

# Mark Scheme with Examiners' Report GCE A Level Accounting (6001)

June 2005

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Mark Scheme with Examiners' Report

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## ACCOUNTING 6001, MARK SCHEME

1. (a) (i)

Ravindra - Trading and Profit and Loss Account for the year ending 30 April 2005

	£	£
Sales 83 000+7 000 +6 500 +5 200 + 3 000		104 700 ✓✓✓
<b>less</b>		
Opening stock	2 500	
Purchases (65 000+1 000) +7 700	<u>73 700</u> ✓✓	
	76 200	
<b>less</b>		
Stock drawings	2 750 ✓	
Closing stock	<u>4 200</u> ✓	
Cost of sales		<u>69 250</u>
Gross profit		35 450
Plus Discount received		<u>1 000</u> ✓
		36 450
<b>less</b>		
Wages	6 500 ✓	
Rent 7 500 - 1 500	6 000 ✓	
General expenses	4 000 ✓	(Mark awarded for General expenses and Electricity)
Electricity	3 600	
Telephone 800 + 85	885 ✓	
Depreciation - Fixtures	300 ✓	
- Computer	600 ✓	
Provision for doubtful debt	<u>350</u> ✓	
		<u>22 235</u>
Net profit		<u>14 215</u> ✓ OF (8)

(ii)

Balance Sheet as at 30 April 2005

	£	£
<b>Fixed Assets</b>		
Shop fixtures 3 000 - 300		2 700 ✓ OF
Computer 2 000 - 600		<u>1 400</u> ✓ OF
		4 100
<b>Current Asset</b>		
Stock	4 200 ✓	
Debtors less PBD 3 000 - 350	2 650 ✓✓	
Prepaid rent	1 500 ✓	
Bank 1 500 + 90 000 - 82 900	<u>8 600</u> ✓✓✓	
	16 950	
<b>less</b>		
<b>Current Liabilities</b>		
Creditors	7 700 ✓	
Accrued telephone	<u>85</u> ✓	
	7 785	

Working capital		<u>9 165</u>	
		<u>13 265</u>	
<b>Financed by:</b>			
Capital	1 500 + 2 500 + 3 000	7 000 ✓✓	
Net profit		<u>14 215</u> ✓ OF	
		21 215	
Drawings	5 200 + 2 750	<u>7 950</u> ✓✓	
		<u>13 265</u>	(8)

- (b) (i) Capital expenditure is the purchase of assets which are fixed ✓ and will last for more than one accounting period. ✓  
Revenue expenditure is the payment of expenses ✓ which are used in a single accounting period. ✓ (2)

- (ii) The accrual or matching concept ✓✓ applies. The concept matches revenue to the expenses used up to generate that revenue. ✓✓

The computer is capital expenditure ✓ and therefore will be used in the business for more than one accounting period. ✓  
Therefore, the expenditure must be apportioned over the life of the asset ✓ and only a proportion of the expenditure should be apportioned to a single year. ✓ (4)

- (c) Valid points might include:

- Maintain an orderly set of records
- Be audited or scrutinised
- Record of transactions for a single account easily seen
- Establish balances on accounts quickly and easily
- Prepare year end accounts with greater ease
- Any other valid points

✓✓ for recognition of a valid point plus a further ✓✓ for development x 2 points (4)

**Example**

If Ravindra maintained a set of double entry records he would be able to refer to a single account which would record all of the transactions for a supplier or customer in that single account. ✓✓  
This would enable all enquiries to be answered by reference to the account ✓ which contains a record of all the transactions with that supplier or customer. ✓

**Total 26 marks**

2. (a) (i) The difference between the current ratio and the liquid (acid test) ratio is the stock level. ✓ In the case of Newtown this is 0.8 times the current liabilities. ✓ In the case of Burnham this is 1.8 times the current liabilities. ✓ This implies that the stock levels are particularly high at Burnham ✓ or Stock turnover in Newtown is more efficient ✓✓ which implies a lower average stock. ✓✓ (2)

(ii) The cost as a percentage of sales is 40% at Newtown ✓ and 70% at Burnham. ✓ The cost of raw materials as a percentage of sales being higher at Burnham implies that the costs of materials are substantially higher ✓✓ than at Newtown. (2)

(b)	Newtown ✓	Burnham ✓
Fixed assets as a percentage of sales	$\frac{1,200,000 \times 100}{1,500,000} = 80\%$ ✓	$\frac{600,000 \times 100}{1,000,000} = 60\%$ ✓
Return on capital employed	$\frac{300,000 \times 100}{2,000,000} = 15\%$ ✓	$\frac{60,000 \times 100}{1,500,000} = 4\%$ ✓

Return on capital employed for Antoni Chemicals  
 $\frac{360,000 \times 100}{3,500,000} = 10.3\%$  ✓✓ (1)

**Comments upon ratios:**

Fixed assets to sales percentage ✓✓ OF  
 Return on capital employed of the two businesses ✓✓ OF  
 Return on capital employed on overall business ✓✓ OF (3)

**Example:**

The fixed assets used to generate the volume of sales in Burnham is lower than at Newtown, implying greater efficiency in the use of fixed assets, ✓ but the plant at Burnham is old and inefficient and therefore will have a low balance sheet value ✓ which will reduce the fixed assets as a percentage of sales.

The return on capital employed for Newtown is at an acceptable level ✓ when compared to other alternative investments ✓ in manufacturing. In the case of Burnham this is not the case ✓ and the returns are very low for the risks of operating an old and inefficient plant. ✓ Overall, at 10.3%, the return is acceptable ✓ compared to alternative investments and the opportunity arises to improve this percentage ✓ with the disposal of Burnham and the re-investment of funds.

(c) (i) Social accounting refers to the motives of the firm and the principle that there exist other considerations that must be taken into account ✓ other than merely profit maximisation. ✓ Decisions affect not only profits but employees, ✓ consumers ✓ and the environment ✓ and there is a moral responsibility ✓ to take those factors into account. (3)

- (ii) Firms will need to balance conflicting interests with one another. ✓ In exercising social responsibility there will normally be a cost to the firm in the short term ✓ in reduced profits eg keeping open unprofitable product lines. ✓ In the long run, there may be benefits as the image of the business is improved ✓ as its social responsibility may be acknowledged, ✓ for example, for its enlightened or 'green' policies. ✓ (3)

- (d) (i) Valid points on possible impacts upon local community might include:
- unemployment
  - loss of businesses in town
  - deprivation in town
  - depopulation as workers seek work in other locations
  - cleaner environment
- ✓ for recognition plus ✓ for development x 2 points (2)

**Example:**

The reduced employment opportunities may result in workers seeking employment in other geographical locations ✓✓ this will result in a loss of skilled workers ✓ in the community which will reduce the attractiveness to new employers. ✓

- (i) Valid points on possible impact upon suppliers of materials might include:
- loss of business may result in need to reduce staffing.
  - need to find alternative markets for products to replace lost business.
  - impact on own community of lost business.
- ✓ for recognition plus ✓ for development x 2 points (2)

- (e) Valid points of evaluation might include:
- Financial:**
- ROCE is unacceptable for Burnham funds could yield a higher return from an alternative investment
  - gross and net profit percentages much lower and unacceptable level for Burnham primarily caused by highly priced purchases (2)
  - liquidity of Burnham requires attention with very high stock levels.
- Non financial:**
- added pollution in community of Burnham, probably unacceptable in an attempt to maximise profits
  - plant outdated and inefficient alternative is to replace plant
  - bad publicity for the whole company should be avoided.
- Decision:**
- on balance the argument to close Burnham is strong.

✓ for recognition of a point plus ✓ for development.

Parameters: Maximum ✓✓✓✓ for financial and ✓✓✓✓ for non financial factors (4)  
✓✓ for a decision concerning Burnham

3. (a) (i) **Fixed costs** remain constant over an extended range of production ✓ and/or period of time ✓ an example would be rent for premises ✓ which will probably remain constant irrespective of production in an accounting period. ✓
- Semi-fixed costs** are constant for a limited range of production ✓ for example supervisors' salaries. ✓ At a certain level of production, the cost will rise as another unit, for example another supervisor, is employed, ✓ the cost will then remain at that level until another unit of resource needs to be obtained. ✓ (4)
- (ii) The statement is true. ✓ By their very nature, overheads are fixed or contain a significant fixed element ✓ over a range of production as they relate to expenses which provide facilities and services to support the production process ✓ and are not direct costs which can be identified in each individual product. ✓ (2)

- (b) **Allocated** overheads are those overheads which can be identified to a particular department or process. ✓✓ Therefore the cost of those overheads can be allocated to that department or process. ✓ **Apportioned** overheads cannot be accurately identified to a department or process ✓ and therefore must be apportioned between departments or processes on the basis of the most reasonable basis ✓ or cost driver ✓ for the overhead. This will lead to an apportionment which is a reasonable estimate ✓✓ of the usage based upon the perceived cost driver. (4)

(c)	Machining	Finishing	Administration	Stores
	£	£	£	£
	20 000	30 000	6 000	4 000
	2 400 ✓	2 400	(6 000)	1 200 ✓
	3 120 ✓	1 560 ✓	520	(5 200)
	208 ✓	208	(520)	104 ✓
	63 ✓	31 ✓	10	(104)
	4 ✓	4	(10)	2 ✓
	<u>1</u>	<u>1</u>	-	(2)
	25 796 ✓	34 204 ✓		

(6)

(d)	Machining	Finishing
Projected overhead rates:	OF	OF
	$\frac{£25\,796}{4\,300} ✓$	$\frac{£34\,204}{8\,550} ✓$
	= £6 per hour ✓ OF	= £4 per hour ✓ OF
Actual overhead recovery:		
Actual overhead:	£6 x 4 850 = £29 100 ✓ OF	£4 x 8 300 = £33 200 ✓ OF
	<u>£26 650</u> ✓	<u>£34 250</u> ✓
Under/over recovery:	£2 450 over ✓ OF	£1 050 under ✓ OF
For whole business:	£2 450 + (£1 050) = £1 400 over recovery ✓✓ OF	

(4)

- (e) If Basic Manufacturing uses separate overhead recovery rates this will mean that the charges made to customers for the services of each department would more accurately reflect ✓✓ the costs incurred in the delivery of the service by that department. ✓✓ Where a single overhead rate is used, charges levied could represent a loss on activity ✓✓ where the departmental recovery rate would be greater than the single rate used. ✓✓ (4)

**Total 26 marks**



4. (a)

**Journal**

	Dr £	Cr £	
Creditor or supplier	200		✓
Purchase returns		200	✓
Fixtures	1 500		✓
Purchases		1 500	✓
Suspense	16 000		✓
Sales		16 000	✓
Suspense	60		✓
Bank		60	✓

(4)

**Suspense Account**

	£		£	
Sales	✓ 16 000	Balance	16 060	✓✓
Bank	✓ <u>60</u>			
	<u>16 060</u>		<u>16 060</u>	(2)

(b)

**Trial Balance as at 30 April 2005**

	Dr £	Cr £	
Sales 96 450 +16 000		112 450	✓
Purchases 42 000 - 1 500	40 500		✓
Stock at 1 May 2004	5 700		✓
Purchase returns 800 + 200		1 000	✓
Salaries and trade expenses	45 200		✓
Telephone charges	1 540		✓
Capital		15 000	✓
Bank overdraft 1 600 + 60		1 660	✓
Fixtures 40 000+1 500	41 500		✓
Fixtures provision for dep		1 800	✓
Debtors	12 920		✓
Creditors 15 050 - 200		14 850	✓
Provision for doubtful debts		600	✓
	<u>147 360</u>	<u>147 360</u>	✓

(7)

(c) Other checking devices:

- Control accounts
- Balance sheet
- Bank reconciliation

✓✓ for identification ✓✓ identifying what it checks plus up to ✓✓ for explaining benefits.

**Example:**

A balance sheet can be used as a checking device ✓✓ to check that the value of the assets is equal to the value of the liabilities and the capital. ✓✓ The benefits are that a summary of all the assets and liabilities are in a single statement which must balance if the double entry has been correctly undertaken during the year. ✓✓

(3)

**Total 16 marks**

5. (a)

	(i) LIFO Balance	(ii) FIFO Balance
Balance	500 @ £3 500 @ £4 1 000 @ £5 ✓	500 @ £3 500 @ £4 1 000 @ £5 ✓
Issued	1 000 @ £5 500 @ £4 ✓	500 @ £3 500 @ £4 500 @ £5 ✓
Rec	2 000 @ £6 500 @ £3 2 000 @ £6 ✓	2 000 @ £6 500 @ £5 2 000 @ £6 ✓
Rec	1 000 @ £7 500 @ £3 2 000 @ £6 1 000 @ £7 ✓	1 000 @ £7 500 @ £5 2 000 @ £6 1 000 @ £7 ✓
Issued	1 000 @ £7 500 @ £6 1 500 @ £6	500 @ £5 1 000 @ £6 1 000 @ £7
Value of stock	£10 500 ✓✓	£13 000 ✓✓ (6)

(b) Valid points might include:

- complies with accounting standards
- provides a more realistic value of closing stock at current market values
- applied by tax authorities
- more logical and in step with actual stock rotation

✓✓ for recognition + up to ✓✓ for development x 2 points (4)

(c)

	Adnam	Belinda
Daywork	36hrs x £4 = £144 ✓	40hrs x £7 = £280 ✓ 4hrs x £10.5 = £42 ✓ £322 ✓
Piecework	110 x 6 = 660 mins 75 x 9 = 675 mins 1 335 ✓ x £0.10 £133.5 ✓	120 x 6 = 720 mins 250 x 9 = 2 250 mins 2 970 ✓ x £0.10 £297 ✓ (4)

(d) Valid points on potential benefits might include:

- potentially higher level of production
- potentially lower cost per unit of output
- more efficient workers can increase earnings and will stay with the business
- reduction in supervision requirements.

Implications:

- Quality may suffer.

✓ for identifying benefit plus ✓✓ for evaluating the benefit plus ✓ for considering the potential implications.

**Example:**

A potential benefit would be that the production output could be increased ✓ without the requirement to increase the resources of premises and equipment. ✓✓ In increasing that level of output appropriate safeguards will need to be placed upon quality assurance. ✓

(2)

**Total 16 marks**

6. (a) (i) Historic cost ✓✓  
(ii) Consistency or accrual or going concern ✓✓  
(iii) Money measurement ✓✓  
(iv) Realisation ✓✓ (4)

(b)

<b>Revised Net Profit</b>		£	
Original profit		81 000	
plus			
Office fixtures depreciation	3 100 ✓✓	<u>3 100</u>	
		84 100	
<b>less</b>			
Premises revaluation	20 000 ✓✓		
Skill of staff	30 000 ✓✓		
Profit on stock	<u>5 000 ✓✓</u>	<u>55 000</u>	
Revised profit		<u>29 100 ✓✓</u>	(5)

(c) **Paul Bain - Balance Sheet as at 30 April 2006**

		£	
<b>Fixed Assets</b>			
Premises	160 000		✓✓
Office fixtures	<u>3 200</u>		✓✓
	163 200		✓ OF
<b>Current Assets</b>			
Stock	10 000		✓✓
Debtors	19 000		
Bank	<u>5 900</u>		
	34 900		
<b>Current Liabilities</b>			
Creditors	<u>16 000</u>		
	182 100		✓ OF
<b>Financed by:</b>			
Capital	160 000		
Net profit	<u>29 100</u>		✓ OF
	189 100		
Drawings	<u>7 000</u>		
	182 100		✓ OF (5)

- (d) Valid points on the role of accounting concepts and conventions might include:
- gives structure to accounting
  - gives assurance to those reading different accounts that they have been prepared applying the same principles
  - can be extended and revised to reflect current developments in accounting and business.

Identification of a role ✓ evaluation of why this is beneficial ✓✓  
comment about the detrimental effect of the benefit. ✓ (2)

**Total 16 marks**

7. (a)	Accumulated fund	612 + 11 + 84 + 600 + 1 000 = 2 307	✓✓✓✓✓	
		- 50 - 57		
		<u>107</u>	✓✓	
		2 200	✓	(4)

(b) Income and Expenditure Account for the year ended 31 December 2005

		£		
<b>Income</b>				
Subscriptions	1 815 - 84 + 57 + 50 - 106	1 732	✓✓✓✓✓	
Profit on sale of magazines	125 - 80	45	✓✓	
Profit on book sales	1 240 - 1 010	230	✓✓	
Investment income	25 + 16	<u>41</u>	✓✓	
		2 048		
<b>less</b>				
<b>Expenditure</b>				
Rent	600 - 50	550	✓✓	
Speakers' fees		325	✓	
Payment to treasurer		50	✓	
Stationery and postage	64 + 11	75	✓✓	
General expenses		740	✓	
Depreciation on computer equipment		<u>250</u>	✓	
		1 990		
Surplus		<u>58</u>	✓OF	(10)
		<u>2 048</u>		

(c) Valid benefits might include:

- cash flow in receiving early payment of subscriptions
- investment potential of funds
- potential reduction in bad debts

Identification of benefit ✓ evaluate why this is a benefit ✓✓  
consider detriment. ✓

**Example:**

A benefit of providing the option of 10 year subscriptions would be that the club would receive an initial boost to its cash receipts. ✓  
The cash could be used to make payments on time or to invest in an interest bearing account. ✓✓ The club would have to also consider the longer term and the long term income that would be lost if the ten year subscription were discounted by 40%. ✓

(2)

**Total 16 marks**

# ACCOUNTING 6001, CHIEF EXAMINER'S REPORT

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## General Comments

Centres are again to be congratulated on their preparation of candidates for the first summer series of the revised syllabus. The majority of candidates displayed a wide range of accounting knowledge and the ability to apply that knowledge in answering the examination paper. Candidates were able to complete the required number of questions within the time allocated. All questions were attempted, but with a slight preference for questions 1 and 3 in Section A and 4, 5 and 7 in Section B. All questions attempted by candidates achieved a similar proportion of the available marks.

### Question 1

Candidates generally prepared sound answers in good format particularly in part (a) of the question. Candidates were able to identify most of the component elements of the sales and progressed through the question identifying most of the components of the trading, profit and loss and balance sheet and preparing their answers in good format. Within part (b), many candidates focused upon the prudence concept and failed to identify the accruals concept within their answers. Within part (c), candidates were aware of the advantages and disadvantages of maintaining a double entry system of bookkeeping and could explain the reasons for those advantages and disadvantages.

Common errors were:

- failure to add discount received in the calculation of purchases
- failure to recognise the allocation of depreciation to different time periods as an application of the accruals concept.

### Question 2

Candidates prepared varied answers to the question, which exposed weaknesses in their powers to analyse the data presented. Comments on the levels of stock and purchasing of stock generally failed to consider the stock turnover, the effect on current ratio and candidates did not generally consider the percentage of sales which constituted cost. Candidates were aware of the significance of return on capital employed, but few candidates included the long term loans in the calculation.

Social accounting was not generally understood by candidates, resulting in a wide range of responses. Some candidates could provide comprehensive answers but others were vague about the topic generally. Candidates were clear about the implications of closing the plant in section (d), but the quality of evaluation within part (e) depended upon the candidates' answers to previous sections within the question.

Common errors were:

- understanding of the cost component of gross profit as a percentage of sales
- failure to include long term loans in the calculation of return on capital employed
- an understanding of social accounting.

### Question 3

Candidates generally prepared good, accurate and reliable answers to the question. They accurately explained fixed and variable costs and the distinction between allocation and apportionment. A majority of candidates could apply the continuous allotment method to the question and received full marks, but a significant minority were unable to apply the method.

Candidates were able to calculate the overhead absorption rates using the correct principles and accurately calculate the under- and over-absorption of overheads. Candidates prepared comprehensive evaluations of the use of separate overhead recovery rates.

Common errors were:

- unfamiliarity with the application of the continuous allotment method in re-apportioning overheads of service departments.

### Question 4

Candidates generally prepared good answers, but there was a strong underlying weakness in a significant number of candidates of their understanding of double entry as recorded in the trial balance. Many candidates were able to make appropriate adjustments through the journal, but incorrectly recorded the orientation of a majority of the debit or credit entries in the trial balance.

Candidates prepared journals in good format and were able to identify a checking device and evaluate its benefits. Most commonly, candidates identified control accounts and were fully conversant with the benefits of these.

Common errors were:

- failure to correct the sales account by the value of twice the original error
- identification of the debit and credit orientation of capital, assets, liabilities and expenses.

### Question 5

Most candidates were familiar with the calculation of the stock valuation using LIFO and FIFO, making accurate calculations of the value of stock. In their explanations of the advantage of the FIFO method, candidates generally demonstrated a failure to distinguish between stock valuation and stock rotation.

Candidates could calculate earnings using the day-work method but were generally less certain about the earnings using piecework. The benefits of piecework were explained by candidates, but they often failed to be selective to those which would benefit the employer.

Common errors were:

- failure to distinguish between stock valuation and stock rotation
- calculation of piecework payment
- identifying benefits to the employer as opposed to the employee.

### Question 6

Candidates were only required to identify the concept or convention in part (a) of the question, but many prepared extended explanations of those concepts. Candidates were less certain about the application of the money measurement and realisation concepts. In the revised calculation of net profit, few candidates made an adjustment for each of the four adjustments and there was uncertainty whether the adjustments would increase or decrease the net profit.

The balance sheet was generally prepared in good format and was complete. Candidates were aware of the role of accepted accounting concepts and conventions.

Common errors were:

- failure to identify the money measurement and realisation concepts
- failure to adjust net profit for all four of the amended applications of the correct accounting concepts and conventions.

### Question 7

Few candidates accurately calculated the opening accumulated fund and many candidates included balances or transactions at other dates in the year. Within the income and expenditure account, the cost of the new printer was often fully expensed in the year and many candidates included the investment withdrawal as an expense. The adjustment to the rent was often added and the postage deducted.

Candidates generally failed to consider the immediate cash flow impact of introducing a 10 year membership fee and offered little advice on whether the proposal should be implemented.

Common errors were:

- calculation of accumulated fund based upon in year transaction balances
- capital equipment purchase costs recorded in income and expenditure account
- adjustments for rent and postage reversed
- investment withdrawal recorded as expenditure.

## **ACCOUNTING 6001, GRADE BOUNDARIES**

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Grade	A	B	C	D	E
Lowest mark for award of grade	67	59	51	43	36

**Note:** Grade boundaries may vary from year to year and from subject to subject, depending on the demands of the question paper.

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