

# Mark Scheme January 2007

GCE

GCE Accounting (8011/9011)



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6001 Mark Scheme – January 2007

1.(a)

		£	£	
Drawings		750		✓
Management salaries			750	✓
Suspense	✓	6 600		✓
Bank	✓		6 600	✓
Advertising	✓	1 040		✓
Suspense	✓		1 040	✓

(5)

(b)

Rasheed – Profit and loss account for the year ended 31 December 2006

		£	£	
Commission received:				
Holidays			120 000	✓
Air flights			45 000	✓
Decrease in PDD			<u>100</u>	✓✓
			165 100	
less				
Sales staff salaries		54 000		✓
Management salaries	31 000 – 750	30 250		✓
Rent and rates	7 900 – 90	7 810		✓
Heat and light		8 750		✓
Insurance	2 900 +230	3 130		✓
Advertising	20 260 +1 040	21 300		✓
Loan interest	2 000 + 1 000	3 000		✓
Depreciation – leasehold		6 000		✓
fixtures	2 700			✓
computers		10 000		✓
<b>Bad debts</b>		<u>1 500</u>		✓
			<u>148 440</u>	
<b>Net profit</b>			<u>16 660</u>	



Balance sheet as at 31 December 2006 ✓

	£	£
<u>Fixed assets</u>		
Leasehold (48 000 – 6 000)		42 000 ✓OF
Fixtures (18 000 – 8 100)		9 900 ✓OF
Computers (40 000 – 30 000)		<u>10 000</u> ✓OF
		61 900
<u>Current assets</u>		
Debtors	18 000	✓
Less PDD	<u>900</u>	✓OF
	17 100	
Prepayments	<u>90</u>	✓
	17 190	
<u>Current liabilities</u>		
Creditors	1 850	✓
Accruals 1 000+230	1 230	✓✓
Bank overdraft 4 500 – 6 600	<u>2 100</u>	✓✓
	5 180	
Working capital		<u>12 010</u>
		73 910
<u>Long term liabilities</u>		
8% loan 31.12.2010		<u>50 000</u> ✓
		<u>23 910</u>
<u>Financed by:</u>		
Capital		20 000
Net profit		<u>16 660</u> ✓OF
		36 660
Drawings 12 000 + 750		<u>12 750</u> ✓OF
		<u>23 910</u>

(15)

(c)

Nazir:

Current remuneration  $\text{£}240 \times 52 \text{ weeks} = \text{£}12\,480$  ✓

Hourly/commission (40 hours  $\times$  52 weeks  $\times$   $\text{£}4$ )  
 $+ (\text{£}300\,000 \times 1\% + \text{£}200\,000 \times 0.5\%) = \text{£}12\,320$  ✓✓✓

Valid points may include:

Hourly rate/commission

- Incentive to obtain sales, but majority of earnings are still based upon the hourly rate.
- Emphasis on hourly pay still gives priority on customer service.
- Earnings similar to current remuneration so incentive present to increase earnings by obtaining more sales.

✓ for identification of point plus ✓ if developed. MAX 6x ✓ with max 4 for existing and max 4 for hourly/commission.

✓✓A decision based upon considering at least two points.

(6)

(Total 26 marks)

2. (a) Allocation occurs where the costs can be identified as specifically relating to a cost centre and therefore can be allocated directly to that centre. ✓✓

Apportionment occurs where costs relate to more than one cost centre and can only be apportioned to different cost centres based on some appropriate basis such as rent based on floor area occupied by each department. ✓✓

(2)

(b)

	<u>Overhead Apportionment</u>				
	Machining	Assembly	Admin	Marketing	
	£	£	£	£	
General over	13 860	5 940	23 500	17 500	✓ •
Supervision	24 000	20 000	12 000	8 000	✓✓✓
Rent	20 000	15 000		2 500	2 500 ✓✓✓
Building ins	6 000	6 000	2 000	2 000	✓✓✓
	<u>63 860</u>	<u>46 940</u>	<u>40 000</u>	<u>30 000</u>	
	16 000	16 000	(40 000)	8 000	✓✓
	19 000	15 200	3 800	(38 000)	✓✓
	1 520	1 520	(3 800)	760	✓✓
	380	304	76	(760)	✓✓
	30	30	(76)	16	
	<u>9</u>	<u>7</u>	-	(16)	
	100 799	80 001			
÷ Hours	8 400 ✓✓	8 000 ✓✓			
=	£12 per hour ✓	£10 per hour ✓			

(12)

(c) Valid points may include:

- The rate of £15 per hour is much higher than the individual rates calculated.
- In the case of Assembly the rate is 50% higher than the rate calculated.
- The use of £15 per hour is therefore making the quotations of Shukka Engineering uncompetitive in a competitive market.
- Shukka Engineering should adopt the differentiated rates calculated to ensure that prospective orders are accurately costed to recover overheads expended in the two productive departments but to remain competitive.
- The existing rate of £15 per hour would particularly make prospective orders with a higher volume of Assembly uncompetitive.

✓✓ per point x 4

(4)



(d)

Provision for doubtful debts account					
		1 Jan	Balance b/d ✓	11 000 ✓✓	
31 Dec	Balance c/d ✓		14 500 ✓✓		
		OF	31 Dec	Profit and loss ✓	3 500 ✓
					<u>14 500</u>

(4)

(e) Valid criticisms may include:

- Failure to take up references leaves the business vulnerable to debtors with a bad credit history not paying for goods. There is a higher risk that such debtors will be bad debtors.
- The policy of sending only statements for the first six months needs revision. Letters demanding urgent payment should be issued after one month with increasing severity of correspondence if payment is still not received. This should be supported by telephone calls to the finance department of the debtor.
- The lack of general credit control may be resulting in customers taking longer to pay debts and not being focused on payment.
- The business is unwise in failing to challenge any debtors in legal proceedings whatever the circumstances.
- The lack of credit control will be known by debtors who seem to be taking advantage of the policy.
- The policy is resulting in a higher provision for doubtful debts having to be maintained than would be expected.
- The volume of debt being written off is high and increasing.

✓ Recognition of point + ✓ for development. X 4 points

(4)

(Total 26 marks)



3. (a) (i)

Calculation of sales and purchases:

Sales	£	Purchases	£
Cash receipts	4 500 ✓	Cash purchases	1 600 ✓
Drawings	7 800 ✓✓	Creditor payments	42 880 ✓
Receipts from debtors	98 200 ✓	Discount received	350 ✓
Discount allowed	750 ✓	Creditors at end	<u>9 910</u> ✓
Debtors at end	<u>11 630</u> ✓		54 740
	122 880	Creditors at start	<u>5 700</u> ✓
Debtors at start	<u>3 900</u> ✓	PURCHASES	49 040
SALES	118 980		

ALL forms of calculation accepted

Calculation of Stock:

	Receipts	Issues	Balance
Opening bal			800@£7
Jan-Mar	<u>500@£7.5</u>	<u>500@£7.5</u> 200@£7	600@£7
Apr-Jun	800@£8	600@£8	600@£7 200@£8
Jul-Sept	<u>400@£8.5</u>	<u>300@£8.5</u>	600@£7 200@£8 <u>100@£8.5</u>
Oct-Dec	600@£9	500@£9	600@£7 ✓ 200@£8 ✓ <u>100@£8.5</u> ✓ 100@£9 ✓ =£7 550

(8)

(b)

Carrow Trading – Trading and profit and loss account for the year ended  
31 December 2006 ✓

	£	£	
Sales		118 980	✓OF
less			
Opening stock	5 600		✓
Purchases	<u>49 040</u>		✓OF
	54 640		
Closing stock	<u>7 550</u>		✓OF
Cost of sales		<u>47 090</u>	
Gross profit		<u>71 890</u>	
plus			
Rent receivable	4 800		✓
Interest receivable 200+160	360		✓✓
Discount received	<u>350</u>		
		<u>5 510</u>	
		77 400	
less			
General expenses(15 480+850-1 230)	15 100		✓✓
Wages (33 700-350+800)	34 150		✓✓
Depreciation	6 500		✓
Loan interest	540		✓OF
Discount allowed	<u>750</u>		
		<u>57 040</u>	
Net profit		<u>20 360</u>	

6% Loan account

	£		£
31 Dec Eastern Bank ✓	1 040 ✓	1 Apr Bank	12 000 ✓
31 Dec Balance c/d	<u>11 500</u> ✓OF	31 Dec Interest ✓	<u>540</u> ✓
	<u>12 540</u>		<u>12 540</u>

(10)

(c) Perpetual inventory – the application of the stock valuation technique such as FIFO or LIFO will take place after each receipt or issue of stock has taken place. This will value issues and the stock balance on an ongoing basis. √√

Periodic inventory – stock will be valued periodically by summarising the receipts and the issues and applying the valuation technique such as FIFO or LIFO to the units of stock at the end of that period. √√

In inflationary times:

Profit will be lower because the value of the closing stock will be lower and therefore the cost of sales higher. √√

Stock will be valued at a level below the market replacement value because the units issued will be at the most recent prices paid and the closing stock will be at the oldest prices paid. √√

(4)

(d) Valid points may include:

#### Benefits

- Details of all transactions recorded and available for enquiry.
- Individual accounts for each person and category of income and expenditure.
- Accuracy of transactions can be tested through the trial balance.
- Final accounts can be prepared more accurately and frequently.
- Not all transactions are recorded in the cash book as implied.

#### Disadvantages

- Cost of employing skilled staff to prepare the accounts.
- More formality to process.

√ for identification of a point + √ for development.

Max 4 points for benefits or disadvantages

√ for a decision or recommendation.

(4)

(Total 26 marks)



4. (a) Fixed assets will last for more than one accounting period and therefore give benefit to a number of accounting periods.√√ It is therefore appropriate that the original cost of the asset is apportioned or matched to the accounting periods over where the benefit is received.√√

(2)

(b)

Provision for Depreciation Account			
	£		£
Profit and loss a/c ✓	30 000 ✓✓	Balance b/d ✓	90 000 ✓✓
Balance c/d ✓	<u>60 000 ✓</u>		
	<u>90 000</u>		<u>90 000</u>

(4)

(c)

Revised Net Profit as at 31 December 2006

	£	£
Draft net loss		(80 000)
plus		
Depreciation adjustment	30 000 ✓OF	
Advertising prepaid	60 000 ✓	
		<u>90 000</u>
		10 000
less PDD increase		<u>7 000 ✓</u>
Adjusted net profit		3 000 ✓

(2)

(d) (i) In favour- It is permissible, although unusual, to change the method of depreciation for a fixed asset part way through its' economic life. If there are valid grounds for making the change such as a fairer allocation of depreciation to the accounting years then this can be done. ✓✓

Against - It breaches the concept of consistency. ✓  
It breaches prudence because the motive is not the accuracy of the accounts but the engineering of a profit. ✓

(ii) In favour- The value of advertising may be felt for more than one accounting period and therefore there is an argument under the accruals concept to allocate the cost to more than one accounting period. ✓✓

Against- The long term benefits of advertising are difficult to quantify and therefore the proportion that should be accrued is difficult to assess. It may be more prudent to expense all advertising expenses in the year that they are expended. ✓✓

(iii) In favour- It would be prudent to account for the impact of all potential losses against the losses. ✓✓

Against - There would be no argument against providing for doubtful debts if the assessment is a reasonable pre-estimate of the potential loss and not a provision designed to increase the current years profit. ✓✓

(6)

(e) The trial balance;

- will reveal errors where there has **not** been a debit and a credit of equal value. ✓✓
- will not reveal errors where the debit and credit has been of equal value but where there is still some fundamental error e.g the wrong account used as in an error in principle or of commission. ✓✓

Decision/conclusion that the trial balance does play an important role in evaluating accuracy, but cannot be relied upon as the sole check on the accuracy of the double entry. ✓

**MAX (2)**

**(Total 16 marks)**

5.(a) Current ratio	$\frac{95\ 000}{50\ 000} =$	1.9:1	√√
Liquid (acid test) ratio	$\frac{95\ 000 - 35\ 000}{50\ 000} =$	1.2:1	√√
Debtors collection period	$\frac{50\ 000}{600\ 000} \times 365 =$	30 days	√√
Creditors payment period	$\frac{50\ 000}{240\ 000} \times 365 =$	76 days	√√
Return on capital employed	$\frac{12\ 000}{60\ 000} \times 100 =$	20%	√√

Note; √ for calculation plus √ for relationship e.g :1 or days.

(5)

(b) Valid points may include:

- Current ratio at 1.9:1 is at the accepted level for liquidity but is less than the common yardstick of 2:1.
- Acid test ratio at 1.2:1 is above the accepted level for liquidity.
- Debtors collection is good and close to the 28 days credit normally provided.
- Creditors payment raises grave concerns as this is considerably above the normal 28 days credit normally provided.
- There is a considerable risk that creditors will cease the supply of stock.

Identification of a point √ plus √ for development.

(3)OF

(c) Revised ratios:

	Option A	Option B
Liquid (acid test) ratio	$\frac{50\ 000}{50\ 000} = 1:1$ √√	$\frac{55\ 000}{75\ 000} = 0.73:1$ √√
Creditors payment	$\frac{50\ 000}{240\ 000} \times 365 = 76$ days √√	$\frac{75\ 000}{240\ 000} \times 365 = 114$ days √√
Return on capital employed	$\frac{9\ 600}{90\ 000} \times 100 = 10.6\%$ √√	$\frac{12\ 000}{65\ 000} \times 100 = 18.5\%$ √√

(6)



(d) Valid points may include:

Option A

- Fixed assets are being funded by long term borrowing.
- Liquid (acid test) ratio is still good.
- Creditors payment is still high and the business has no cash to meet creditors demands for payment.
- Return on capital will be reduced during the next year as interest on the loan reduces net profit.

Option B

- Fixed assets are being funded mainly from current assets and liabilities.
- Liquid (acid test) ratio is low.
- Creditors payment period is very high with a high risk that suppliers will stop supplying stock.
- Return on capital will be reduced because more capital resources are required to generate the same profit.

✓ for each valid point maximum two points for Option A or B x3

Option A would appear to be the most appropriate in the current circumstances. ✓OF

(2)

(Total 16 marks)

6. (a) Fixed costs do not vary in the short term to the level of output. ✓ e.g rent or rates on premises. ✓

Semi-fixed costs consist of both an element of fixed and an element of variable cost ✓ e.g telephone charges where there is a fixed charge plus the variable element of calls made. ✓

(2)

(b) The calculation of profit by Anifa does not seem to take into account the accruals concept and also there are several omissions from the calculation of profit. ✓✓

In particular Anifa should consider the following adjustments:

- Stocks of raw materials at end of period.
- Wages paid to self should be shown as drawings.
- Expenses are recorded as paid there may be prepaid or accrued expenses.
- No adjustment for stocks of finished goods.
- No depreciation of equipment recorded.
- Sales on credit no provision for doubtful debts.

✓✓ per identified adjustment

MAX(4)

(c)

Cost per chest;

	Cost per chest £	
Raw materials (5 090 – 540 ÷ 90)	50.55	✓✓
Labour - production (2 250 x 60% ÷ 90)	15	✓✓
General expenses (1 440 ÷ 90)	<u>16</u>	✓✓
<b>Manufacturing cost</b>	<b>81.55</b>	✓✓
Labour -admin and selling (2 250 x 40% ÷ 80)	11.25	✓✓
General expenses (1 440 ÷ 80)	18	✓✓
Selling expenses (400 ÷ 80)	<u>5</u>	✓✓
<b>Total cost</b>	<b>115.80</b>	✓✓

(8)

(d) Anifa will need to balance some of the following considerations:

Benefits:

- Accurate costing of product.
- Advice on selling price.
- Preparation of final accounts.
- Preparation of information for tax authority.

Adverse factors:

- Cost.
- More time spent in non productive work dealing with the accountant.

√ For each benefit or adverse factor – maximum two benefits or adverse factors.

√ Decision based upon at least one benefit and one adverse factor.

(2)

(Total 16 marks)



7. (a) Fixed capital accounts are agreed between the partners and will not be varied without the agreement of the partners. ✓ They ensure that partners cannot withdraw capital without the others agreement. ✓

Floating capital accounts vary with adjustments for drawings and appropriations of profit. ✓ There is less control on the retention of capital by individual partners. ✓

(2)

(b) (i)

Amir, Badheeu and Colin –  
Appropriation Account for the year ended 31 December 2006

	£		£
Net profit			20 000
Less <u>Interest on Capital</u>			
Amir	2 400		
Badheeu	1 200		
Colin	1 600		
			5 200 ✓
Less <u>Salaries</u>			
Amir	8 000		
Badheeu	5 000		
Colin	5 000		
			18 000 ✓
<u>Share of loss</u>			
Amir	(1 600)	✓OF	
Badheeu	( 800)		
Colin	( 800)	✓OF	
			<u>(3 200)</u>
			<u>20 000</u>

OF if no alien items such as drawings or capital

(ii)

	Current Accounts						
	Amir	Badh	Colin		Amir	Badh	Colin
	£	£	£		£	£	£
Drawings	√10 000	5 000	4 500	Balance b/d	500	100	700
Loss	√OF 1 600	800	800	Interest	2 400	1 200	1 600 ✓OF
Capital a/c			√2 000	Salaries	8 000	5 000	5 000 ✓
Balance c/d		500		Balance c/d	700		- ✓OF
	<u>11 600</u>	<u>6 300</u>	<u>7 300</u>		<u>11 600</u>	<u>6 300</u>	<u>7 300</u>

(6)

Capital Accounts

	Amir	Badh	Colin		Amir	Badh	Colin
	£	£	£		£	£	£
Goodwill	30 000	20 000	✓	Balance b/d	60 000	30 000	40 000
Bank			✓	44 500	25 000	12 500	12 500
Motor veh				10 000			2 000
Balance c/d	<u>55 000</u>	<u>22 500</u>		Current a/c			✓
	<u>85 000</u>	<u>42 500</u>	<u>54 500</u>		<u>85 000</u>	<u>42 500</u>	<u>54 500</u>

(7)

(c) Amir and Badheeu – Balance Sheet as at 1 January 2007

	£	£
Fixed assets	61 000	✓
Less Provision for depreciation	<u>12 000</u>	✓
		49 000
Current assets		
Stock and debtors	83 250	✓
Bank	<u>12 050</u>	✓✓
	95 300	
Current liabilities		
Creditors	<u>7 000</u>	✓
Working capital		<u>88 300</u>
		137 300
Long term liability		
Loan repayable 31 December 2010		<u>60 000</u> ✓
		<u>77 300</u>
Financed by:		
Capital a/cs:		
Amir	55 000	✓OF
Badheeu	22 500	✓OF
		77 500
Current a/cs:		
Amir	700	DR
Badheeu	500	CR
		<u>200</u> DR ✓OF
		<u>77 300</u>

(5)

✓  
(d) The decision to continue the partnership with two partners and not to admit a new partner has benefits and disadvantages;

Valid points may include;

Benefits:

- Profit shared between fewer partners.
- Possibly easier decision making as fewer partners.

✓ per benefit maximum x 2

Disadvantages:

- Loss of skills.
- Loss of management capacity.
- Loan costs to 'buy out' Colin.

✓ per disadvantage maximum x 2

Decision based upon balance of at least one benefit and one disadvantage. ✓

(2)

(Total 16 marks)