

Mark Scheme (Results)

Summer 2010

GCE

GCE ACCOUNTING (6001) Paper 01

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Section A

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1(c)	<p>Answers must be from the perspective of Ionna, not general comments or from the partnership's point of view. If candidates discuss the advantages and disadvantages of being a sole trader, this is acceptable, assuming that it is directly related to Ionna.</p> <p>Valid points may include:</p> <p style="text-align: center;">In favour of joining the partnership</p> <ul style="list-style-type: none"> • Established business • The existence of goodwill indicates a successful business • Partners to share the workload and facilitate time off and holidays • Experienced partners to share decision making with <p style="text-align: center;">In favour of setting up a sole trader business</p> <ul style="list-style-type: none"> • All profit made would belong to Ionna • Total control without having to seek approval of other partners • No need to purchase goodwill <p>✓✓ marks per point x 4 points (maximum 2 points in favour or against)</p>	(8)

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	Mark the number not the narrative, unless the word 'balance' is used when it is not a balance, e.g. balance 13 500 on the debit side = no marks, but balance b/d must be 12 900.	
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2(c)	<p style="text-align: center;">Jaida – Trading and Profit and Loss Account for the year ended 31 March 2010</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 10%; text-align: center;">£</td> <td style="width: 30%;"></td> <td style="width: 10%; text-align: center;">£</td> <td style="width: 10%;"></td> </tr> <tr> <td style="text-align: right;">Sales</td> <td style="text-align: right;">(133 000 + 2 070)</td> <td style="text-align: right;">135 070 ✓</td> <td></td> <td></td> </tr> <tr> <td style="text-align: right;">Sales returns</td> <td style="text-align: right;">(6 500 + 320)</td> <td style="text-align: right;"><u>6 820</u> ✓</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">128 250</td> <td></td> <td></td> </tr> <tr> <td style="text-align: right;">Opening stock</td> <td style="text-align: right;">12 900</td> <td></td> <td></td> <td></td> </tr> <tr> <td style="text-align: right;">Purchases</td> <td style="text-align: right;">(62 000 – 450)</td> <td style="text-align: right;"><u>61 550</u> ✓</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">74 450</td> <td></td> <td></td> </tr> <tr> <td style="text-align: right;">Closing stock</td> <td style="text-align: right;">(13 500 - 1 200)</td> <td style="text-align: right;"><u>12 300</u></td> <td></td> <td></td> </tr> <tr> <td style="text-align: right;">Cost of sales</td> <td></td> <td style="text-align: right;"><u>62 150</u></td> <td></td> <td></td> </tr> <tr> <td style="text-align: right;">Gross profit</td> <td></td> <td style="text-align: right;">66 100</td> <td></td> <td></td> </tr> <tr> <td style="text-align: right;">Less</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td style="text-align: right;">Wages (35 000– 1 110)</td> <td></td> <td style="text-align: right;">33 890 ✓</td> <td></td> <td></td> </tr> <tr> <td style="text-align: right;">Operating expenses (28 900 + 450 + 5 000)</td> <td></td> <td style="text-align: right;">34 350 ✓</td> <td></td> <td></td> </tr> <tr> <td style="text-align: right;">Depreciation on motor vehicle(3 200 – 1 000)</td> <td></td> <td style="text-align: right;">2 200 ✓</td> <td></td> <td></td> </tr> <tr> <td style="text-align: right;">Bad debt (600 + 1 200)</td> <td></td> <td style="text-align: right;">1 800 ✓</td> <td></td> <td></td> </tr> <tr> <td style="text-align: right;">Provision for doubtful debts (700 – 550)</td> <td></td> <td style="text-align: right;"><u>150</u> ✓</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>72 390</u></td> <td></td> <td></td> </tr> </table>		£		£		Sales	(133 000 + 2 070)	135 070 ✓			Sales returns	(6 500 + 320)	<u>6 820</u> ✓					128 250			Opening stock	12 900				Purchases	(62 000 – 450)	<u>61 550</u> ✓					74 450			Closing stock	(13 500 - 1 200)	<u>12 300</u>			Cost of sales		<u>62 150</u>			Gross profit		66 100			Less					Wages (35 000– 1 110)		33 890 ✓			Operating expenses (28 900 + 450 + 5 000)		34 350 ✓			Depreciation on motor vehicle(3 200 – 1 000)		2 200 ✓			Bad debt (600 + 1 200)		1 800 ✓			Provision for doubtful debts (700 – 550)		<u>150</u> ✓					<u>72 390</u>			(8)
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	Net loss	<u>6 290</u>	
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2(d)	<p>Materiality – Small value items will be charged to a single accounting period although their benefit may exist for a number of accounting periods. ✓✓</p> <p>Comment on not depreciating small value items ✓✓</p> <p>The level of materiality will depend upon the size of the business to the point at which the transaction does not distort the profit and a true and fair view still exists ✓✓</p> <p>An error made which will make a change in a business decision ✓✓</p> <p>MAX 4 marks</p>	(4)

Question Number	Answer	Mark
2(e)	<p>Valid points may include:</p> <p>In favour</p> <ul style="list-style-type: none"> • Enables progress to the trading and profit and loss account to take place. • Gives an indication of the potential profit made by the business. • Enables errors when located to be corrected and adjustments made to the draft profit on an ongoing basis. <p>Against</p> <ul style="list-style-type: none"> • Ideally, errors need to be located and corrected before progression to final accounts if profit calculated is to be accurate. NOTE: The draft P&L account does not in itself help to correct errors • The difference figure in the suspense may hide significant compensating errors. • Costly and time consuming to prepare accounts requiring additional work. <p>✓✓ per point x 4 points (maximum 2 points in favour or against)</p>	(8)

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3(a)	<p style="text-align: center;"><u>Soller manufacturing account for the year ended 30 April 2010</u></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 40%;"></th> <th style="text-align: center; width: 15%;">Standard £</th> <th style="text-align: center; width: 15%;">Super £</th> <th style="text-align: center; width: 15%;">Total £</th> <th style="width: 15%;"></th> </tr> </thead> <tbody> <tr> <td>Opening stock of raw materials</td> <td></td> <td></td> <td style="text-align: right;">50 000</td> <td>✓✓</td> </tr> <tr> <td>Purchases of raw materials</td> <td></td> <td></td> <td style="text-align: right;"><u>542 000</u></td> <td>✓✓</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">592 000</td> <td></td> </tr> <tr> <td>Closing stock of raw material</td> <td></td> <td></td> <td style="text-align: right;"><u>112 000</u></td> <td>✓✓</td> </tr> <tr> <td>Raw materials consumed</td> <td style="text-align: right;">300 000</td> <td style="text-align: right;">180 000</td> <td style="text-align: right;">480 000</td> <td></td> </tr> <tr> <td>Direct labour</td> <td style="text-align: right;"><u>225 000</u> ✓</td> <td style="text-align: right;"><u>165 000</u> ✓</td> <td style="text-align: right;"><u>390 000</u></td> <td></td> </tr> <tr> <td>PRIME COST ✓</td> <td style="text-align: right;">525 000</td> <td style="text-align: right;">345 000</td> <td style="text-align: right;">870 000</td> <td>✓OF if no aliens</td> </tr> <tr> <td>Plus factory overheads:</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Management salaries</td> <td style="text-align: right;">160 000</td> <td style="text-align: right;">50 000</td> <td style="text-align: right;">210 000</td> <td></td> </tr> <tr> <td>Premises</td> <td style="text-align: right;">100 000</td> <td style="text-align: right;">80 000</td> <td style="text-align: right;">180 000</td> <td></td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;"><u>70 000</u></td> <td style="text-align: right;"><u>40 000</u></td> <td style="text-align: right;"><u>110 000</u></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">330 000 ✓</td> <td style="text-align: right;">170 000 ✓</td> <td style="text-align: right;">500 000</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">855 000</td> <td style="text-align: right;">515 000</td> <td style="text-align: right;">1370 000</td> <td></td> </tr> <tr> <td>W.I.P at start</td> <td style="text-align: right;">50 000</td> <td style="text-align: right;">30 000</td> <td style="text-align: right;">80 000</td> <td></td> </tr> <tr> <td>at end</td> <td style="text-align: right;">(25 000) ✓</td> <td style="text-align: right;">(15 000) ✓</td> <td style="text-align: right;">(40 000)</td> <td></td> </tr> <tr> <td>MANUFACTURING COST ✓</td> <td style="text-align: right;"><u>880 000</u></td> <td style="text-align: right;"><u>530 000</u></td> <td style="text-align: right;"><u>1410 000</u></td> <td>✓OF</td> </tr> </tbody> </table>		Standard £	Super £	Total £		Opening stock of raw materials			50 000	✓✓	Purchases of raw materials			<u>542 000</u>	✓✓				592 000		Closing stock of raw material			<u>112 000</u>	✓✓	Raw materials consumed	300 000	180 000	480 000		Direct labour	<u>225 000</u> ✓	<u>165 000</u> ✓	<u>390 000</u>		PRIME COST ✓	525 000	345 000	870 000	✓OF if no aliens	Plus factory overheads:					Management salaries	160 000	50 000	210 000		Premises	100 000	80 000	180 000		Depreciation	<u>70 000</u>	<u>40 000</u>	<u>110 000</u>			330 000 ✓	170 000 ✓	500 000			855 000	515 000	1370 000		W.I.P at start	50 000	30 000	80 000		at end	(25 000) ✓	(15 000) ✓	(40 000)		MANUFACTURING COST ✓	<u>880 000</u>	<u>530 000</u>	<u>1410 000</u>	✓OF	(16)
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Question Number	Answer	Mark
3(b)(i)	<p>Cost per unit:</p> <p>Standard $\frac{\text{£}880\,000 \text{ OF}}{25\,000} = \text{£}35.20 \text{ per unit}$ ✓✓OF</p> <p>Super $\frac{\text{£}530\,000 \text{ OF}}{15\,000} = \text{£}35.33 \text{ per unit}$ ✓✓OF</p>	(4)

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Question Number	Answer	Mark
3(d)(i)	<p>Apportionment - Costs are apportioned to the cost centres on some equitable basis. Example e.g Rent on basis of floor area occupied √√</p> <p>NOTE: We will accept equitable basis, fair basis or similar, but NOT arbitrary.</p> <p>Absorption - Total budgeted overhead for a department is divided by Machine or labour hours to achieve a recovery rate per hour. √√</p>	(4)

Question Number	Answer	Mark
3(e)	<p>Valid points may include:</p> <p>Benefits of ceasing production:</p> <ul style="list-style-type: none"> • Could concentrate on marketing the Super if market is strong • Could concentrate resources and management on the production of Super • Opportunity to develop new products. <p>Disadvantages of ceasing production:</p> <ul style="list-style-type: none"> • Reduces the product range. • Redundancy or retraining costs. • With revised apportionment both products are making a profit • If Super sales cannot be expanded, fixed costs of overheads will fall upon the Super • Reputation of the business damaged <p>NOTE: No marks for just stating increased profit as this will be uncertain depending upon the use of the additional capacity and recovery of standard overheads.</p> <p>NOTE: Where candidates are quoting their own profit figures, generally as an argument to not cease production, these will be accepted as valid.</p> <p>√√ for recognition /development of each point x 4 (MAX 2 benefits or disadvantages).</p>	(8)

Question Number	Answer	Mark
3(d)(ii)	<p>Over absorption – Occurs where the total cost recovered to production jobs is greater than the</p> <p style="text-align: center;">actual overhead costs incurred. √√</p> <p style="text-align: center;">Possible reasons include actual overhead costs were lower than budgeted</p> <p>√√</p> <p>OR The actual machine or labour hours worked were greater than those planned √√</p> <p>MAX 4 marks can be awarded</p>	(4)

Section B

Question Number	Answer	Mark																																																																	
4(a)(i)	<p style="text-align: center;">White Lightening – Receipts and payments account</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 40%;"></th> <th style="width: 15%; text-align: right;">£</th> <th style="width: 15%;"></th> <th style="width: 15%; text-align: right;">£</th> <th style="width: 15%;"></th> </tr> </thead> <tbody> <tr> <td>Accumulated fund</td> <td style="text-align: right;">1 000</td> <td style="text-align: center;">✓</td> <td>Salary</td> <td style="text-align: right;">8 000</td> </tr> <tr> <td>Subscriptions</td> <td style="text-align: right;">16 750</td> <td style="text-align: center;">✓</td> <td>Telephone & Postage</td> <td style="text-align: right;">3 600</td> </tr> <tr> <td>Raffle income</td> <td style="text-align: right;">400</td> <td style="text-align: center;">✓</td> <td>Rent</td> <td style="text-align: right;">2 000</td> </tr> <tr> <td>Album sales</td> <td style="text-align: right;">4 200</td> <td style="text-align: center;">✓</td> <td>Office expenses</td> <td style="text-align: right;">1 850</td> </tr> <tr> <td></td> <td></td> <td></td> <td>Office equipment</td> <td style="text-align: right;">3 000</td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">✓</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td>Newsletter</td> <td style="text-align: right;">1 080</td> </tr> <tr> <td>Balance c/d</td> <td style="text-align: right;"><u>1 060</u></td> <td></td> <td>Concert tickets</td> <td style="text-align: right;">280</td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">✓</td> <td>Album purchases</td> <td style="text-align: right;"><u>3 600</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>23 410</u></td> <td></td> <td></td> <td style="text-align: right;"><u>23 410</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td>Balance b/d</td> <td style="text-align: right;">1 060</td> </tr> </tbody> </table> <p style="text-align: right;">(8)</p> <p>There must be a narrative, but we are flexible on that narrative e.g. For 'accumulated fund', we will accept 'balance' BUT NOT b/d or b/f. In the case of 'office equipment', we will accept 'creditor'</p>		£		£		Accumulated fund	1 000	✓	Salary	8 000	Subscriptions	16 750	✓	Telephone & Postage	3 600	Raffle income	400	✓	Rent	2 000	Album sales	4 200	✓	Office expenses	1 850				Office equipment	3 000			✓						Newsletter	1 080	Balance c/d	<u>1 060</u>		Concert tickets	280			✓	Album purchases	<u>3 600</u>							<u>23 410</u>			<u>23 410</u>				Balance b/d	1 060	
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4(b)	<p>Valid points may include:</p> <p>Benefits of writing off bad debts:</p> <ul style="list-style-type: none"> • Debtor level is high with 400 out of 2 000 still having not paid • A significant time has passed increasing probability that not all debts will be collected • Not all debts will be collectable and therefore a significant provision should be made • Prudence concept applied • Will lead to reduced profits in the future if bad debts occur • Debtors will be accurate in the accounts. <p>Disadvantages of accounting for bad debts:</p> <ul style="list-style-type: none"> • Income from subscriptions may still be collected • Need to chase debts to establish whether they are collectable. <p>√√ for recognition /development of each point x 2 (1 benefit and 1 disadvantage).</p> <p>Note: Do not accept reduced profit as a disadvantage, as this does not comply with the prudence concept.</p> <p>Note: Do not accept prudence concept as a disadvantage.</p>	(4)

Question Number	Answer	Mark
5(a)(i)	Fixed costs are those costs which do not vary in the short term over a range of output.√√ Note: We will not accept an example as the explanation on its own.	(2)

Question Number	Answer	Mark
5(a)(ii)	Marketing, Equipment depreciation, Administration. √√ Accept other fixed costs not in question e.g rent. Note: If several costs are stated they must all be fixed or no marks e.g rent and raw materials, no marks. Note: We are not accepting 'overheads'	(2)

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Question Number	Answer	Mark
5(d)	<p>Valid points may include:</p> <p>Benefits of setting up business:</p> <ul style="list-style-type: none"> • Can work from own initiative • Potential greater rewards in long term. • Recommended to manufacture Budget trailer OF due to higher profit of £10 000 OF. <p>Disadvantages of setting up business:</p> <ul style="list-style-type: none"> • Risk of own business, less secure. • Less financial return in the short term. Currently earning £15 000, will drop to £10 000 OF. • Investment required from own resources. <p>✓✓ for recognition/ development of each point x 2 (1 benefit and 1 disadvantage OR a recommendation of a trailer type plus a benefit or a disadvantage).</p> <p>Note: As part (d) is not 'clipped' to parts (b) and (c), we cannot check OFs for e.g. profit generated. Accept candidates' figures, if quoted, as correct.</p>	(4)

Question Number	Answer	Mark
6(a)	<p>Profitability relates to the ability of the business to buy, mark up, and sell goods at a profit which will enable the business to cover all of its' business costs and to generate sufficient further profit to justify the risk of capital. ✓✓</p> <p>Liquidity is the ability to be able to meet the short term debts of the business. ✓✓</p>	(4)

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6(b)	<p style="text-align: center;">Bank account</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 10%; text-align: center;">£</td> <td style="width: 30%;"></td> <td style="width: 10%; text-align: center;">£</td> <td style="width: 10%;"></td> </tr> <tr> <td>Balance b/d</td> <td style="text-align: right;">3 000</td> <td>Payments to creditors</td> <td style="text-align: right;">99 000</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Receipts from debtors</td> <td style="text-align: right;">151 000</td> <td>Fixed assets</td> <td style="text-align: right;">18</td> <td></td> </tr> <tr> <td>000 ✓</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>6% Loan</td> <td style="text-align: right;">10 000</td> <td>Expenses</td> <td style="text-align: right;">25 000</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Balance c/d</td> <td style="text-align: right;"><u>21 000</u></td> <td>Drawings</td> <td style="text-align: right;"><u>43 000</u></td> <td style="text-align: right;">✓</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>185 000</u></td> <td>Balance b/d</td> <td style="text-align: right;"><u>185 000</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">21 000</td> <td></td> </tr> </table>		£		£		Balance b/d	3 000	Payments to creditors	99 000	✓	Receipts from debtors	151 000	Fixed assets	18		000 ✓					6% Loan	10 000	Expenses	25 000	✓	Balance c/d	<u>21 000</u>	Drawings	<u>43 000</u>	✓		<u>185 000</u>	Balance b/d	<u>185 000</u>					21 000		(6)
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Question Number	Answer	Mark
7(a)	<ul style="list-style-type: none"> Does not reveal errors of commission, omission, principle, compensation, transposition, original entry. Shows only arithmetical errors. Does not show location of errors. Provides a summarised position for many creditors and debtors which may contain many errors. Only records the position as at a point in time. <p>√√ per limitation x 2</p> <p>Note: No marks for time consuming and costly to prepare.</p>	(4)

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7(b)(i)	<p style="text-align: center;">Purchases ledger control account</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: right;">£</th> <th></th> <th style="text-align: right;">£</th> </tr> </thead> <tbody> <tr> <td>Returns outward</td> <td style="text-align: right;">380</td> <td>✓</td> <td>Balance b/d</td> <td style="text-align: right;">9 730</td> <td>✓</td> </tr> <tr> <td>Bank</td> <td style="text-align: right;">13 500</td> <td>✓</td> <td>Purchases (12 420+2 500)</td> <td style="text-align: right;">14 920</td> <td></td> </tr> <tr> <td>√√√ Discount received (460 – 95)</td> <td></td> <td></td> <td>365</td> <td style="text-align: right;">√√√</td> <td></td> </tr> <tr> <td>Balance c/d</td> <td style="text-align: right;"><u>10 405</u></td> <td>√</td> <td>OF if on Dr</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>24 650</u></td> <td></td> <td></td> <td style="text-align: right;"><u>24 650</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td>Balance b/d</td> <td style="text-align: right;">10 405</td> <td></td> </tr> </tbody> </table> <p>Note: Balance c/d OF only if on Dr side and suitable narrative for balance, not b/d or c/d alone.</p>		£		£	Returns outward	380	✓	Balance b/d	9 730	✓	Bank	13 500	✓	Purchases (12 420+2 500)	14 920		√√√ Discount received (460 – 95)			365	√√√		Balance c/d	<u>10 405</u>	√	OF if on Dr				<u>24 650</u>			<u>24 650</u>					Balance b/d	10 405		(10)
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7(c)	<p>Benefits of control accounts:</p> <ul style="list-style-type: none">• Acts as a checking device .• Control accounts act as a check against the total of debtors or creditors.• Identifies the general location of an error, i.e. into the sales or purchases ledger.• Act as a protection against fraud.• Reveal errors such as incorrect addition. <p>Disadvantages</p> <ul style="list-style-type: none">• The control account will not identify errors in individual accounts.• Considerable additional work will be required to pinpoint specific errors.• Errors not revealed by the trial balance will not be revealed by the control accounts.• Considerable extra work and therefore time-consuming and costly to prepare control accounts. <p>✓✓ for recognition/ development of each point x 2 (MAX 1 benefit or disadvantage).</p>	(4)

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