

Mark Scheme (Results) January 2011

GCE

GCE Accounting (6001/01)
Paper 01

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0844 372 2187

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1(b)(iii)	<p style="text-align: center;">Income and expenditure account for the year ended 31 December 2010</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>Members subscriptions</td> <td></td> <td style="text-align: right;">20 000 ✓OF</td> </tr> <tr> <td>Profit on refreshments</td> <td></td> <td style="text-align: right;">27 380 ✓OF</td> </tr> <tr> <td>Profit on sale of equipment</td> <td></td> <td style="text-align: right;"><u>800</u></td> </tr> <tr> <td>✓</td> <td></td> <td style="text-align: right;">48 180</td> </tr> <tr> <td>Less</td> <td></td> <td></td> </tr> <tr> <td>Bad debt</td> <td style="text-align: right;">160</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Wages</td> <td style="text-align: right;">18 000</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Electricity</td> <td style="text-align: right;">1 200</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Rates</td> <td style="text-align: right;">1 760</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Sundry expenses</td> <td></td> <td style="text-align: right;">6 250</td> </tr> <tr> <td>✓</td> <td></td> <td></td> </tr> <tr> <td>Bank loan interest (800 ✓+ 1 500 ✓)</td> <td style="text-align: right;">2 300</td> <td></td> </tr> <tr> <td>Exterior redecoration</td> <td style="text-align: right;">5 000</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Depreciation:</td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Clubhouse</td> <td style="text-align: right;">1 300</td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td style="padding-left: 20px;">Equipment</td> <td style="text-align: right;"><u>5 250</u></td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>41 220</u></td> </tr> <tr> <td>Surplus</td> <td></td> <td style="text-align: right;"><u>6 960</u> ✓OF(if no</td> </tr> <tr> <td>aliens)</td> <td></td> <td style="text-align: right;">no</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u><u>48 180</u></u></td> </tr> </tbody> </table>		£	£	Members subscriptions		20 000 ✓OF	Profit on refreshments		27 380 ✓OF	Profit on sale of equipment		<u>800</u>	✓		48 180	Less			Bad debt	160	✓	Wages	18 000	✓	Electricity	1 200	✓	Rates	1 760	✓	Sundry expenses		6 250	✓			Bank loan interest (800 ✓+ 1 500 ✓)	2 300		Exterior redecoration	5 000	✓	Depreciation:			Clubhouse	1 300	✓✓	Equipment	<u>5 250</u>	✓✓			<u>41 220</u>	Surplus		<u>6 960</u> ✓OF(if no	aliens)		no			<u><u>48 180</u></u>	(16)
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1(d)	<p>Valid answers may include:</p> <p>In favour</p> <ul style="list-style-type: none"> • Improves cash flow in early years • Saves administration costs over the years • Reduces bad debts • May attract new members • Can be used to repay some of the loan. <p>Against</p> <ul style="list-style-type: none"> • Club does not need the cash as it has a large cash balance • The proposed discount is very high • Less overall income • Committing to providing the service to members for 10 years. <p>✓✓ per point x4 points (Max ✓✓✓✓ for or against)</p>	(8)

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2(a)	<p>Valid reasons may include:</p> <ul style="list-style-type: none"> • Not to overstate profit • Follows prudence/ accruals / going concern concept • Show a true estimate of the assets value in the balance sheet • Book vales nearer to market value • Apply the accruals concept and more accurately record the expenses of the business in the profit and loss • Provide a 'true and fair' statement of the business position. <p>✓✓ per point x 2 points</p>	(4)

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2(d)	<p>Prudence Historic cost Realisation</p> <p style="text-align: center;">✓✓ per point x 2 points</p>	(4)

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2(e)(i)	<p>Valid points may include:</p> <ul style="list-style-type: none"> • Capital expenditure is the purchase of fixed assets which will give use to the business for more than one accounting year. <p style="text-align: center;">✓✓</p> <ul style="list-style-type: none"> • Revenue expenditure is an expense which will give benefit for up 	

(ii)	<p>to one accounting year in operating the business on a day to day basis. ✓✓</p> <ul style="list-style-type: none"> • Installation is capital expenditure ✓ because it is a cost of bringing the fixed asset into operation. ✓ • Repairs are revenue expenditure ✓ because they are day to day expenses which do not enhance the value of the fixed asset. ✓ 	(8)
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2(f)	<p>Valid answers may include:</p> <p>Supporting the statement</p> <ul style="list-style-type: none"> • Depreciation accrues a previous year's capital expenditure over the life of the asset. • Profit will be reduced by depreciation which should result in retention of profit. • Profit will increase cash flow. <p>Against the statement</p> <ul style="list-style-type: none"> • No, it does not mean that they will have sufficient cash • Although the accrual convention applies, this relates to the expenditure and cash flow in a previous year. • The retention in profit may not be in cash. <p>✓✓ x 2 points in favour + ✓✓ x 2 points against</p>	(8)

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3(a)(i)	<p>Athula</p> <p><u>Trading and profit & loss account for the year ending 31 December 2010.</u></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>Sales</td> <td></td> <td style="text-align: right;">265 000</td> </tr> <tr> <td>Opening stock</td> <td style="text-align: right;">37 500</td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;"><u>110 000</u></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">147 500</td> <td></td> </tr> <tr> <td>Closing stock</td> <td style="text-align: right;"><u>50 500</u></td> <td></td> </tr> <tr> <td>Cost of sales</td> <td></td> <td style="text-align: right;"><u>97 000</u></td> </tr> <tr> <td>✓</td> <td></td> <td></td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right;">168 000</td> </tr> <tr> <td></td> <td style="text-align: center;">less</td> <td></td> </tr> <tr> <td>Salaries (47 500 - 6000)</td> <td></td> <td style="text-align: right;">41 500</td> </tr> <tr> <td>✓✓</td> <td></td> <td></td> </tr> <tr> <td>Wages (36 300 + 450)</td> <td style="text-align: right;">36 750</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Rent and rates (7 500 + 2 500)</td> <td></td> <td style="text-align: right;">10 000</td> </tr> <tr> <td>✓</td> <td></td> <td></td> </tr> <tr> <td>Heat and light</td> <td style="text-align: right;">9 650</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Marketing expenses (10 000 - 1 750)</td> <td style="text-align: right;">8 250</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>General expenses</td> <td style="text-align: right;">5 250</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Depreciation on:</td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Premises</td> <td style="text-align: right;">1 100</td> <td style="text-align: right;">✓</td> </tr> <tr> <td style="padding-left: 20px;">Motor vehicles</td> <td style="text-align: right;">5 000</td> <td style="text-align: right;">✓</td> </tr> </tbody> </table>		£	£	Sales		265 000	Opening stock	37 500		Purchases	<u>110 000</u>			147 500		Closing stock	<u>50 500</u>		Cost of sales		<u>97 000</u>	✓			Gross profit		168 000		less		Salaries (47 500 - 6000)		41 500	✓✓			Wages (36 300 + 450)	36 750	✓	Rent and rates (7 500 + 2 500)		10 000	✓			Heat and light	9 650	✓	Marketing expenses (10 000 - 1 750)	8 250	✓	General expenses	5 250	✓	Depreciation on:			Premises	1 100	✓	Motor vehicles	5 000	✓	(13)
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	Fixtures and fittings	2 000	✓	
	Provision for doubtful debts	3 000	✓✓	
			<u>122 500</u>	
	Net profit		<u>45 500</u>	

Question Number	Answer	Mark																				
3(a)(ii)	<p style="text-align: center;">Current Account</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 20%; text-align: center;">Athula £</td> <td style="width: 20%;"></td> <td style="width: 20%; text-align: center;">Athula £</td> </tr> <tr> <td style="text-align: right;">Drawings</td> <td style="text-align: right;">28 500 ✓</td> <td style="text-align: right;">Balance b/d</td> <td style="text-align: right;">500 ✓</td> </tr> <tr> <td style="text-align: right;">Drawings</td> <td style="text-align: right;">6 000 ✓</td> <td style="text-align: right;">Profit</td> <td style="text-align: right;">45 500 ✓ OF</td> </tr> <tr> <td style="text-align: right;">Balance c/d</td> <td style="text-align: right;"><u>11 500</u></td> <td></td> <td style="text-align: right;">_____</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>46 000</u></td> <td style="text-align: right;">Balance b/d</td> <td style="text-align: right;"><u>46 000</u> 11 500 ✓ OF</td> </tr> </table> <p>if Cr balance</p>		Athula £		Athula £	Drawings	28 500 ✓	Balance b/d	500 ✓	Drawings	6 000 ✓	Profit	45 500 ✓ OF	Balance c/d	<u>11 500</u>		_____		<u>46 000</u>	Balance b/d	<u>46 000</u> 11 500 ✓ OF	(5)
	Athula £		Athula £																			
Drawings	28 500 ✓	Balance b/d	500 ✓																			
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Balance c/d	<u>11 500</u>		_____																			
	<u>46 000</u>	Balance b/d	<u>46 000</u> 11 500 ✓ OF																			

Question Number	Answer	Mark
3(b)(i)	Valid answers may include: Goodwill is the worth of a business over and above the value of the tangible assets. ✓✓ OR It is derived from e.g good location, established loyal customer base. ✓✓	
(ii)	Prudence ✓✓ Money measurement ✓✓	(6)

Question Number	Answer	Mark																																				
3(c)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="text-align: center;">Journal</td> <td></td> </tr> <tr> <td></td> <td style="text-align: center;">DR</td> <td style="text-align: center;">CR</td> </tr> <tr> <td></td> <td style="text-align: center;">£</td> <td style="text-align: center;">£</td> </tr> <tr> <td style="text-align: right;">Goodwill</td> <td></td> <td style="text-align: right;">15 000</td> </tr> <tr> <td style="text-align: right;">Motor vehicles</td> <td style="text-align: right;">8 000</td> <td></td> </tr> <tr> <td style="text-align: right;">Stock</td> <td style="text-align: right;">12 000</td> <td></td> </tr> <tr> <td style="text-align: right;">Bank</td> <td style="text-align: right;">15 000</td> <td></td> </tr> <tr> <td style="text-align: right;">assets</td> <td></td> <td style="text-align: right;">✓For all</td> </tr> <tr> <td style="text-align: right;">Creditors</td> <td></td> <td style="text-align: right;">6 000</td> </tr> <tr> <td style="text-align: right;">Bank loan</td> <td></td> <td style="text-align: right;">5 000</td> </tr> <tr> <td style="text-align: right;">liabilities</td> <td></td> <td style="text-align: right;">✓For all</td> </tr> <tr> <td style="text-align: right;">Capital - Chandra</td> <td></td> <td style="text-align: right;">39 000 ✓</td> </tr> </table>	Journal				DR	CR		£	£	Goodwill		15 000	Motor vehicles	8 000		Stock	12 000		Bank	15 000		assets		✓For all	Creditors		6 000	Bank loan		5 000	liabilities		✓For all	Capital - Chandra		39 000 ✓	
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Capital - Chandra		39 000 ✓																																				

	Opening assets and liabilities introduced by Chandra on joining the partnership. ✓				
	Goodwill		75 000		
	✓				
	Capital - Athula	50 000		✓	
	Chandra	25 000		✓	
	Goodwill written off and no longer retained in the books of the partnership. ✓				
					(8)

Question Number	Answer	Mark																																																																																								
3(d)	<p style="text-align: center;">Balance sheet at 1 January 2011</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Book</th> <th style="text-align: right;">Cost £</th> <th style="text-align: right;">Aggregate Depreciation £</th> <th style="text-align: right;">Net Value £</th> </tr> </thead> <tbody> <tr> <td>Fixed assets</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Premises</td> <td style="text-align: right;">80 000</td> <td style="text-align: right;">6 600 ✓</td> <td style="text-align: right;">73 400</td> </tr> <tr> <td>Motor vehicles</td> <td style="text-align: right;">38 000 ✓</td> <td style="text-align: right;">15 000 ✓</td> <td style="text-align: right;">23 000</td> </tr> <tr> <td>Fixtures and fittings</td> <td style="text-align: right;">20 000</td> <td style="text-align: right;">8 000 ✓</td> <td style="text-align: right;"><u>12 000</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">108 400</td> </tr> <tr> <td colspan="4" style="text-align: center;">Marks can be awarded for NBV IF the values are correct</td> </tr> <tr> <td colspan="4">Current assets</td> </tr> <tr> <td>Stock (50 500+12 000)</td> <td></td> <td style="text-align: right;">62 500</td> <td></td> </tr> <tr> <td>✓</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Debtors less PDD (40 000-3 000)</td> <td></td> <td style="text-align: right;">37 000</td> <td></td> </tr> <tr> <td>✓</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Prepaid</td> <td></td> <td style="text-align: right;">1 750</td> <td></td> </tr> <tr> <td>Bank (4 000Cr +15 000Dr)</td> <td></td> <td></td> <td style="text-align: right;"><u>11 000</u></td> </tr> <tr> <td>✓</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">112 250</td> <td></td> </tr> <tr> <td colspan="4" style="text-align: center;">Current liabilities</td> </tr> <tr> <td>Creditors (31 200 + 6 000)</td> <td></td> <td></td> <td style="text-align: right;">37 200</td> </tr> <tr> <td>✓</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Accruals (450 + 2 500)</td> <td></td> <td></td> <td style="text-align: right;"><u>2 950</u></td> </tr> <tr> <td>✓</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">40 150</td> </tr> </tbody> </table>	Book	Cost £	Aggregate Depreciation £	Net Value £	Fixed assets				Premises	80 000	6 600 ✓	73 400	Motor vehicles	38 000 ✓	15 000 ✓	23 000	Fixtures and fittings	20 000	8 000 ✓	<u>12 000</u>				108 400	Marks can be awarded for NBV IF the values are correct				Current assets				Stock (50 500+12 000)		62 500		✓				Debtors less PDD (40 000-3 000)		37 000		✓				Prepaid		1 750		Bank (4 000Cr +15 000Dr)			<u>11 000</u>	✓						112 250		Current liabilities				Creditors (31 200 + 6 000)			37 200	✓				Accruals (450 + 2 500)			<u>2 950</u>	✓							40 150	
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	Net current assets/Working capital		72 100	
	Bank loan		(5 000)	
	✓		<u>175 500</u>	
	<u>Financed by:</u>			(12)
	Capital:			
	Athula	150 000		
	Chandra		<u>14 000</u>	
			164 000 ✓	
	Current accounts:			
	Athula	11 500CR		
	Chandra		0	
			<u>11 500</u> ✓OF	
			<u>175 500</u>	

Question Number	Answer	Mark
3(e)	<p>Valid answers may include:</p> <p>In favour</p> <ul style="list-style-type: none"> • More capital introduced • More ideas • More people to share and cover the work • Specialist skills available. <p>Against</p> <ul style="list-style-type: none"> • Greater chance of disagreements between partners • Profits shared between more partners • Dilution in management influence of Athula <p>✓✓ per point x4 points (Max ✓✓✓✓ for or against)</p>	(8)

Section B

Question Number	Answer	Mark																																																			
4(a)	<p style="text-align: center;"><u>Classic Design - Trial balance at 31 December 2010</u></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: center;">DR £</th> <th style="width: 20%; text-align: center;">CR £</th> </tr> </thead> <tbody> <tr> <td>Capital ✓</td> <td></td> <td style="text-align: right;">150 000</td> </tr> <tr> <td>Premises ✓</td> <td style="text-align: right;">120 000</td> <td></td> </tr> <tr> <td>Fixtures and fittings (24 000+4 000) ✓</td> <td style="text-align: right;">28 000</td> <td></td> </tr> <tr> <td>Provision for depreciation: premises ✓</td> <td></td> <td style="text-align: right;">5 000 ✓</td> </tr> <tr> <td> either fixtures and fittings ✓</td> <td></td> <td style="text-align: right;">6 000</td> </tr> <tr> <td>Debtors (17 500+28 000-24 300-250) ✓✓</td> <td style="text-align: right;">20 950</td> <td></td> </tr> <tr> <td>Creditors (8 500+4 000+1 350-6 200-150) ✓✓✓</td> <td></td> <td style="text-align: right;">7</td> </tr> <tr> <td>Bank (8 000+24 300-4 750-6 200-600-12 000) ✓✓✓✓</td> <td style="text-align: right;">8 750</td> <td></td> </tr> <tr> <td>Sales 000 ✓</td> <td></td> <td style="text-align: right;">28</td> </tr> <tr> <td>Discount allowed ✓</td> <td></td> <td style="text-align: right;">250</td> </tr> <tr> <td>Operating expenses ✓</td> <td style="text-align: right;">4 750</td> <td></td> </tr> <tr> <td>Purchases/design materials ✓</td> <td style="text-align: right;">1 350</td> <td></td> </tr> <tr> <td>Discount received 150 ✓</td> <td></td> <td></td> </tr> <tr> <td>Bank charges ✓</td> <td style="text-align: right;">600</td> <td></td> </tr> <tr> <td>Wages _____ ✓</td> <td></td> <td style="text-align: right;"><u>12 000</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>196 650</u></td> <td style="text-align: right;"><u>196</u></td> </tr> </tbody> </table>		DR £	CR £	Capital ✓		150 000	Premises ✓	120 000		Fixtures and fittings (24 000+4 000) ✓	28 000		Provision for depreciation: premises ✓		5 000 ✓	either fixtures and fittings ✓		6 000	Debtors (17 500+28 000-24 300-250) ✓✓	20 950		Creditors (8 500+4 000+1 350-6 200-150) ✓✓✓		7	Bank (8 000+24 300-4 750-6 200-600-12 000) ✓✓✓✓	8 750		Sales 000 ✓		28	Discount allowed ✓		250	Operating expenses ✓	4 750		Purchases/design materials ✓	1 350		Discount received 150 ✓			Bank charges ✓	600		Wages _____ ✓		<u>12 000</u>		<u>196 650</u>	<u>196</u>	<p>✓ for each adj</p> <p>(20)</p>
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4(b)	<p style="text-align: center;"><u>Classic Design - Profit and loss account for December 2010</u></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 40%;"></th> <th style="width: 20%; text-align: center;">£</th> <th style="width: 20%; text-align: center;">£</th> </tr> </thead> <tbody> <tr> <td>Sales</td> <td></td> <td style="text-align: right;">28 000</td> </tr> <tr> <td>Discount received</td> <td></td> <td style="text-align: right;"><u>150</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">28 150 ✓</td> </tr> <tr> <td>less</td> <td></td> <td></td> </tr> <tr> <td>Purchases/design materials 1 350</td> <td style="text-align: right;">1 350</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Discount allowed 250</td> <td style="text-align: right;">250</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Operating expenses (4 750+1 600) 6 350</td> <td style="text-align: right;">6 350</td> <td style="text-align: right;">✓</td> </tr> </tbody> </table>		£	£	Sales		28 000	Discount received		<u>150</u>			28 150 ✓	less			Purchases/design materials 1 350	1 350	✓	Discount allowed 250	250	✓	Operating expenses (4 750+1 600) 6 350	6 350	✓	
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	Job needs to be closely monitored for costing purposes <i>//</i> per point x 2	(8)
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5(c)	<p>Valid answers may include:</p> <p>In favour:</p> <ul style="list-style-type: none"> • Greater efficiency • Reduced production costs 	

	Against: <ul style="list-style-type: none"> • Loss of quality of work • Increased supervision costs. // for one point in favour and // for one point against.	(4)
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Question Number	Answer	Mark
6(a)	Valid answers may include: <ul style="list-style-type: none"> • Provides a framework for preparation • Accounts of different businesses can be compared • Profit calculations can be relied upon • Previous performance can be compared with current year • Meets legal requirements • Easier to understand • More accurate • Reference to a specific concept IF good application illustrated // per point x 3	(6)

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Question Number	Answer	Mark
6(c)	<p>Valid points may include</p> <p>Benefits</p> <ul style="list-style-type: none"> • Improved reputation/ increased profits in future • Considers matters such as the environment and impact on the community not just financial matters. • May restrict more extreme decision making which would seriously impact on the environment and the community. <p>Disadvantages</p> <ul style="list-style-type: none"> • May reduce profits in the short term • In the final analysis the business must be profitable. • Businesses are not obliged to consider social accounting in their decision making. <p>// one point benefit plus // one point disadvantage.</p>	(4)

Question Number	Answer	Mark
7(a)	<p>In the short term the new business will need to maintain the trading cycle of obtaining goods on credit, selling on credit and receiving payment from debtors in sufficient time to pay creditors. $\mathcal{J}\mathcal{J}$</p> <p>Cash required to meet expenses $\mathcal{J}\mathcal{J}$</p> <p>Maintain good reputation with suppliers $\mathcal{J}\mathcal{J}$</p> <p>Failure to settle short term debts to creditors will result in them withholding supplies of goods and probable closure of the new business. $\mathcal{J}\mathcal{J}$</p> <p>2 points x $\mathcal{J}\mathcal{J}$</p>	(4)

Question Number	Answer	Mark																		
7(b)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 40%;"></th> <th style="width: 30%; text-align: center;">Andeas</th> <th style="width: 30%; text-align: center;">Dimitris</th> </tr> </thead> <tbody> <tr> <td>Gross profit to sales %</td> <td style="text-align: center;">$38\% \mathcal{J}\mathcal{J}$</td> <td style="text-align: center;">$\frac{360}{1000} \times 100 = 36\% \mathcal{J}\mathcal{J}$</td> </tr> <tr> <td>Stock turnover times $\mathcal{J}\mathcal{J}$</td> <td style="text-align: center;">$\frac{1000}{100} = 10$</td> <td style="text-align: center;">$\frac{1000}{60} = 16.67 \mathcal{J}\mathcal{J}$</td> </tr> <tr> <td>Return on capital employed</td> <td style="text-align: center;">$\frac{60}{340} \times 100 = 17.6\% \mathcal{J}\mathcal{J}$</td> <td style="text-align: center;">$\frac{60}{170} \times 100 = 35.3\% \mathcal{J}\mathcal{J}$</td> </tr> <tr> <td>Liquid (acid test) = 1.3:1 $\mathcal{J}\mathcal{J}$</td> <td style="text-align: center;">$\frac{80}{160} = 0.5:1 \mathcal{J}\mathcal{J}$</td> <td style="text-align: center;">$\frac{90}{70} = 1.28:1 \mathcal{J}\mathcal{J}$</td> </tr> <tr> <td>Debtors collection period</td> <td style="text-align: center;">$\frac{1000}{365} = 2.74 \times 365 = 1000 \mathcal{J}\mathcal{J}$</td> <td style="text-align: center;">$\frac{1000}{60} = 16.67 \times 365 = 6095 \mathcal{J}\mathcal{J}$</td> </tr> </tbody> </table> <p>Accept reasonable rounding</p>		Andeas	Dimitris	Gross profit to sales %	$38\% \mathcal{J}\mathcal{J}$	$\frac{360}{1000} \times 100 = 36\% \mathcal{J}\mathcal{J}$	Stock turnover times $\mathcal{J}\mathcal{J}$	$\frac{1000}{100} = 10$	$\frac{1000}{60} = 16.67 \mathcal{J}\mathcal{J}$	Return on capital employed	$\frac{60}{340} \times 100 = 17.6\% \mathcal{J}\mathcal{J}$	$\frac{60}{170} \times 100 = 35.3\% \mathcal{J}\mathcal{J}$	Liquid (acid test) = 1.3:1 $\mathcal{J}\mathcal{J}$	$\frac{80}{160} = 0.5:1 \mathcal{J}\mathcal{J}$	$\frac{90}{70} = 1.28:1 \mathcal{J}\mathcal{J}$	Debtors collection period	$\frac{1000}{365} = 2.74 \times 365 = 1000 \mathcal{J}\mathcal{J}$	$\frac{1000}{60} = 16.67 \times 365 = 6095 \mathcal{J}\mathcal{J}$	(20)
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5(c)(i)	<p>Dimitris has the better profitability \mathcal{J} +</p> <ul style="list-style-type: none"> • Higher gross profit \mathcal{J} • Gross profit to sales percentage is better \mathcal{J} • Return on capital employed is better \mathcal{J} <p style="text-align: right;">Max $\mathcal{J}\mathcal{J}$</p>	
(ii)	<p>Dimitris has the better liquidity. \mathcal{J} +</p> <ul style="list-style-type: none"> • Acid test ratio is at acceptable level being 1.3:1 \mathcal{J} • Debtors collection period is much lower at 21.9 days \mathcal{J} • Debtors are at lower level on the same volume of sales \mathcal{J} • Cash in the bank to pay creditors if required \mathcal{J} <p style="text-align: right;">Max $\mathcal{J}\mathcal{J}$</p>	(4)

Question Number	Answer	Mark
7(d)	<p>Valid points may include:</p> <p>Benefits</p> <ul style="list-style-type: none"> • Provides a yardstick against accepted standards e.g current ratio • Provides a yardstick against other similar businesses. • A quantitative objective measure. <p>Disadvantages</p> <ul style="list-style-type: none"> • Does not take account of state of assets e.g probability of debtors paying. • Does not take account of non financial factors e.g skill of workforce or management. <p><i>✓✓</i> for one benefit and <i>✓✓</i> for one comment against</p>	(4)

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