

# Mark Scheme January 2009

GCE

GCE Accounting (8011-9011)

## 6001 Mark Scheme

## Section A

Question Number	Answer	Mark
1(a)		(28)

Kehly - Trading and profit and loss account for the year ended 31 December 2008			
	£	£	
Sales		300 000	/
Opening Stock	7 850		
Purchases	<u>62 500</u>		
	70 350		
Closing Stock	<u>10 350</u>		
Cost of Sales		<u>60 000</u>	//
Gross Profit		240 000	
Wages	84 000		/
Management Salaries	31 500		/
Vehicle Expenses	11 250		/
Vehicle - Prov for depreciation	3 500		/
Office rent and expenses	41 000		/
Office equipment- Prov for depreciation	2 400		//
Loan interest	3 000		//
Increase in PDD	<u>2 110</u>		///
		178 760	
Net profit		<u>61 240</u>	
		<u>240 000</u>	

Balance Sheet as at 31 December 2008			
	£	£	
<u>Fixed assets</u>			
Vehicles	35 000 - 17 500=	17 500	/OF
Office equipment	18 000 - 8 400=	<u>9 600</u>	/OF
		27 100	
<u>Current assets</u>			
Stock	10 350		/
Debtors less PDD	90 000 - 4 610=	85 390	//
Prepaid	<u>2 400</u>		/
	98 140		
<u>Current Liabilities</u>			
Creditors	(47 950)		/
Accrual	(1 500)		//
Bank overdraft	<u>( 9 150)</u>		/
	58 600		
Net current assets		<u>39 540</u>	
		66 640	
10% Bank loan		<u>(30 000)</u>	/
		<u>36 640</u>	
Financed by:			
Capital		25 000	

Net profit		<u>61 240</u>	
		86 240	/
Drawings		<u>(49 600)</u>	/
		<u>36 640</u>	

Question Number	Answer	Mark
1(b)	Valid points may include: <ul style="list-style-type: none"> <li>• Difficulty in setting the piecework rate as all jobs will be different.</li> <li>• Higher labour turnover.</li> <li>• Potential impact on quality of work.</li> <li>• More accidents.</li> <li>• Loss of reputation of business.</li> </ul> // For identification of a point and // for development x 2	(8)

Question Number	Answer	Mark
1(c)		(8)

Debtors collection period  $\frac{\pounds 90\,000}{\pounds 300\,000 \text{ divided by } 365 \text{ days}} = 109.5 \text{ days}$  //

Liquid (acid test) ratio  $\frac{\pounds 98\,140 - \pounds 10\,350}{\pounds 58\,600} = 1.5:1$  //

Question Number	Answer	Mark
1(d)	Valid points may include: <p>In favour of the policy</p> <ul style="list-style-type: none"> <li>• Debtors are not pressed for payment and therefore consider Kehly a good supplier.</li> <li>• As Kehly only has two customers it is difficult for him to threaten court action or ceasing to supply.</li> <li>• Invoices issued quickly</li> </ul> <p>Against the policy</p> <ul style="list-style-type: none"> <li>• 3 months is too long before debtors are 'chased' for the debt.</li> <li>• No recovery letters.</li> <li>• No threat of court action</li> <li>• Failure to collect debts results in the requirement for loans and an overdraft which costs Kehly money in interest payments.</li> </ul> // For a reasoned conclusion + // for each point for or against x 3. (MAX 2 points for or against)	(8)

(Total 52)

Question Number	Answer	Mark
2(a)	<ul style="list-style-type: none"> <li>Depreciation is the diminution in the value of a fixed asset // due to use and/or the lapse of time//.</li> <li>Valid points may include:               <ul style="list-style-type: none"> <li>The going concern concept assumes that, unless the opposite is known, the business will operate for an indefinite period of time.</li> <li>Proportion of cost allocated to P/L each year.</li> <li>Fixed assets have a life of many years and require the estimated diminution in value to be charged to each year.</li> <li>The assumption of going concern therefore allows depreciation to be charged over the life of the asset irrespective of length.</li> </ul> </li> </ul> <p>// per point x 2</p>	(8)

Question Number	Answer	Mark
2(b)		(12)

## Machinery account

	£		£
1 Jan 2008 Balance b/d	110 000 //	30 Nov 2008 Disposal	30 000 //
31 Dec 2008 Bank/Creditor	<u>64 000 //</u>	31 Dec 2008 balance c/d	<u>144 000 //</u>
	174 000		174 000
1 Jan 2009 Balance b/d	144 000		

## Machinery - provision for depreciation account

	£		£
30 Nov 2008 Disposal	7 500 //	1 Jan 2008 Balance b/d	42 000 //
31 Dec 2008 Balance c/d	<u>55 000 //</u>	30 Nov 2008 Profit & Loss	<u>20 500 //</u>
	62 500	Depreciation	<u>62 500</u>
		1 Jan 2009 Balance b/d	55 000

## Disposal account

	£		£
30 Nov 2008 Machinery	30 000 //	30 Nov 2008 Prov for dep	7 500 //
		30 Nov 2008 Cash/creditor	13 000 //
	<u>30 000</u>	31 Dec 2008 Loss on sale	<u>9 500 //OF</u>
			<u>30 000</u>

Question Number	Answer	Mark
2(c)		(12)

(i) Calculation:

	Straight line £	Reducing balance £
Cost	64 000	64 000
Year 1 Depreciation	<u>7 000</u> ✓	<u>16 000</u> ✓
Net book value	57 000	48 000
Year 2 Depreciation	<u>7 000</u> ✓/OF	<u>12 000</u> ✓/OF
Net book value	50 000	36 000
Year 3 Depreciation	<u>7 000</u> ✓/OF	<u>9 000</u> ✓/OF
Net book value	43 000	27 000

(ii) Advantages of reducing balance:

- Greater depreciation written off in early years, which may reflect the fact that the fixed asset loses more value in the early years.
- May provide a more realistic net book value if asset loses more value in early years.
- Total cost of operating the fixed asset would be even over the life of the asset. High depreciation and low maintenance in early years. This will reverse in later years.

✓✓ per advantage x 2

Question Number	Answer	Mark
2(d)	<p>(i) Valid points may include:</p> <ul style="list-style-type: none"> <li>• Capital expenditure is the purchase of fixed assets which will give use to the business for more than one accounting year. ✓✓</li> <li>• Revenue expenditure is an expense which will give benefit for up to one accounting year in operating the business on a day to day basis. ✓✓</li> </ul> <p>(ii) Valid points may include:</p> <ul style="list-style-type: none"> <li>• Installation costs are capital expenditure ✓✓ These costs are required to bring the fixed asset into a state in which it can generate long term profits for the business. ✓✓</li> <li>• Staff training is usually revenue expenditure. ✓✓ The skill of staff is not normally recorded as an asset in the accounts (money measurement concept). Staff can leave the business at any time and the training would be lost. ✓✓</li> </ul>	(12)

Question Number	Answer	Mark
2(e)	<p>Valid points may include:</p> <p>Supporting the statement</p> <ul style="list-style-type: none"> <li>• Depreciation accrues previous year's capital expenditure over the life of the asset.</li> <li>• Profit will be reduced by depreciation which should result in retention of profit.</li> <li>• Profit will increase cash flow.</li> </ul> <p>Against the statement</p> <ul style="list-style-type: none"> <li>• Although the accrual convention applies, this relates to the expenditure and cash flow in previous year.</li> <li>• The retention in profit may not be in cash.</li> </ul> <p>✓✓ For a reasoned conclusion + ✓✓ for each point for or against x 3. (MAX 2 points for or against)</p>	(8)

(Total 52 marks)

Question Number	Answer	Mark
<b>3(a)</b>		<b>(8)</b>

**Drinks - stock valuation**

Balance b/fwd			80x£6.50	
January - March	480@£7	460@£7	80x£6.5 20x£7	//
April-June	560x£7.5	480x£7.5	80x£6.5 20x£7 80x£7.5	//
July- September	700x£8	700x£8 50x£7.5	80x£6.5 20x£7 30x£7.5	//
October-December	600x£8.5	600x£8.5 14x£7.5	80x£6.5 20x£7 16x£7.5	//
		Value at 31 December	£780	

Question Number	Answer	Mark
3(b)		(32)

## Subscriptions account

	£		£
Balance b/d	660 <i>J</i>	Balance b/d	5 320 <i>J</i>
Income and Expenditure	25 000 <i>JJ</i>	Bank/R & P	23 800 <i>J</i>
		Bad debts	180 <i>J</i>
Balance c/d	<u>4 120 <i>J</i></u>	Balance c/d	<u>480 <i>J</i></u>
	<u>29 780</u>		<u>29 780</u>

## Trading account for the year ended 31 December 2008

	Food £	Drink £	Food £	Drink £
Sales			47 500 <i>J</i>	27 000 <i>J</i>
less				
Opening stock	-	520 <i>J</i>		
Purchases	<u>19 000 <i>JJ</i></u>	<u>18 260 <i>JJ</i></u>		
	19 000	18 780		
Closing stock	<u>-</u>	<u>780 <i>JOF</i></u>		
Cost of sales			19 000	18 000
Wages			17 950 <i>J</i>	10 650 <i>J</i>
Profit			<u>10 550</u>	<u>(1 650)</u>
			<u>47 500</u>	<u>27 000</u>

## Income and expenditure account for the year ended 31 December 2008

	£	£	
Subscriptions		25 000 <i>JOF</i>	
Profit on trading	Food 10 550 <i>JOF</i>		
	Drink (1 650) <i>JOF</i>		
		<u>8 900</u>	
		33 900	
Less			
Wages-club manager	15 000	<i>J</i>	
Newspapers and journals	1 600	<i>J</i>	
General running expenses	9 250	<i>J</i>	
Depreciation - fixtures and fittings	4 500	<i>JJ</i>	
Repairs to fixtures and fittings	1 500	<i>J</i>	
Loan interest	2 800	<i>JJ</i>	
Bad debts	<u>180</u>	<i>J</i>	
		34 830	
Deficit		<u>(930)</u>	<i>JJ(JOF)</i>
		<u>33 900</u>	



Question Number	Answer	Mark
3(c)	<p>Valid points may include:</p> <p>Treatment in income and expenditure account</p> <ul style="list-style-type: none"> <li>• Only one fifth of the receipt (£30) can be recorded under income in the account in each of the five years. //</li> <li>• This is the application of the accrual/matching concept. //</li> </ul> <p>Treatment in the balance sheet</p> <ul style="list-style-type: none"> <li>• In the first year after payment four fifths of the receipt (£120) will be recorded in the current liabilities of the club. This will be reduced to three fifths in year two until fully released. //</li> <li>• This represents the liability value of the undelivered service. //</li> </ul> <p>// x 2 points</p>	(4)

Question Number	Answer	Mark
3(d)	<p>Valid points may include:</p> <p>Supporting the statement</p> <ul style="list-style-type: none"> <li>• Cash flow aided as cash is received early</li> <li>• May result in repayment of some of the loan and savings in interest</li> <li>• Members retained for 5 years</li> <li>• Attract additional members</li> <li>• No administrative collection costs for five years</li> </ul> <p>Against the statement</p> <ul style="list-style-type: none"> <li>• Overall cash received lower than sum of annual subscriptions</li> <li>• Liability to provide services after cash has been spent</li> </ul> <p>// For a reasoned conclusion + // for each point for or against x 3. (MAX 2 points for or against)</p>	(8)

(Total 52 marks)

## Section B

Question Number	Answer	Mark
4(a)	<p>The provisions are:</p> <ul style="list-style-type: none"> <li>• Profits and losses shared equally ✓</li> <li>• No interest on capital ✓</li> <li>• No salaries ✓</li> <li>• No interest on drawings ✓</li> <li>• Loans above capital at 5% interest ✓✓</li> </ul>	(6)

Question Number	Answer	Mark
4(b)		(22)

## Realisation account

	£		£
Fixed assets	75 700 ✓	Current liabilities	28 300 ✓
Current assets	24 400 ✓	Maisha - vehicle	6 500 ✓
Creditors	27 000 ✓	Bank	100 000 ✓
Dissolution expenses	700 ✓	Bank	25 000 ✓
Profit on realisation:			
Maisha	16 000 ✓OF (If equal split)		
Shiban	<u>16 000</u> ✓OF		
	<u>159 800</u>		<u>159 800</u>

## Capital accounts

	Maisha Shiban			Maisha Shiban	
	£	£		£	£
Vehicle		6 500 ✓	Balance b/d	40 000	30 000
Bank	<u>49 500</u>	<u>46 000</u> ✓✓OF	Realisation	<u>16 000</u>	<u>16 000</u> ✓OF
	<u>56 000</u>	<u>46 000</u>		<u>56 000</u>	<u>46 000</u>

## Bank account

	£		£
City Developments	100 000 ✓	Balance b/d	1 800 ✓
Assets	25 000 ✓	Creditors	27 000 ✓
		Expenses	700 ✓✓
		Capital:	
		Maisha	49 500 ✓OF
		Shiban	<u>46 000</u> ✓OF
	<u>125 000</u>		<u>125 000</u>

Question Number	Answer	Mark
4(c)	<p>Valid points may include:</p> <p>Supporting the statement</p> <ul style="list-style-type: none"><li>• May define the business relationship and responsibilities.</li><li>• Defines the distribution of profit.</li><li>• Formalises the relationship.</li></ul> <p>Against the statement</p> <ul style="list-style-type: none"><li>• Cost of preparation of agreement.</li><li>• Not flexible to take account of changing circumstances.</li></ul> <p><i>✓✓</i> For a reason for + <i>✓✓</i> for a reason against.</p>	(4)

(Total 32 marks)

Question Number	Answer	Mark
5(a)	<ul style="list-style-type: none"> <li>Allocation - The allotment of whole items of cost to a specific cost centre. <i>✓✓</i></li> <li>Apportionment- The allotment of proportions of items of cost to cost centres based upon the most reasonable basis for apportionment. <i>✓✓</i></li> <li>Reasons: <ul style="list-style-type: none"> <li>Generally indirect costs.</li> <li>Often relate to a single payment for a period of time e.g rent, insurance.</li> <li>Not related to output or activity. <i>✓✓</i> per reason x 2</li> </ul> </li> </ul>	(8)

Question Number	Answer	Mark
5(b)		(20)

Overhead cost:

	Standard £	Classic £	Administration £
Premises rent	2 000 <i>✓✓</i>	1 000	1 000
Supervision	450 <i>✓✓</i>	900	450
Electricity	200 <i>✓✓</i>	300	300
Depreciation	<u>200 <i>✓✓</i></u>	<u>400</u>	<u>1 000</u>
	2 850	2 600	2 750
Re-apportionment	<u>1 650 <i>✓✓OF</i></u>	<u>1 100</u>	
	4 500	3 700	

Total cost of one Standard unit:

	£
Raw materials	3 360 <i>✓✓</i>
Labour	2 490 <i>✓✓</i>
Overheads	<u>4 500 <i>✓✓OF</i></u>
Total cost	10 350
Divide by	1 150 <i>✓</i>
Cost per unit	£9 <i>✓OF</i>

$$\text{Sales margin: } \frac{\text{Profit} \times 100}{\text{Selling price}} = \frac{\text{£3 OF} \times 100}{\text{£12}} = 25\% \text{ *✓✓OF*}$$

Question Number	Answer	Mark
5(c)	<p>Valid points may include:</p> <p>Supporting the statement</p> <ul style="list-style-type: none"> <li>• Enables calculation of cost per units.</li> <li>• A reasonable basis of assuming the usage of costs.</li> <li>• Enables prices to be fixed on a reasonable basis.</li> </ul> <p>Against the statement</p> <ul style="list-style-type: none"> <li>• Is only an estimate of the overheads used and therefore lacks precision.</li> <li>• Establishing the 'reasonable basis' basis for apportionment may not be simple.</li> </ul> <p>// For a reason for + // for a reason against.</p>	(4)

(Total 32 marks)

Question Number	Answer	Mark
6(a)	<p>A business will use cash discount to:</p> <ul style="list-style-type: none"> <li>• Encourage prompt payment.</li> <li>• Reduce bad debts.</li> <li>• Improve liquidity.</li> <li>• Increase sales.</li> <li>• Build up customer loyalty/repeat customers.</li> </ul> <p>✓✓ per point x 3 points</p>	(6)

Question Number	Answer	Mark
6(b)		(6)

Purchases:

	£		
Cheques paid to creditors		64 500	✓
Creditors 31 December		11 900	✓
Discount received		<u>1 100</u>	✓
		77 500	
Creditors 1 December		<u>10 450</u>	✓
Purchases		67 050	✓✓

Question Number	Answer	Mark
6(c)		(16)

- Sales ledger control account

	£		£		
Balance b/d	9 240	✓	Sales returns	1 400	✓✓
Sales	89 710	✓✓	Bank	78 580	✓
			Discount allowed	2 450	✓✓
			Bad debts	3 200	✓✓
			Balance c/d	<u>13 320</u>	✓✓(✓OF)
	<u>98 950</u>			<u>98 950</u>	

- Trading account for the month of December 2008.

	£		£
Sales (£89 710 + £15 390)		105 100	✓✓
Less Sales returns		<u>1 400</u>	
		103 700	
Opening stock	22 600		
Purchases	<u>67 050</u>		✓OF
	89 650		
Closing stock	<u>20 850</u>		
Cost of sales		68 800	✓OF
Gross profit		<u>34 900</u>	
		<u>105 100</u>	

Question Number	Answer	Mark
<b>6(d)</b>	Valid answers may include: Supporting the statement <ul style="list-style-type: none"><li>• Control accounts identify whether there is an error in a group of accounts.</li><li>• They offer some protection against fraud.</li><li>• Identify arithmetical errors.</li></ul> Against the statement <ul style="list-style-type: none"><li>• Control accounts help to isolate errors but they do not stop them occurring.</li><li>• Control accounts will only isolate errors to a group of accounts.</li></ul> <p><i>// For a reason for + // for a reason against.</i></p>	<b>(4)</b>

Question Number	Answer	Mark
7(a)	<p>Error of commission- entry made within the correct ledger but normally in the wrong person's account//. E.g the account of J.Smith debited instead of J.Smyth. //</p> <p>Error of principle-entry made in wrong account which is in a different category of account//. E.g motor expenses recorded in the motor vehicles account. //</p>	(8)

Question Number	Answer	Mark
7(b)		(20)

## Electricity account

	£		£
Bank	462 //	Balance b/d	164 //
Bank	365 //	Bank	38 //
Balance c/d	<u>175 //</u>	Profit and loss	<u>800 //</u>
	<u>1 002</u>		<u>1002</u>
		Balance b/d	175 //OF

## Buildings insurance account

	£		£
Balance b/d	160 //	Profit and loss	430 //
Bank	<u>360 //</u>	Balance c/d	<u>90 //</u>
	<u>520</u>		<u>520</u>
Balance b/d	90 //OF		

## Rent receivable account

	£		£
Profit and loss	2 400 //	Balance b/d	200 //
		Bank	2 000 //
	<u>2 400</u>	Balance c/d	<u>200 //</u>
Balance b/d	200 //OF		<u>2 400</u>



Question Number	Answer	Mark
7(c)	<p>Valid answers may include:</p> <p>Supporting the statement</p> <ul style="list-style-type: none"><li>• Accruals adjusts income and expenditure to income and expenditure incurred.</li><li>• Accurate calculation of profit generated in a period.</li><li>• Profit calculation consistent with other organisations.</li></ul> <p>Against the statement</p> <ul style="list-style-type: none"><li>• The profit calculated still requires a 'yardstick' of comparison.</li><li>• Businesses in different sectors will have different levels of profitability.</li></ul> <p>// For a reason for + // for a reason against.</p>	(4)

(Total 32 marks)