



Mark Scheme (Results)

Summer 2012

GCE Accounting (6001)
Paper 01

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Question Number	Answer	Mark																																																																																																																																												
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	✓		
	27 200		
	<u>Non-current liabilities</u>		
	Bank loan	<u>80 000</u>	
	✓		
		<u>139 300</u>	

Question Number	Answer	Mark
1(b)	Inventory will be valued at cost or net realisable value whichever is the lower. ✓✓ In the case of this business the washing machines and televisions will be valued at cost, but the microwaves will be valued at the market value (net realisable value) which is lower than the cost. ✓✓	(4)

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Question Number	Answer	Mark
1(d)	<p>Valid answers may include:</p> <p>Benefits to recording</p> <ul style="list-style-type: none"> • Accurate value of the business to the partners • Does not undervalue the business • Required when purchasing/selling a business <p>Against recording</p> <ul style="list-style-type: none"> • Goodwill is difficult to value/Money measurement • Goodwill can change in value due to sudden events • Accounting standards only recommend purchased goodwill be recorded • Prudent not to do so <p>No marks for just 'is an intangible asset' OR definition of goodwill</p> <p>✓✓ x two benefits and ✓✓ x two points against.</p>	(8)

Question Number	Answer	Mark
2(a)	<p>Profit for the year related to revenue or capital employed.√√</p> <p>Liquidity relates to the ability of the business to meet its short term debts. It is usually measured as a ratio of current assets to current liabilities. √√</p>	(4)

Question Number	Answer	Mark
2(b)	<p>(i) gross profit as a percentage of revenue</p> $\frac{\text{Gross profit} \times 100}{20\% (1) \text{ Revenue}} = \frac{\pounds 60\,000 \times 100}{\pounds 300\,000} (1) =$ <p>(ii) profit for the year as a percentage of revenue</p> $\frac{\text{Profit for the year} \times 100}{\text{Revenue}} = \frac{\pounds 15\,000 \times 100}{\pounds 300\,000} (1) =$ <p>(iii) inventory turnover</p> $\frac{\text{Cost of sales} (1)}{\text{Average inventory} (1)} = \frac{\pounds 240\,000 (1)}{\pounds 75\,000 (1)} = 3.2 \text{ times}$ <p>(iv) return on capital employed</p> $\frac{\text{Profit for the year} \times 100 (1)}{\text{Capital employed} (1)} = \frac{\pounds 15\,000 (1)}{\pounds 275\,000 + \pounds 100\,000 (1)} = 4\%$ <p>(v) current ratio</p> $\frac{\text{Current assets} (1)}{\text{Current liabilities} (1)} = \frac{\pounds 90\,000 + \pounds 30\,000 + \pounds 150\,000 (1)}{\pounds 35\,000 + \pounds 10\,000 (1)} = 6:1(1)$ <p>(vi) liquid (acid test) ratio</p> $\frac{\text{Current assets} - \text{inventory} (1)}{\text{Current liabilities} (1)} = \frac{\pounds 30\,000 + \pounds 150\,000 (1)}{\pounds 35\,000 + \pounds 10\,000 (1)} = 4:1(1)$ <p>(vii) trade payables payment period</p> $\frac{\text{Trade payables} \times 365}{56.8 \text{ days}(1)} = \frac{\pounds 35\,000 \times 365}{(1)} =$	

	<p>Credit purchases £225 000 (1)</p> <p>(viii) trade receivables collection period.</p> <p><u>Trade receivables x 365</u> = <u>£30 000 x 365</u> (1) = 43.8 days (1)</p> <p>Credit sales £250 000 (1)</p>	
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Question Number	Answer	Mark
2(c)	<p>Suggested changes may include:</p> <p>(i) inventory turnover</p> <ul style="list-style-type: none"> • The inventory turnover trend is falling ✓✓ • Revenue sales are falling • Economic slowdown or competition making it more difficult to sell • Reduction in quality of product deterring revenue sales <p>(ii) return on capital employed</p> <ul style="list-style-type: none"> • Return on capital employed trend is falling ✓✓ • more is being expended on expenses lowering the net profit • purchases are more expensive lowering the gross profit to revenue • products are being sold with less profit margin to increase or maintain sales <p>(iii) current ratio</p> <ul style="list-style-type: none"> • Current ratio trend is rising ✓✓ • Inventory level has risen • The bank loan has increased the cash available <p>✓✓ per valid point , MAX ✓✓✓✓ per section</p>	(12)

Question Number	Answer	Mark
2(d)	<p>Views of potential investors</p> <ul style="list-style-type: none"> • Investors will look at profitability • The trend of profitability is falling <p>Views of creditors</p> <ul style="list-style-type: none"> • Creditors will consider liquidity • It takes on average two months to be paid when one month would be normal • The business has a high current ratio and idle funds • The business has ample cash to pay creditors if required <p>√√ per valid point x 3 (Maximum two valid points for potential investors or creditors)</p>	(6)

Question Number	Answer	Mark
2(e)	<p>Valid answers may include:</p> <p>Benefits</p> <ul style="list-style-type: none"> • Used as a yardstick for comparison • Accounting ratios give an objective mathematical calculation • Comparison can take place with previous years and other businesses • Aid the improvement of decision making • Key question about the business can be answered e.g profitability, liquidity, efficient use of assets <p>Against</p> <ul style="list-style-type: none"> • The difficulty of comparing like with like, business to business • The future prospects of the business cannot be taken into account • Factors such as the quality of the workforce are not considered <p>√√ x two benefits and √√ x two points against.</p>	(8)

Question Number	Answer	Mark
3(a)(i)	Historic cost relates to recording assets in the books at their cost and not their market value. ✓✓	(2)
Question Number	Answer	Mark
3(a)(ii)	<ul style="list-style-type: none"> • The non-current assets of equipment and leasehold are recorded at historic cost less depreciation • Inventory One example ✓✓	(2)

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3(b)	<p style="text-align: center;">Sidly Tennis Club Trial balance at 1 May 2011</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: center;">Dr £</th> <th style="width: 20%; text-align: center;">Cr £</th> </tr> </thead> <tbody> <tr> <td>Equipment</td> <td style="text-align: right;">12 200</td> <td></td> </tr> <tr> <td>Equipment – provision for depreciation</td> <td></td> <td style="text-align: right;">2 400</td> </tr> <tr> <td>Inventory of balls</td> <td style="text-align: right;">750</td> <td></td> </tr> <tr> <td>Subscriptions in arrears</td> <td style="text-align: right;">500</td> <td></td> </tr> <tr> <td>Subscriptions in advance</td> <td></td> <td style="text-align: right;">1 400</td> </tr> <tr> <td>Accrued sundry expenses</td> <td></td> <td style="text-align: right;">1 150</td> </tr> <tr> <td>Bank</td> <td></td> <td style="text-align: right;">900</td> </tr> <tr> <td>Accumulated fund</td> <td style="text-align: right;">_____</td> <td style="text-align: right;"><u>7 600</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>13 450</u></td> <td style="text-align: right;"><u>13</u></td> </tr> </tbody> </table> <p><u>450</u> ✓ for each correct entry MAX 5 points(✓OF for Accumulated Fund if a Cr entry ✓✓Correct figure)</p>		Dr £	Cr £	Equipment	12 200		Equipment – provision for depreciation		2 400	Inventory of balls	750		Subscriptions in arrears	500		Subscriptions in advance		1 400	Accrued sundry expenses		1 150	Bank		900	Accumulated fund	_____	<u>7 600</u>		<u>13 450</u>	<u>13</u>	(5)
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3(e)	<p>Valid answers may include:</p> <p>Benefits</p> <ul style="list-style-type: none"> • The medium term future of the club has been secured by the leasehold • The records are professional with a full double entry system • The facilities of the club e.g the equipment are relatively new assisting the recruitment of new members <p>Against</p> <ul style="list-style-type: none"> • The club is making a significant loss overall • The club has a large overdraft which is increasing rapidly • The activities of the club are not yielding a surplus e.g annual dinner • Income includes a significant donation. This is probably a one off income • The club needs to raise its subscription or recruit new members to increase the income • Need to control expenses. <p>√√ x two benefits and √√ x two points against.</p>	(8)

Question Number	Answer	Mark
4(a)	<ul style="list-style-type: none">• Division of labour – a number of people can work on the ledger at the same time• Segregation of duties• Ease of reference – similar accounts are placed together and can be referred to more easily• Balances from sections of the ledger e.g sales ledger, can be more easily obtained• Fraud prevented/ additional control• Specialisation <p>√√ per valid point X 2</p>	(4)

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4(c)	<p>Valid answers may include:</p> <p>Benefits</p> <ul style="list-style-type: none">• The ledger can be sub divided for checking arithmetical accuracy• Checking device• Identifies errors <p>Against</p> <ul style="list-style-type: none">• Those errors which do not affect the balancing of the trial balance are not revealed by control accounts <p>√√ for one benefit and √√ for one point against.</p> <p>NO Marks for 'corrects errors'</p>	(4)

Question Number	Answer	Mark
5(a)	<p>The term prime cost refers to the materials, direct labour and direct expenses. ✓✓</p> <p>These items are generally the direct/variable costs of production. ✓✓</p>	(4)

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5(b)	<p style="text-align: center;">Nalin Manufacturing Manufacturing account for the month of April 2012</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;"></th> <th style="width: 25%; text-align: center;">Standard</th> <th style="width: 25%; text-align: center;">Deluxe</th> <th style="width: 10%;"></th> </tr> <tr> <td style="text-align: center;">Total</td> <td style="text-align: center;">£</td> <td style="text-align: center;">£</td> <td style="text-align: center;">£</td> </tr> </thead> <tbody> <tr> <td>Opening inventory of materials ✓</td> <td></td> <td></td> <td style="text-align: right;">6 000</td> </tr> <tr> <td>Purchases of materials ✓✓</td> <td></td> <td></td> <td style="text-align: right;"><u>22 000</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">28 000</td> </tr> <tr> <td>Closing inventory of materials <u>6 400</u> ✓✓✓</td> <td style="text-align: center;">—</td> <td style="text-align: center;">—</td> <td></td> </tr> <tr> <td>Materials consumed 600 21 600</td> <td style="text-align: center;">13 000</td> <td></td> <td style="text-align: center;">8</td> </tr> <tr> <td>Production labour 49 000 ✓✓</td> <td style="text-align: center;">19 600</td> <td style="text-align: center;">29 400</td> <td></td> </tr> <tr> <td>Royalties <u>4 500</u> ✓✓</td> <td style="text-align: center;"><u>2 500</u></td> <td style="text-align: center;"><u>2 000</u></td> <td></td> </tr> <tr> <td>PRIME COST ✓</td> <td style="text-align: center;">35 100</td> <td></td> <td style="text-align: center;">40</td> </tr> <tr> <td>000 75 100</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Production overheads:</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Managers' salaries 8 000 ✓✓</td> <td style="text-align: center;">3 200</td> <td style="text-align: center;">4 800</td> <td></td> </tr> <tr> <td>Rent & rates 5 600 ✓✓</td> <td style="text-align: center;">3 200</td> <td style="text-align: center;">2 400</td> <td></td> </tr> <tr> <td>Equipment depreciation 6 000 ✓✓</td> <td style="text-align: center;">4 000</td> <td style="text-align: center;">2 000</td> <td></td> </tr> <tr> <td>Canteen costs <u>300</u> <u>5 500</u> ✓✓</td> <td style="text-align: center;"><u>2 200</u></td> <td style="text-align: center;"><u>3</u></td> <td></td> </tr> <tr> <td></td> <td style="text-align: center;">12 600</td> <td style="text-align: center;">12 500</td> <td></td> </tr> <tr> <td>25 100</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Work in progress: 1 April 2012</td> <td style="text-align: center;">7 300</td> <td style="text-align: center;">7 550</td> <td></td> </tr> </tbody> </table>		Standard	Deluxe		Total	£	£	£	Opening inventory of materials ✓			6 000	Purchases of materials ✓✓			<u>22 000</u>				28 000	Closing inventory of materials <u>6 400</u> ✓✓✓	—	—		Materials consumed 600 21 600	13 000		8	Production labour 49 000 ✓✓	19 600	29 400		Royalties <u>4 500</u> ✓✓	<u>2 500</u>	<u>2 000</u>		PRIME COST ✓	35 100		40	000 75 100				Production overheads:				Managers' salaries 8 000 ✓✓	3 200	4 800		Rent & rates 5 600 ✓✓	3 200	2 400		Equipment depreciation 6 000 ✓✓	4 000	2 000		Canteen costs <u>300</u> <u>5 500</u> ✓✓	<u>2 200</u>	<u>3</u>			12 600	12 500		25 100				Work in progress: 1 April 2012	7 300	7 550		(24)
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		<u>2 000</u>	<u>(2 450)</u>	
	(450) COST OF MANUFACTURE ✓ <u>050 99 750 ✓✓</u>	<u>49 700</u>	<u>50</u>	
	(✓OF)			

Question Number	Answer	Mark
5(c)	Valid answers may include: Benefits <ul style="list-style-type: none"> • FIFO more widely accepted (e.g by Revenue) • Maintains inventory value nearer to market/replacement value Against <ul style="list-style-type: none"> • Inventory issued to production at below replacement value. 	(4)
	✓✓ for one benefit and ✓✓ for one point against.	

Question Number	Answer	Mark
6(a)(i)	The accrual or matching concept differentiates between what has been paid and what has been used in the accounting period. ✓✓	(2)

Question Number	Answer	Mark
6(a)(ii)	The cash book will record the actual payment £1 500 ✓✓. The trial balance will record the balance on the account of two months rent £1 000 ✓✓. The statement of comprehensive income will show the amount used in March only £500.(£6 000 per annum) ✓✓	(6)

Question Number	Answer	Mark																																																																																																																
6(b)	<p style="text-align: center;">Trial balance at 31 March 2012</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2"></th> <th style="text-align: right;">£</th> <th style="text-align: right;">£</th> </tr> <tr> <th colspan="2"></th> <th style="text-align: right;">Dr</th> <th style="text-align: right;">Cr</th> </tr> </thead> <tbody> <tr> <td>Capital</td> <td style="text-align: right;">60 000Cr +8 000</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">68 000 ✓</td> <td></td> <td></td> </tr> <tr> <td>Non-current assets</td> <td style="text-align: right;">45 000Dr +8 000</td> <td style="text-align: right;">53 000</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">✓</td> <td></td> <td></td> </tr> <tr> <td>Provision for depreciation</td> <td style="text-align: right;">on non-current assets 24 000Cr</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">24 000 ✓</td> <td></td> <td></td> </tr> <tr> <td>Inventory</td> <td style="text-align: right;">28 000Dr</td> <td style="text-align: right;">28 000</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">✓</td> <td></td> <td></td> </tr> <tr> <td>Trade payables</td> <td style="text-align: right;">20 000Cr+76 000 -65 000+1 200</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">32 200 ✓✓✓</td> <td></td> <td></td> </tr> <tr> <td>Trade receivables</td> <td style="text-align: right;">23 000Dr+76 000-70 000</td> <td></td> <td style="text-align: right;">29 000</td> </tr> <tr> <td></td> <td style="text-align: right;">✓✓</td> <td></td> <td></td> </tr> <tr> <td>Cash/Bank</td> <td style="text-align: right;">8 500Dr+19 000+68 600 -62 400-1 500 -3 500</td> <td></td> <td style="text-align: right;">28 700</td> </tr> <tr> <td></td> <td style="text-align: right;">✓✓✓✓✓</td> <td></td> <td></td> </tr> <tr> <td>Rent accrued</td> <td style="text-align: right;">500Cr +1 500</td> <td></td> <td style="text-align: right;">1 000</td> </tr> <tr> <td></td> <td style="text-align: right;">✓</td> <td></td> <td></td> </tr> <tr> <td>Sales</td> <td style="text-align: right;">+95 000</td> <td></td> <td style="text-align: right;">95 000</td> </tr> <tr> <td></td> <td style="text-align: right;">✓</td> <td></td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">+76 000</td> <td style="text-align: right;">76 000</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Discount allowed</td> <td style="text-align: right;">+1 400</td> <td style="text-align: right;">1 400</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">✓</td> <td></td> <td></td> </tr> <tr> <td>Discount received</td> <td style="text-align: right;">+ 2 600</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">2 600 ✓</td> <td></td> <td></td> </tr> <tr> <td>Sundry expenses</td> <td style="text-align: right;">+4 700</td> <td style="text-align: right;">4 700</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">_____✓</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>211 800</u></td> <td style="text-align: right;"><u>211 800</u></td> <td></td> </tr> </tbody> </table>			£	£			Dr	Cr	Capital	60 000Cr +8 000				68 000 ✓			Non-current assets	45 000Dr +8 000	53 000			✓			Provision for depreciation	on non-current assets 24 000Cr				24 000 ✓			Inventory	28 000Dr	28 000			✓			Trade payables	20 000Cr+76 000 -65 000+1 200				32 200 ✓✓✓			Trade receivables	23 000Dr+76 000-70 000		29 000		✓✓			Cash/Bank	8 500Dr+19 000+68 600 -62 400-1 500 -3 500		28 700		✓✓✓✓✓			Rent accrued	500Cr +1 500		1 000		✓			Sales	+95 000		95 000		✓			Purchases	+76 000	76 000	✓	Discount allowed	+1 400	1 400			✓			Discount received	+ 2 600				2 600 ✓			Sundry expenses	+4 700	4 700			_____✓				<u>211 800</u>	<u>211 800</u>		(20)
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6(c)	<p>Valid answers may include:</p> <p>Benefits</p> <ul style="list-style-type: none">• The trial balance balancing is prima facie evidence of correctness• Seema can then start to prepare the financial statements. <p>Against</p> <ul style="list-style-type: none">• Some errors will not be revealed by the trial balance balancing e.g commission• If there is a debit and a credit of equal value errors will not be revealed. <p>√√ for one benefit and √√ for one point against.</p>	(4)

Question Number	Answer	Mark
7(a)(i)	The concept of going concern assumes that the business has an indefinite life/foreseeable future. ✓✓	(2)

Question Number	Answer	Mark
7(a)(ii)	The cost of purchasing a non-current asset will fall in a single year, but the depreciation placed into the statement of comprehensive income will relate only to the amount estimated to have been used in that period. ✓✓	(2)

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7(b)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;"></th> <th style="width: 15%; text-align: center;">A</th> <th style="width: 15%; text-align: center;">B</th> <th style="width: 15%; text-align: center;">Vehicle C</th> <th style="width: 15%; text-align: center;">D</th> <th style="width: 15%; text-align: center;">Total</th> </tr> <tr> <th></th> <th style="text-align: center;">£</th> <th></th> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> </tr> </thead> <tbody> <tr> <td>£</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>2009</td> <td style="text-align: right;">1 200 ✓</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>1 200</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>2010</td> <td style="text-align: right;">1 200 ✓</td> <td></td> <td style="text-align: right;">1 200 ✓</td> <td></td> <td style="text-align: right;">1 000 ✓</td> </tr> <tr> <td></td> <td style="text-align: right;">3 400</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>2011</td> <td style="text-align: right;">1 200 ✓</td> <td></td> <td style="text-align: right;">800 ✓</td> <td style="text-align: right;">2 000 ✓</td> <td></td> </tr> <tr> <td><u>900 ✓</u></td> <td style="text-align: right;">4 900</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Total</td> <td style="text-align: right;">3 600</td> <td style="text-align: right;">2 000</td> <td style="text-align: right;">3 000</td> <td style="text-align: right;">900</td> <td></td> </tr> </tbody> </table>		A	B	Vehicle C	D	Total		£		£	£	£	£						2009	1 200 ✓					1 200						2010	1 200 ✓		1 200 ✓		1 000 ✓		3 400					2011	1 200 ✓		800 ✓	2 000 ✓		<u>900 ✓</u>	4 900					Total	3 600	2 000	3 000	900		(8)
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Question Number	Answer	Mark
7(d)(i)	<p>Capital expenditure is the purchase of non-current assets or the enhancement of non-current assets. ✓</p> <p>Revenue expenditure is the day to day operating expenditure of the business. ✓</p>	(2)

Question Number	Answer	Mark
7(d)(ii)	<p>The vehicle tax is a day to day expenditure which will not add to the value of the non-current asset. Therefore it is revenue expenditure ✓✓.</p> <p>A new engine will enhance the value of the non-current asset and therefore will be capital expenditure ✓✓.</p>	(4)

Question Number	Answer	Mark
7(e)	<p>Valid answers may include:</p> <p>Benefits</p> <ul style="list-style-type: none"> • Equal amounts charged in each year of ownership for benefit received <p>Against</p> <ul style="list-style-type: none"> • Vehicles will depreciate more in the early years of ownership • Total cost of ownership when maintenance is added will rise. <p>✓✓ for one benefit and ✓✓ for one point against.</p>	(4)

	ASSESSMENT GRID					Total
	Spec	AO1	AO2	AO3	AO4	
Q1						
(a)	3	10	12	8		30
(b)	3	4				4
(c)	3	4	4	2		10
(d)	3				8	8
Q2						
(a)	5	4				4
(b)	5	6	8	8		22
(c)	5	4	4	4		12
(d)	5			6		6
(e)	5				8	8
Q3						
(a)	3	4				4
(b)	3	2	3			5
(c)	3	3	3	3		9
(d)	3	8	10	8		26
(e)	3				8	8
Q4						
(a)	1	4				4
(b)	1/2	8	12	4		24
(c)	2				4	4
Q5						
(a)	3/4	4				4
(b)	3/4	8	12	4		24
(c)	3/4				4	4
Q6						
(a)	1	4	4			8
(b)	2	6	10	4		20
(c)	2				4	4
Q7						
(a)	1	4				4
(b)	1	2	6			8
(c)	1	2	4	4		10
(d)	1	2	4			6 E
(e)	1				4	4 E
Actual %		33	34	19	14	100
Specification %		32	34	20	14	100

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