

Mark Scheme (Results)

Summer 2008

GCE

GCE Accounting (6001) Paper 01

6001/01 Mark Scheme Summer 2008

Question Number	Answer	Mark
1(a)		(32)

Departmental trading profit and loss account for the year ending 30 April 2008

	Motor cycle sales	Parts sales	Repairs		
	£	£	£		
Sales receipts	311 000	160 000	68 400	/	if 2
items correct					
Less					
Opening stock	64 000	65 200	-	/	the
revaluation can be					
Revaluation of parts stock		(8 200)		/	netted
off					
Purchases	223 500	170 500	8 900	/	the
transfer of parts					
Transferred parts		(14 500)	14 500	/	can be
netted off					
	287 500	213 000	23 400		
Closing stock	61 500	63 000	-	/	
Cost of sales	226 000	150 000	23 400		
Gross profit	85 000	10 000	45 000	/OF	
Less					
Wages	32 000	17 500	21 200	/	
Salaries	6 600	4 400	4 400	//	2 items
correct = /					
Lease	900	900	1 200	//	2 items
correct = /					
Heat and light	2 010	2 010	2 680	//	2 items
correct = /					
Provision for doubtful debts	2 500	-	300	//	1 item
correct = /					
Depreciation - fixtures	1 500	1 800	2 700	//	2 items
correct = /					
Depreciation - loose tools	-	-	400	//	
	45 510	26 610	32 880		
Net profit/(loss)	39 490	(16 610)	12 120		

Balance sheet as at 30 April 2008

	£	£
<u>Fixed assets</u>		

Lease		27 000	✓
Fixtures less depreciation		22 000	✓
Repair loose tools		<u>1 500</u>	✓
		50 500	
<u>Current assets</u>			
Stock (61 500 + 63 000)	124 500		✓
Debtors less PDD (56 000 - 2 800)	<u>53 200</u>		✓
for 56 000			
	177 700		✓
for - 2 800			
Less			
<u>Current liabilities</u>			
Creditors	58 350		✓
Accrued wages	450		✓
Bank overdraft	<u>37 100</u>		✓
	95 900		
Working capital		<u>81 800</u>	
		<u>132 300</u>	
Financed by:			
Capital 125 000 - 8 200		116 800	✓
Net profit		<u>35 000</u>	✓OF
		151 800	
Drawings		<u>19 500</u>	✓
		<u>132 300</u>	

If departmental balance sheet used, marks for totals only.

Question Number	Answer	Mark
1(b)		(8)

$$\text{Parts mark up} = \frac{\text{Gross profit}}{\text{Cost of sales}} = \frac{10\,000 \text{ J/OF}}{150\,000 \text{ J/OF}} \times 100 = 6.7 \text{ J/OF \% J}$$

$$\text{Rate of stock turnover} = \frac{\text{Cost of sales}}{\text{Ave stock}} = \frac{150\,000 \text{ J/OF}}{60\,000 \text{ J/OF}} = 2.5 \text{ J/OF times J}$$

If incorrect formulas used, no marks.

One exception is if the rate stock turnover of 146 days, award 4 x J.

Question Number	Answer	Mark
1(c)	<p>Valid points may include:</p> <ul style="list-style-type: none"> The mark up is lower than the business average J/OF, so prices should be raised, but, if the prices are raised will the level of sales be reduced further? J/OF Stock turnover is very low compared to the business average J/OF, stock levels may well be too high leading to obsolete stock and high stock holding costs. J/OF <p>MAX 4 x J</p>	(4)

Question Number	Answer	Mark
1(d)	<p>Valid points may include:</p> <p>Points in favour:</p> <ul style="list-style-type: none"> • The business would improve its net profit by closing a loss making department. • The space released will be available for an expansion of sales or repairs. <p>Points against:</p> <ul style="list-style-type: none"> • An element of the motor cycle service to the customer will be lost. • Speedy cycles would not have parts in the stores to use on repairs. • Parts may have to be bought in which may be more expensive. • The fixed overheads may have to be borne by the two other departments. <p><i>∩∩</i> per point (MAX 2 benefits OR 2 disadvantages + decision). Without a decision MAX 6 x <i>∩</i>. Any decision must be supported by at least 1 benefit or 1 disadvantage to qualify for marks. The exception to this principle is that if a candidate states that department should close because it has made a loss in which case 2 <i>∩∩</i> will be awarded.</p>	(8)

Question Number	Answer	Mark
2(a)		(10)

	Receipts	Sales	Balance	
Opening stock			80@£100	/
May-July	90@£110	120	50@£100	/
August-October	270@£120	150	50@£100	/
			120@£120	/
November-January	150@£130	180	50@£100	/
			90@£120	/
February-April	120@£140	150	50@£100	/
			60@£120	/
		Closing stock value	£12 200	//

Question Number	Answer	Mark
2(b)		(18)

Trading and profit and loss account for the year ending 30 April 2008

	£	£	
Sales 600@ £200		120 000	//
Less			
Opening stock	8 000		/
Purchases	<u>78 600</u>		//
	86 600		
Closing stock	<u>12 200</u>		/OF
Cost of sales		<u>74 400</u>	
Gross profit		45 600	/OF
Discount received		<u>1 200</u>	/
		46 800	
less			
Rent	5 200		/
Wages 13 000 + 2 400	15 400		/
Telephone and internet			
890-130+210	970		// 760 or 1
100 /			
Electricity 315+80-95	300		// 395 or
220 /			
Sundry expenses			
3 720-450+630-160	3 740		//
Depreciation	<u>1 400</u>		//
		27 010	
Net profit		<u>19 790</u>	
		<u>46 800</u>	

Question Number	Answer	Mark
2(c)		(8)

Debtors		Creditors	
	£		£
Cash banked	75 000 ✓	Payments to suppliers	69 850 ✓
Till receipts	24 760 ✓	Discount received	<u>1 200</u> ✓
Credit receipts	<u>19 640</u>		71 050
	119 400	Opening creditors	<u>5 350</u> ✓
Opening debtors	<u>3 400</u> ✓		65 700
	116 000	Purchase	<u>78 600</u> OF
Sales	<u>120 000</u> OF	Closing creditors	12 900 ✓
Closing debtors	4 000 ✓		

Alternative format of control accounts accepted.

Question Number	Answer	Mark
2(d)	<p>Valid points may include:</p> <ul style="list-style-type: none"> • Aneesa may adopt a policy of calculating depreciation on the basis of a recognised method of depreciation such as straight line or diminishing balance. ✓✓ for mentioning 1 or more alternative methods. • Use of such a method would comply with such accounting concepts as consistency, prudence or matching. ✓✓ for mentioning 1 or more concepts. • As the shop fittings would be an asset with a long term life in the business the straight line method would seem the most appropriate method. ✓✓ for applying the most appropriate method to this asset. • In favour of the revaluation method each year the balance sheet valuation will always be accurate. ✓✓ • Using revaluation/reducing balance will normally result in a high proportion of the asset being depreciated in the first year of ownership. ✓✓ <p>MAX 8 x ✓</p>	(8)

Question Number	Answer	Mark
2(e)	<p>Valid points may include:</p> <p>Benefits:</p> <ul style="list-style-type: none"> • Detail of all transactions and individual accounts would be available. • Final accounts easy to draft to establish financial position. • Value of debtors and creditors would be readily available. <p>Disadvantages:</p> <ul style="list-style-type: none"> • Preparation requires specialist knowledge to maintain. • Cost of purchasing specialist knowledge. • Time consuming. <p><i>JJ</i> per point (MAX 2 benefits OR 2 disadvantages + decision). Without a decision MAX 6 x <i>J</i>. Any decision must be supported by at least 1 benefit or 1 disadvantage to qualify for marks.</p>	(8)

Question Number	Answer	Mark
3(a)	<p>Valid points may include:</p> <p>Direct expenses:</p> <ul style="list-style-type: none"> • An example of a direct expense. • Expenses generally vary directly to the level of production eg royalties. • Expenditure is related directly to the production of a unit. • Expenses are an element of prime cost. <p>Overhead cost:</p> <ul style="list-style-type: none"> • An example of an overhead expense. • Costs generally have a very high fixed element. • Expenditure cannot be related directly to the product, but must be apportioned to the product. • Costs often relate not only to manufacturing but also to administration. <p>✓✓ per point. MAX 4 x ✓ direct expenses or 4 x ✓ overhead costs.</p>	(8)

Question Number	Answer	Mark
3(b)		(12)

Manufacturing account for the year ending 30 April 2008

	£	£	
Opening stock of raw materials	39 000		✓
Purchases of raw materials	<u>311 000</u>		✓
	350 000		
Closing stock of raw materials	<u>42 500</u>		✓
Cost of raw materials consumed	307 500		
Manufacturing wages	296 000		✓
Direct expenses	<u>54 000</u>		✓
Prime cost	✓	657 500	
Overheads:			
Rent, rates and power	48 000		
Plant depreciation	35 000		✓
Manufacturing salaries	247 000		
Sundry manufacturing overhead	<u>73 000</u>		
		1 060 500	✓
Work in progress:			
1 May 2007	85 000		
30 April 2008	(91 500)		
		<u>(6 500)</u>	✓
Manufacturing cost	✓	<u>1 054 000</u>	
✓✓(✓OF)			

Any cost or expense recorded within an incorrect category will be awarded no credit.

Eg manufacturing wages in overheads.

Question Number	Answer	Mark
3(c)		(10)

Overhead recovery:

Total projected overhead:	Machining	12 000 x £15 = 180 000	✓✓
	Assembly	26 000 x £10 = <u>260 000</u>	✓✓
		440 000	
Less			
Total actual manufacturing overhead		<u>403 000</u>	✓✓✓
Over recovery of overheads	✓ OF	37 000	✓✓

OF

Question Number	Answer	Mark
3(d)		(14)

Cost of completing order for Jaz Ltd:

		£	
Raw materials		11 950	/
Direct labour: Machining	550 x £5 =	2 750	//
	Assembly 700 x £9 =	6 300	//
Overheads: Machining	550 x £15 =	8 250	//
	Assembly 700 x £10 =	<u>7 000</u>	//
		36 250	
Profit		<u>3 750</u>	/ OF
		<u>40 000</u>	/

Profit achieved: $\frac{\text{Actual profit}}{\text{Contract price}} = \frac{3\,750}{40\,000} \times 100 = 9.4\%$ / OF

Question Number	Answer	Mark
3(e)	<p>Valid points may include:</p> <p>In favour of using machining hours:</p> <ul style="list-style-type: none"> • More appropriate basis of recovery for machining department. • May be used in conjunction with labour hours. Most appropriate basis used for each department. <p>Against using machining hours:</p> <ul style="list-style-type: none"> • Not an appropriate basis for assembly department with limited machinery. • Simpler to use the same basis for all departments. <p>// per point (MAX 2 benefits OR 2 disadvantages + decision). Without a decision MAX 6 x /. Any decision must be supported by at least 1 benefit or 1 disadvantage to qualify for marks.</p>	(8)

Question Number	Answer	Mark
4(a)	<p>The 5 year memberships would be an application of the matching/accrual concept. <i>✓✓</i></p> <p>In the income and expenditure account only one years' income, one fifth, <i>✓✓</i> would be recorded in each of the accounts for the five year period. <i>✓✓</i></p> <p>In the balance sheet four fifths of the income will be recorded <i>✓✓</i> in the current liabilities/long term liability <i>✓✓</i> at the end of year one. This will reduce each year as one fifth of the income is transferred to the income and expenditure account. <i>✓✓</i></p> <p>Accept figure calculations demonstrating the proportions.</p> <p>MAX 4 x <i>✓✓</i></p>	(8)

Question Number	Answer	Mark
4(b)(i)		(12)

Subscriptions Account

		£			£
	Balance b/d	<i>✓</i>	150 <i>✓</i>	Balance b/d	1
200	<i>✓</i>			Bank/cash/R&P	<i>✓</i> 32
	Income and expenditure	<i>✓</i>	32 500 <i>✓✓</i>		
750	<i>✓✓</i>			Balance c/d	<i>✓</i>
	Balance c/d		<u>1 600 <i>✓</i></u>		
<u>300</u>	<i>✓</i>				
			<u>34 250</u>		<u>34</u>
<u>250</u>					

For the label 'Balance' b/d or c/d we will accept bal b/d or c/d but no other abbreviation. The description b/d or c/d on its own is not rewarded with credit. The words 'owing', 'prepaid' or 'accrued' will not be accepted.

I&E will be acceptable as a label for income and expenditure.

Question Number	Answer	Mark
4(b)(ii)		(8)

Bar Trading Account

	£	£
Sales of drinks		14 700 <i>J</i>
Less		
Opening stock	3 100 <i>J</i>	
Purchases	<u>11 850 <i>J</i></u>	
	14 950	
Closing stock	<u>2 700</u> <i>JJ</i> OF	
Cost of sales		12 250 <i>JJ</i>
Wages		<u>5 020 <i>J</i></u>
Deficit on trading		<u>2 570</u>

Question Number	Answer	Mark
4(c)	<p>Valid points may include:</p> <p>Points against stocktaking:</p> <ul style="list-style-type: none"> • Easy to calculate. • Not time consuming. <p>Points in favour of stocktaking:</p> <ul style="list-style-type: none"> • Does not detect stock shrinkage such as breakages, theft etc. • Shortfalls in supply cannot be detected. • Leads to under/over statement of surplus/deficit. • Complies with the accounting standards. • Leads to greater accuracy. <p><i>JJ</i> for a point in favour and <i>JJ</i> for a point against. MAX 4 x <i>J</i></p>	(4)

Question Number	Answer	Mark
5(a)	Valid characteristics of job costing may include: <ul style="list-style-type: none"> • One off/ single order contract. • Customers special requirements. • Each job is of comparatively short duration. • Continuously identifiable unit. • Hourly charged, quotes prepared for each customer. • Items not produced for stock. 2 x \checkmark per characteristic plus 2 x \checkmark for some development	(8)

Question Number	Answer	Mark
5(b)		(8)

£

Income	£20 x 50 hours = £1 000 \checkmark x 50 weeks = £50 000 \checkmark x 60% = 30 000 $\checkmark\checkmark$
less	
Vehicle cost	2 500 \checkmark
Insurance	<u>800 \checkmark</u>
Net income	26 700 $\checkmark\checkmark$

(\checkmark OF)

If the answer income 30 000 - just award 4 ticks.

Question Number	Answer	Mark
5(c)		(12)

£

Income	£20 x 40 hours x 50 weeks = 40 000 £ x 80% = 32 000 £ x 2 = 64 000	
££		
Less		
Electricians wages	£1 000 x 12 months x 2	24 000 ££
Government employment tax	10%	2 400 £ OF if 10% of
elec wages		
Vehicle costs	£2 500 x 3	7 500 ££
Insurances		<u>2 000 £</u>
		35 900
Net income		28 100
££ (£ OF)		

If the answer income 64 000 - just award 4 ticks.

Question Number	Answer	Mark
5(d)	<p>Valid points may include:</p> <ul style="list-style-type: none"> • More income/profit for Ramiz under new plan. • Can he recruit two suitable electricians? • Is there sufficient extra work? • More administration to undertake eg payroll. • Greater risk for Ramiz if the business experiences difficulties. • Employment risks eg sickness of electricians. • Less manual work. <p>££ OF for a point in favour and ££ OF for a point against. MAX 4 x £</p>	(4)

Question Number	Answer	Mark
6(a)(i)	<p>Capital expenditure provides a fixed asset which will provide a benefit to the business for more than one accounting year and therefore the asset is recorded in the balance sheet and a proportion called depreciation is transferred to the profit and loss account on an annual basis to be set against the profit.</p> <p>✓✓ for any point</p> <p>Revenue expenditure does not increase the long term value of an asset and therefore is recorded in the profit and loss account, usually as day to day expenses, in the year in which it is incurred.</p> <p>✓✓ for any point</p>	(4)

Question Number	Answer	Mark
6(a)(ii)	<p>The redecoration to the showroom would be revenue expenditure as there is no long term increase in the value of the asset.</p> <p>✓ for revenue expenditure plus ✓ for reason</p> <p>The purchase and conversion to a warehouse will be capital expenditure because the asset will have a long term saleable value and will give benefit to the business over a long period of time.</p> <p>✓ for capital expenditure plus ✓ for reason</p> <p>Repairs to the computer equipment will be revenue expenditure because the long term saleable value will not be increased.</p> <p>✓ for revenue expenditure plus ✓ for reason</p> <p>If the candidate provides an appropriate rationale for this expenditure being capital expenditure credit can be awarded.</p>	(6)

Question Number	Answer	Mark
6(b)(i)		(12)

	2007		2008
ROCE	$\frac{10\ 000}{100\ 000+30\ 000}$	=7.7% JJ	$\frac{50\ 000}{100\ 000+20\ 000}$ = 41.7% JJ
Current ratio JJ	$\frac{60\ 000+45\ 000+84\ 000}{90\ 000}$ = 2.1:1 JJ		$\frac{42\ 000+84\ 000}{75\ 000+30\ 000}$ = 1.2:1
Liquid(acid test)	$\frac{60\ 000+45\ 000}{90\ 000}$ = 1.17:1 JJ	JJ	$\frac{42\ 000}{75\ 000+30\ 000}$ = 0.4:1 JJ

Where the candidate has failed to identify the % or :1, only 1 tick will be awarded.
Any reasonable rounding accepted.

6 x JJ

Question Number	Answer	Mark
6(b)(ii)		(6)
	<p>ROCE- At 7.7% the ROCE for 2007 is poor but for 2008 a ROCE of 41.7% is a very good return.</p> <p>Current ratio - In 2007 the current ratio was at the appropriate level, in 2008 it has fallen to a dangerously low level.</p> <p>Liquid (acid test) ratio - In 2007 this was at the appropriate level but is now dangerously low which is reflected in the difficulty to pay creditors.</p> <p>JJ OF for comment on each ratio evaluating the comparison of the 2 ratios.</p>	

Question Number	Answer	Mark
6(c)	<p>Valid points may include:</p> <p>In favour of the course of action:</p> <ul style="list-style-type: none"> • Sadia has funded the expansion from her own resources and creditors. • No interest has had to be paid on the funding for the investment. • Although the business has been expanded stock has been controlled. <p>Against the course of action:</p> <ul style="list-style-type: none"> • Liquidity ratios are dangerously low. • Creditors are beginning to restrict the supply of goods for Sadia to sell. • Sadia now has a significant bank overdraft which could be 'called in' by the bank. • The survival of the business is at risk because the expansion was not partly funded by long term debt. <p>✓✓ for a point in favour and ✓✓ for a point against</p>	(4)

Question Number	Answer	Mark
7(a)(i)		(10)

	£	£	
Suspense	100		✓
Coldstream Traders		100	✓
Office expenses	600		✓
Coldstream traders		600	✓
Suspense	900		✓
Coldstream Traders		900	✓
Coldstream Traders	450		✓
R.Crossland		450	✓
Coldstream traders	1 750		✓
Sales		1 750	✓

The tick is for the narrative and the correct figure.

Question Number	Answer	Mark
7(a)(ii)		(10)

Coldstream Traders

	£		£
Balance b/d	2 500	Bank	2 450
Discount allowed	50	Suspense ✓	100 ✓
Office expenses	600	Office exp ✓	600 ✓
Sales	4 300	Suspense ✓	900 ✓
R.Crossland ✓	450 ✓		
Sales	<u>1 750</u> ✓	Balance c/d	<u>5 600</u> ✓ OF
	<u>9 450</u>		<u>9 450</u>

Question Number	Answer	Mark
7(b)(i)		(4)
	<p>An error of commission - an entry is made into another account within the same class eg an entry is made in the wrong debtor or creditors account. <i>✓✓</i></p> <p>An error of principle - an entry is made into another account of a different class eg expenses are recorded in an asset account. <i>✓✓</i></p>	

Question Number	Answer	Mark
7(b)(ii)		(4)
	<p>Error in principle - Cash expenses £600 recorded in a debtors account (item ii). <i>✓✓</i></p> <p>Error of commission - sale £450 recorded in the account of R. Crossland (item iv). <i>✓✓</i></p>	

Question Number	Answer	Mark
7(c)		(4)
	<p>Valid points may include:</p> <p>In favour:</p> <ul style="list-style-type: none"> • Checks that double entry has been carried out with a debit and a credit. • Checks balances of all accounts agree in total. • Checks the arithmetic accuracy of the ledgers. <p>Points against:</p> <ul style="list-style-type: none"> • Many errors are not revealed eg errors of commission and errors of principle. • If trial balance does not agree, no identification of where the error(s) might be. • Time to prepare. <p><i>✓✓</i> for a point in favour and <i>✓✓</i> for a point against</p>	

