td></td> <td></td> </tr> <tr> <td>1 April Purchased</td> <td>1 000 @ £20</td> <td>=20 000</td> <td></td> </tr> <tr> <td>20 April Purchased</td> <td>1 500 @ £22</td> <td>=<u>33 000</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td>53 000</td> <td></td> </tr> <tr> <td colspan="4">Less</td> </tr> <tr> <td></td> <td>Issued</td> <td>1 000 @ £20</td> <td></td> </tr> <tr> <td></td> <td>Issued</td> <td>1 000 @ £22</td> <td><u>42 000</u></td> </tr> <tr> <td>Stock valuation</td> <td></td> <td>11 000</td> <td>////</td> </tr> <tr> <td colspan="4">Less</td> </tr> <tr> <td>Repair costs of 200 phones</td> <td></td> <td><u>1 200</u></td> <td>//</td> </tr> <tr> <td>Net valuation of stock</td> <td></td> <td><u><u>9 800</u></u></td> <td>//OF</td> </tr> </table>		£			1 April Purchased	1 000 @ £20	=20 000		20 April Purchased	1 500 @ £22	= <u>33 000</u>				53 000		Less					Issued	1 000 @ £20			Issued	1 000 @ £22	<u>42 000</u>	Stock valuation		11 000	////	Less				Repair costs of 200 phones		<u>1 200</u>	//	Net valuation of stock		<u><u>9 800</u></u>	//OF	(8)
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(ii)	For the usage that Hinal will make of the mobile phone he is advised to enter into a High tariff contract. ✓✓ Accept OF recommendation.	(6)												

Question Number	Answer	Mark
5(e)	<p>Valid points may include:</p> <p>Points in favour</p> <ul style="list-style-type: none"> • Accepted by the tax authorities/accounting standards • Is logical in that the oldest stock values are sold/issued first • Gives a higher closing stock value and higher profits when prices are rising. <p>Points against</p> <ul style="list-style-type: none"> • Stock is sold/issued at values that may be below current market prices • Higher profits will mean higher taxes. <p>✓✓ per valid point x 2. MAXIMUM one point in favour and one against.</p>	(4)

Question Number	Answer	Mark
6(a)(i)	<p>Appropriation is the way that overheads are shared/divided between various departments or cost centres. ✓✓ This could involve allocation and/or apportionment. ✓✓</p> <p>The costs may be shared on the most reasonable basis available ✓✓ e.g. floor area for rent. ✓✓</p> <p>Any two points x ✓✓</p>	(4)
(ii)	Business advertising is undertaken to increase sales and therefore it would be best to apportion this cost on the basis of the revenue (sales). ✓✓	(2)

Question Number	Answer	Mark																																																												
6(b)	<p style="text-align: center;">Departmental income statement (trading and profit & loss account) for the year ended 31 March 2011</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="text-align: right; width: 20%;">Shop sales £</th> <th style="text-align: right; width: 20%;">Workshop repairs £</th> </tr> </thead> <tbody> <tr> <td>Revenue (sales)</td> <td style="text-align: right;">120 000</td> <td style="text-align: right;">60 000</td> </tr> <tr> <td>Less</td> <td></td> <td></td> </tr> <tr> <td>Opening inventory (stock)</td> <td style="text-align: right;">38 000 <i>✓</i></td> <td style="text-align: right;">2 100 <i>✓</i></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">84 000 <i>✓</i></td> <td style="text-align: right;">7 100 <i>✓</i></td> </tr> <tr> <td>Internal transfers</td> <td style="text-align: right;"><u>(5 600) <i>✓</i></u></td> <td style="text-align: right;"><u>5 600 <i>✓</i></u></td> </tr> <tr> <td></td> <td style="text-align: right;">116 400</td> <td style="text-align: right;">14 800</td> </tr> <tr> <td>Closing inventory (stock)</td> <td style="text-align: right;"><u>47 500 <i>✓</i></u></td> <td style="text-align: right;"><u>0 <i>✓</i></u></td> </tr> <tr> <td>Cost of sales</td> <td style="text-align: right;">68 900</td> <td style="text-align: right;">14 800</td> </tr> <tr> <td>Gross profit</td> <td style="text-align: right;">51 100</td> <td style="text-align: right;">45 200</td> </tr> <tr> <td>Less</td> <td></td> <td></td> </tr> <tr> <td>Motor running expenses</td> <td style="text-align: right;">6 400 <i>✓</i></td> <td style="text-align: right;">9 600 <i>✓</i></td> </tr> <tr> <td>Wages</td> <td style="text-align: right;">16 800 <i>✓</i></td> <td style="text-align: right;">25 200 <i>✓</i></td> </tr> <tr> <td>Rent and rates</td> <td style="text-align: right;">3 000 <i>✓</i></td> <td style="text-align: right;">6 000 <i>✓</i></td> </tr> <tr> <td>General expenses</td> <td style="text-align: right;">7 000 <i>✓</i></td> <td style="text-align: right;">5 500 <i>✓</i></td> </tr> <tr> <td>Business advertising</td> <td style="text-align: right;">7 200 <i>✓</i></td> <td style="text-align: right;">3 600 <i>✓</i></td> </tr> <tr> <td>Provision for doubtful debts</td> <td style="text-align: right;"><u>440 <i>✓</i></u></td> <td style="text-align: right;"><u>750 <i>✓</i></u></td> </tr> <tr> <td></td> <td style="text-align: right;">40 840</td> <td style="text-align: right;">50 650</td> </tr> <tr> <td>Profit /loss for the year (net profit)</td> <td style="text-align: right;"><u>10 260 <i>✓</i> OF</u></td> <td style="text-align: right;"><u>(5 450) <i>✓</i> OF</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>51 100</u></td> <td style="text-align: right;"><u>45 200</u></td> </tr> </tbody> </table>		Shop sales £	Workshop repairs £	Revenue (sales)	120 000	60 000	Less			Opening inventory (stock)	38 000 <i>✓</i>	2 100 <i>✓</i>	Purchases	84 000 <i>✓</i>	7 100 <i>✓</i>	Internal transfers	<u>(5 600) <i>✓</i></u>	<u>5 600 <i>✓</i></u>		116 400	14 800	Closing inventory (stock)	<u>47 500 <i>✓</i></u>	<u>0 <i>✓</i></u>	Cost of sales	68 900	14 800	Gross profit	51 100	45 200	Less			Motor running expenses	6 400 <i>✓</i>	9 600 <i>✓</i>	Wages	16 800 <i>✓</i>	25 200 <i>✓</i>	Rent and rates	3 000 <i>✓</i>	6 000 <i>✓</i>	General expenses	7 000 <i>✓</i>	5 500 <i>✓</i>	Business advertising	7 200 <i>✓</i>	3 600 <i>✓</i>	Provision for doubtful debts	<u>440 <i>✓</i></u>	<u>750 <i>✓</i></u>		40 840	50 650	Profit /loss for the year (net profit)	<u>10 260 <i>✓</i> OF</u>	<u>(5 450) <i>✓</i> OF</u>		<u>51 100</u>	<u>45 200</u>	(22)
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Question Number	Answer	Mark
7(a)	(iii) ✓ A suspense account is opened as a temporary measure when the trial balance fails to agree ✓✓. It has a balance equal to the net balance of all errors in the ledger ✓✓.	(5)

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7(e)	<p>Valid points may include:</p> <p>Points in favour:</p> <ul style="list-style-type: none"> • The trial balance is a checking device • Is 'prima facie' evidence that the books are correct when the trial balance balances <p>Points against:</p> <ul style="list-style-type: none"> • Certain errors, e.g. commission, are not revealed • Shows only arithmetical errors • Does not show location of errors <p>// per valid point x 2. MAXIMUM one point in favour and one against</p>	(4)

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