

# Mark Scheme (Results)

June 2011

GCE Accounting  
(6001) Paper 01

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Publications Code UA027256

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Question Number	Answer	Mark																																																																		
1(a)(i)	<p style="text-align: center;"><b>Statement of comprehensive income (Trading and profit and loss account) for the year ended 30 April 2011</b></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: right;">£</th> <th style="width: 20%; text-align: right;">£</th> </tr> </thead> <tbody> <tr> <td>Revenue (sales)</td> <td></td> <td style="text-align: right;">85 524 ✓</td> </tr> <tr> <td>Less</td> <td></td> <td></td> </tr> <tr> <td>Opening inventory (Stock)</td> <td style="text-align: right;">3 810</td> <td></td> </tr> <tr> <td>Ordinary goods purchased (Purchases)</td> <td style="text-align: right;"><u>33 290</u></td> <td style="text-align: right;">✓</td> </tr> <tr> <td style="padding-left: 20px;">(32 890 + 400)</td> <td style="text-align: right;">37 100</td> <td></td> </tr> <tr> <td>Less Closing inventory (Stock)</td> <td style="text-align: right;"><u>4 630</u></td> <td></td> </tr> <tr> <td>Cost of sales (Cost of goods sold)</td> <td></td> <td style="text-align: right;"><u>32 470</u> ✓</td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right;">53 054</td> </tr> <tr> <td>Less</td> <td></td> <td></td> </tr> <tr> <td>Motor vehicle running</td> <td style="text-align: right;">4 250</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>General expenses</td> <td style="text-align: right;">6 910</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Repairs to fixtures and fittings</td> <td style="text-align: right;">2 000</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Telephone and broadband</td> <td style="text-align: right;">1 450</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Wages (23 860 - 1 600)</td> <td style="text-align: right;">22 260</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Loan interest (1 750 + 650)</td> <td style="text-align: right;">2 400</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Depreciation - Property</td> <td style="text-align: right;">800</td> <td style="text-align: right;">✓</td> </tr> <tr> <td style="padding-left: 20px;">- Motor vehicle</td> <td style="text-align: right;">1 400</td> <td style="text-align: right;">✓</td> </tr> <tr> <td style="padding-left: 40px;">- Fixtures and fittings</td> <td style="text-align: right;">1 800</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Bad debt</td> <td style="text-align: right;">600</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Increase in PDD</td> <td style="text-align: right;"><u>90</u></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Profit for the year (Net profit)</td> <td></td> <td style="text-align: right;"> <u>43 960</u>  <u>9 094</u> ✓ OF  <u>53 054</u> </td> </tr> </tbody> </table>		£	£	Revenue (sales)		85 524 ✓	Less			Opening inventory (Stock)	3 810		Ordinary goods purchased (Purchases)	<u>33 290</u>	✓	(32 890 + 400)	37 100		Less Closing inventory (Stock)	<u>4 630</u>		Cost of sales (Cost of goods sold)		<u>32 470</u> ✓	Gross profit		53 054	Less			Motor vehicle running	4 250	✓	General expenses	6 910	✓	Repairs to fixtures and fittings	2 000	✓	Telephone and broadband	1 450	✓	Wages (23 860 - 1 600)	22 260	✓	Loan interest (1 750 + 650)	2 400	✓	Depreciation - Property	800	✓	- Motor vehicle	1 400	✓	- Fixtures and fittings	1 800	✓	Bad debt	600	✓	Increase in PDD	<u>90</u>	✓	Profit for the year (Net profit)		<u>43 960</u> <u>9 094</u> ✓ OF <u>53 054</u>	(15)
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1(b)(i)	Error of principle ✓	(1)

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1(b)(ii)	Valid answers may include: <ul style="list-style-type: none"> <li>• Repairs are classed as day to day expenses <b>OR</b></li> <li>• Repairs are revenue expenses ✓✓</li> <li>• Fixtures and fittings contain capital expenditure only <b>OR</b></li> <li>• Fixtures and fittings will last for many years ✓✓</li> </ul>	(4)

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1(d)	Valid answers may include: <p>In favour</p> <ul style="list-style-type: none"> <li>• Motor vehicles lose more in value in the early years of ownership</li> <li>• Statement of financial position (balance sheet) valuation will be more accurate</li> <li>• When depreciation costs are added to repair costs the total cost of owning the asset are fairly even</li> </ul> <p>Against</p> <ul style="list-style-type: none"> <li>• Benefit to the business will be the same over the early and later years</li> <li>• After initial loss, motor vehicle loss in value is constant although depreciation charge will be variable</li> </ul> <p>✓✓ per point x 2 in favour plus ✓✓ per point x 2 against.</p>	(8)

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2(d)	<p>Accounting concepts - In the search for objectivity, the rules which lay down the way in which the financial information of the business is recorded. //</p> <p>Accruals concept - Calculates profit for the year on the basis of the difference between revenues and expenses for the year rather than the difference between cash receipts and expenditures. //</p> <p>Going concern concept- Unless the opposite is known accounting always assumes that the business will continue to operate for an indefinite period. Therefore, it is not necessary to show what assets would fetch. //</p>	(6)

Question Number	Answer	Mark
2(e)	<p>Valid answers may include:</p> <p>In favour</p> <ul style="list-style-type: none"> <li>• Profit figures can be relied upon/asset values are accurate</li> <li>• Comparison between accounts is possible</li> <li>• Users can trust the accounts prepared/make decisions based on the accounts</li> </ul> <p>Against</p> <ul style="list-style-type: none"> <li>• Use of concepts often open to a wide interpretation</li> <li>• Different interpretation in different businesses e.g. materiality</li> <li>• Concepts can contradict each other</li> </ul> <p>// per point x 2 in favour plus // per point x 2 against</p>	(8)

Question Number	Answer	Mark
3(a)	<p>Profit is the difference between revenue and expenses for a period <i>///</i></p> <p>Profitability compares the profit for the period with resources used to generate that profit e.g. capital employed to obtain a percentage return on capital employed/e.g. percentage mark-up on sales <i>///</i></p>	(4)

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3(c)	<p>Valid non-financial factors may include:</p> <ul style="list-style-type: none"> <li>• Future market potential</li> <li>• Location of business</li> <li>• Quality of products sold</li> <li>• Reputation</li> <li>• Skill of workforce / Quality of service</li> <li>• History of industrial relations</li> <li>• Good relationship with suppliers</li> <li>• Brand image</li> </ul> <p>✓ x 4 factors</p>	(4)

Question Number	Answer	Mark
3(d)	<p>In favour of Hilltec:</p> <ul style="list-style-type: none"> <li>• Net profit to revenue is better due to lower wage costs</li> <li>• Return on capital employed is at a good level</li> <li>• The business has no loans</li> <li>• The business has a higher level of non-current assets</li> </ul> <p>In favour of Microtech:</p> <ul style="list-style-type: none"> <li>• Gross profit to sales is higher possibly due to more efficient buying</li> <li>• Net profit to revenue/ Return on capital employed could be much improved if wage costs could be reduced.</li> <li>• Current ratio at benchmark level at 2:1</li> <li>• Efficient collection of debts at 18.25 days</li> </ul> <p>Candidates may recommend either business. Allow <b>OF</b> arguments. ✓✓ per valid reason x 3 reasons</p>	(6)

Question Number	Answer	Mark
3(e)	<p>Valid points may include:</p> <p>Points in favour</p> <ul style="list-style-type: none"><li>• Provide a 'yardstick' of comparison</li><li>• Can be compared with other similar businesses or previous periods</li><li>• Provide investors/purchasers etc with an independent assurance</li></ul> <p>Points against</p> <ul style="list-style-type: none"><li>• Do not consider non financial factors such as potential/ work force</li><li>• Look at individual/specific measurements only e.g. liquidity</li><li>• Difficult to interpret/may be subjective</li><li>• May not be accurate/representative</li></ul> <p><i>✓✓</i> per point x 2 in favour plus <i>✓✓</i> per point x 2 against.</p>	(8)

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4(b)	<p>Possible reasons:</p> <ul style="list-style-type: none"><li>• Retirement</li><li>• Death</li><li>• Disagreement</li><li>• Admission of a new partner</li><li>• Sale of business</li><li>• If a partner wants to leave</li></ul> <p>✓ per reason x 2 reasons</p>	(2)

Question Number	Answer	Mark
4(c)(i)	<p>Goodwill is the value/price paid for a business over and above the net value of the assets ✓✓</p>	(2)

Question Number	Answer	Mark
4(c)(ii)	<p>Possible reasons:</p> <ul style="list-style-type: none"><li>• Location</li><li>• Reputation</li><li>• Specialist product or service</li></ul> <p>✓✓ per reason x 2 reasons</p>	(4)

Question Number	Answer	Mark
4(d)	<p>Valid points may include:</p> <p>Points in favour:</p> <ul style="list-style-type: none"><li>• More capital available</li><li>• Greater skill base</li><li>• Decisions made jointly and possibly more considered</li><li>• Holiday/sickness cover</li></ul> <p>Points against:</p> <ul style="list-style-type: none"><li>• Profits shared</li><li>• Cannot make decisions alone</li><li>• Conflicts may arise</li></ul> <p>✓✓ per valid point x 2. MAXIMUM one point in favour and one against</p>	(4)



Question Number	Answer	Mark												
5(d)(i)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 10%;"></th> <th style="width: 40%; text-align: center;">Low tariff</th> <th style="width: 40%; text-align: center;">High tariff</th> </tr> </thead> <tbody> <tr> <td>Monthly charge</td> <td style="text-align: right;">£8 ✓</td> <td style="text-align: right;">£20 ✓</td> </tr> <tr> <td>Call charges</td> <td style="text-align: right;">£30 ✓</td> <td style="text-align: right;">£7.50 ✓</td> </tr> <tr> <td></td> <td style="text-align: right;">£38</td> <td style="text-align: right;">£27.50</td> </tr> </tbody> </table>		Low tariff	High tariff	Monthly charge	£8 ✓	£20 ✓	Call charges	£30 ✓	£7.50 ✓		£38	£27.50	
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(ii)	For the usage that Hinal will make of the mobile phone he is advised to enter into a High tariff contract. ✓✓ Accept <b>OF</b> recommendation.	(6)												

Question Number	Answer	Mark
5(e)	<p>Valid points may include:</p> <p>Points in favour</p> <ul style="list-style-type: none"> <li>• Accepted by the tax authorities/accounting standards</li> <li>• Is logical in that the oldest stock values are sold/issued first</li> <li>• Gives a higher closing stock value and higher profits when prices are rising.</li> </ul> <p>Points against</p> <ul style="list-style-type: none"> <li>• Stock is sold/issued at values that may be below current market prices</li> <li>• Higher profits will mean higher taxes.</li> </ul> <p>✓✓ per valid point x 2. <b>MAXIMUM</b> one point in favour and one against.</p>	(4)

Question Number	Answer	Mark
6(a)(i)	<p>Appropriation is the way that overheads are shared/divided between various departments or cost centres. ✓✓ This could involve allocation and/or apportionment. ✓✓</p> <p>The costs may be shared on the most reasonable basis available ✓✓ e.g. floor area for rent. ✓✓</p> <p>Any two points x ✓✓</p>	(4)
(ii)	Business advertising is undertaken to increase sales and therefore it would be best to apportion this cost on the basis of the revenue (sales). ✓✓	(2)

Question Number	Answer	Mark																																																												
6(b)	<p style="text-align: center;"><b>Departmental income statement (trading and profit &amp; loss account) for the year ended 31 March 2011</b></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="text-align: center; width: 20%;">Shop sales £</th> <th style="text-align: center; width: 20%;">Workshop repairs £</th> </tr> </thead> <tbody> <tr> <td>Revenue (sales)</td> <td style="text-align: right;">120 000</td> <td style="text-align: right;">60 000</td> </tr> <tr> <td>Less</td> <td></td> <td></td> </tr> <tr> <td>Opening inventory (stock)</td> <td style="text-align: right;">38 000 ✓</td> <td style="text-align: right;">2 100 ✓</td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">84 000 ✓</td> <td style="text-align: right;">7 100 ✓</td> </tr> <tr> <td>Internal transfers</td> <td style="text-align: right;"><u>(5 600) ✓</u></td> <td style="text-align: right;"><u>5 600 ✓</u></td> </tr> <tr> <td></td> <td style="text-align: right;">116 400</td> <td style="text-align: right;">14 800</td> </tr> <tr> <td>Closing inventory (stock)</td> <td style="text-align: right;"><u>47 500 ✓</u></td> <td style="text-align: right;"><u>0 ✓</u></td> </tr> <tr> <td>Cost of sales</td> <td style="text-align: right;">68 900</td> <td style="text-align: right;">14 800</td> </tr> <tr> <td>Gross profit</td> <td style="text-align: right;">51 100</td> <td style="text-align: right;">45 200</td> </tr> <tr> <td>Less</td> <td></td> <td></td> </tr> <tr> <td>Motor running expenses</td> <td style="text-align: right;">6 400 ✓</td> <td style="text-align: right;">9 600 ✓</td> </tr> <tr> <td>Wages</td> <td style="text-align: right;">16 800 ✓</td> <td style="text-align: right;">25 200 ✓</td> </tr> <tr> <td>Rent and rates</td> <td style="text-align: right;">3 000 ✓</td> <td style="text-align: right;">6 000 ✓</td> </tr> <tr> <td>General expenses</td> <td style="text-align: right;">7 000 ✓</td> <td style="text-align: right;">5 500 ✓</td> </tr> <tr> <td>Business advertising</td> <td style="text-align: right;">7 200 ✓</td> <td style="text-align: right;">3 600 ✓</td> </tr> <tr> <td>Provision for doubtful debts</td> <td style="text-align: right;"><u>440 ✓</u></td> <td style="text-align: right;"><u>750 ✓</u></td> </tr> <tr> <td></td> <td style="text-align: right;">40 840</td> <td style="text-align: right;">50 650</td> </tr> <tr> <td>Profit /loss for the year (net profit)</td> <td style="text-align: right;"><u>10 260 ✓OF</u></td> <td style="text-align: right;"><u>(5 450) ✓OF</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>51 100</u></td> <td style="text-align: right;"><u>45 200</u></td> </tr> </tbody> </table>		Shop sales £	Workshop repairs £	Revenue (sales)	120 000	60 000	Less			Opening inventory (stock)	38 000 ✓	2 100 ✓	Purchases	84 000 ✓	7 100 ✓	Internal transfers	<u>(5 600) ✓</u>	<u>5 600 ✓</u>		116 400	14 800	Closing inventory (stock)	<u>47 500 ✓</u>	<u>0 ✓</u>	Cost of sales	68 900	14 800	Gross profit	51 100	45 200	Less			Motor running expenses	6 400 ✓	9 600 ✓	Wages	16 800 ✓	25 200 ✓	Rent and rates	3 000 ✓	6 000 ✓	General expenses	7 000 ✓	5 500 ✓	Business advertising	7 200 ✓	3 600 ✓	Provision for doubtful debts	<u>440 ✓</u>	<u>750 ✓</u>		40 840	50 650	Profit /loss for the year (net profit)	<u>10 260 ✓OF</u>	<u>(5 450) ✓OF</u>		<u>51 100</u>	<u>45 200</u>	<b>(22)</b>
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6(c)	<p>Valid points may include (accept OF comments):</p> <p>Points in favour:</p> <ul style="list-style-type: none"> <li>• Shop sales are more profitable than workshop repairs</li> <li>• Costs such as wages may be able to be reduced</li> <li>• The repair shop makes losses.</li> </ul> <p>Points against:</p> <ul style="list-style-type: none"> <li>• Workshop overheads are greater than shop overheads</li> <li>• Workshop overheads will have to be borne by the shop sales</li> <li>• Sales may be affected because the business will not offer repair facilities</li> <li>• Loss of image/business reputation affected as a result of redundancies</li> <li>• Cost of redundancies.</li> </ul> <p>✓✓ per valid point x 2. MAXIMUM one point in favour and one against</p>	<b>(4)</b>



Question Number	Answer	Mark
7(a)	(iii) ✓  A suspense account is opened as a temporary measure when the trial balance fails to agree ✓✓. It has a balance equal to the net balance of all errors in the ledger ✓✓.	(5)

Question Number	Answer	Mark
7(b)	<b>Statement of corrected gross profit at 30 March 2011</b>  £ Gross profit 37 780 (i) Sale or return (860) ✓✓ (ii) Goods at list price (250) ✓✓ (i) PDB - February <u>(5 000)</u> ✓✓ Corrected gross profit <u>31 670</u> ✓	(7)

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7(c)	<b>Journal of Zahin</b>  <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">Dr</th> <th style="text-align: center;">Cr</th> <th></th> </tr> <tr> <th></th> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> <th></th> </tr> </thead> <tbody> <tr> <td>Suspense</td> <td style="text-align: right;">850</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Discount received</td> <td></td> <td style="text-align: right;">850</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>A Milner</td> <td style="text-align: right;">950</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>M. Mills</td> <td></td> <td style="text-align: right;">950</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Sundry expenses</td> <td style="text-align: right;">360</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Suspense</td> <td></td> <td style="text-align: right;">360</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Income statement (profit &amp; loss)</td> <td style="text-align: right;">900</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Provision for depreciation (disposal)</td> <td></td> <td style="text-align: right;">900</td> <td style="text-align: right;">✓</td> </tr> </tbody> </table>		Dr	Cr			£	£		Suspense	850		✓	Discount received		850	✓	A Milner	950		✓	M. Mills		950	✓	Sundry expenses	360		✓	Suspense		360	✓	Income statement (profit & loss)	900		✓	Provision for depreciation (disposal)		900	✓	(8)
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7(e)	<p>Valid points may include:</p> <p>Points in favour:</p> <ul style="list-style-type: none"><li>• The trial balance is a checking device</li><li>• Is 'prima facie' evidence that the books are correct when the trial balance balances</li></ul> <p>Points against:</p> <ul style="list-style-type: none"><li>• Certain errors, e.g. commission, are not revealed</li><li>• Shows only arithmetical errors</li><li>• Does not show location of errors</li></ul> <p>✓✓ per valid point x 2. MAXIMUM one point in favour and one against</p>	(4)

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