



# Mark Scheme (Results)

October 2016

Pearson Edexcel IAL in Accounting  
(WAC01)

Paper 01 The Accounting System and  
Costing

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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.

## Section A

### 1 (a)

- Building an extension to the restaurant – This is capital expenditure ✓ because the hotel buildings are enhanced and the value increased for the long term ✓
- Redecoration of the bedrooms - This is revenue expenditure ✓ as it does not enhance the value for the long term ✓
- Equipment repair- This is revenue expenditure ✓ as it does not enhance the value for the long term ✓
- New fixtures and fittings- This is capital expenditure ✓ as it is the purchase of long term non-current assets. ✓

**(8)**

### 1 (b)(i)

Morfar Hotel  
Restaurant Trading Account for the year ended 30 September 2016

	£	£
Revenue		76 000✓
Opening inventory	5 700	
Purchases	<u>31 250</u>	
	36 950✓	
Less Closing inventory	<u>(4 450)✓</u>	
Cost of sales		<u>32 500</u> ✓
Gross profit		43 500
Less		
Laundry expenses	15 500✓	
Depreciation-fix's and fittings	3 000✓	
Staff wages	<u>18 000</u> ✓	
		<u>36 500</u>
Restaurant profit		<u>7 000</u> ✓/of No aliens
		<u>43 500</u>

**(8)**

**1 (b)(ii)**

Statement of Comprehensive Income for the year ended 30 September  
2016

	£	£	
Hotel revenue		215 000	✓
Restaurant profit		<u>7 000</u>	✓of
		220 000	
Less			
Depreciation – Building	5 800		✓
Equipment	4 000		✓
Fixtures and fit'g	9 000		✓
Redecoration	15 000		✓
Equipment repair	5 000		✓
General expenses (37 500-17 400)	20 100		✓
Bank loan interest (17 400 + 600)	18 000		✓
Laundry expenses	46 500		✓
Hotel wages	93 000		✓
Electricity and water	9 000		✓
Rates (14 500 – 1 400)	13 100		✓
Increase in PDD	<u>1 300</u>		✓
		239 800	
Loss for the year		<u>(17 800)</u>	
		<u>225 100</u>	

**(14)**

**1 (c)**

## Statement of Financial Position at 30 September 2016

Non-current assets

	Cost	Accumulated depreciation	Carrying value
	£	£	£
Land and buildings	440 000✓	57 800✓	382 200
Equipment	50 000	38 000✓	12 000
Fixtures and fittings	<u>80 000✓</u>	<u>32 000✓</u>	<u>48 000</u>
	<u>570 000</u>	<u>127 800</u>	442 200

Current assets

Restaurant inventory		4 450✓	
Trade receivables	45 000		
Less Provision for DD	<u>(5 000)</u>		
		40 000✓	
Other receivables		1 400✓	
Cash and bank		<u>1 500✓</u>	
			<u>47 350</u>
			<u>489 550</u>

## Equity and Liabilities;

Capital		150 000	
Less Loss for the year		<u>(17 800)</u>	
		132 200	
Less Drawings		<u>(9 700)</u>	
			122 500✓of

Non-current liability

6% Bank loan (repayable 2035)			300 000✓
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Current liabilities

Trade payables		64 450✓	
Other payables (600+2 000)		<u>2 600 ✓✓</u>	
			<u>67 050</u>
			<u>489 550</u>

**(14)****1 (d)** Valid answers may include:

## Points for

- The building will deteriorate and become obsolete as time passes
- The depreciation can be 'matched' to the accounting periods over which it deteriorates
- Prudent to allow depreciation
- Provides a better measure of the profit made for the period

## Points against

- The building may well increase in capital market value
- The total cost of depreciation plus maintenance on the building will increase with age if using a straight line method.

✓✓ per point x 4 points (MAX 2 points for and 2 points against)(8)

**Total for Question 1 = 52 Marks**

**2 (a)**

Error of reversal – Debit and credit entry reversed

Error of compensation – Two different errors which cancel each other

Error of commission- Entry in wrong account in same class of account

Error of principle- Entry in wrong account in a different class of account

Error of omission- No double entry completed

Error of original entry- Error made in book of prime entry and carried into ledger.

✓ for identification plus ✓ for explanation x 3 errors

**(6)****2 (b)**

Peturi			
Trial balance at 31 August 2016			
	£	£	
	Dr	Cr	
Revenue		100 000	
Purchases	52 000		
Purchase returns		4 600✓	
Sales returns	7 500✓		
Discount allowed	8 600		
Discount received		5 200✓	
Wages	33 900		
General expenses	14 350✓		
Capital		20 000	
Drawings	6 500✓		
Bank overdraft		8 000✓	
Trade receivables	10 350✓		
Trade payables		19 300✓	
Computers	35 000		
Computers – provision for depreciation		15 200	
Suspense	4 100✓of		
	<u>172 300</u>	<u>172 300</u> ✓	Same totals

**(10)**

**2 (c)(i)**

	Journal		
	Dr	Cr	
	£	£	
Purchases	2 700		✓
Suspense		2 700	✓
Discount received		600	✓
Discount allowed		600	✓
Suspense	1 200		✓
Drawings	2 500		✓
Wages		2 500	✓
Ning	1 750		✓
Suspense		1750	✓
General expenses	1 460		✓
Bank		1 460	✓
Wei	850		✓
Suspense		850	✓
Disposal	11 000		✓
Computer		11 000	✓
Provision for depreciation	7 800		✓
Disposal		7 800	✓
Bank	2 000		✓
Disposal		2 000	✓

**(19)****2 (c)(ii)**

Suspense Account					
	£		£		
Balance	4 100	✓of	Purchases	2 700	✓
Discounts	1 200	✓	Ning	1 750	✓
			Wei	<u>850</u>	✓
	<u>5 300</u>			<u>5 300</u>	

**(5)****2 (d)**

Disposal Account					
	£		£		
Computer	11 000	✓	Provision for deprec	7 800	✓
			Bank	2 000	✓
			Income statement	<u>1 200</u>	✓
	<u>12 000</u>			<u>12 000</u>	

**(4)**



## 2 (e)

Valid points may include:

Points in favour

- It is 'prima facie' evidence that the double entry is correct.
- The existence of errors can be identified and action taken.
- Forms the basis of preparing the financial statements.

Points against

- Some errors will not be revealed by the trial balance e.g errors of omission.
- The trial balance will not identify the location of the errors.

√√ per valid point. MAX two points in favour (2 x 2 marks) and two against (2 x 2 marks).

**(8)**

**Total for Question 2 = 52 Marks**

**3 (a)**

Purchases	$630 \times £50 = £31\,500 \checkmark$
Revenue	$(20 \times £60)\checkmark + (580 \times £150)\checkmark = £88\,200 \checkmark$
Inventory	$200 \text{ units} + 630 \text{ units} - 600 \text{ units} \checkmark - 8 \text{ units} \checkmark$ $= 222 \text{ units} \checkmark \times £50 = £11\,100\checkmark$

**(8)****3 (b)**

## Aish

## Statement of Comprehensive Income for the year ended 30 September 2016

	£	£
Revenue		88 200 $\checkmark$ of
Opening inventory	10 000 $\checkmark$	
Purchases	$(31\,500\checkmark \text{ of} - 900\checkmark)$	<u>30 600</u> of
		40 600
Closing inventory	<u>(11 100)</u> $\checkmark$ of	
Cost of sales		<u>29 500</u>
Gross profit		58 700
Less		
Rent	10 400 $\checkmark$	
Staff wages	15 600 $\checkmark$	
Telecom	$4\,750 - 350\checkmark + 500\checkmark$	4 900
Electricity	$2\,300 + 70\checkmark - 110\checkmark$	2 260
General expenses	$8350 - 900\checkmark - 250\checkmark$	7 200
Depreciation – shop fixtures	<u>1 600</u> $\checkmark \checkmark$ (1 of)	
		<u>41 960</u>
Profit for the year		<u><u>16 740</u></u>

**(17)****3 (c)**

## Trade Receivables Control Account

	£		£
Balance b/d	7 350 $\checkmark$	Bank receipts	16 500 $\checkmark$
Credit sales	<u>15 000</u> $\checkmark$	Balance c/d	<u>5 850</u> $\checkmark$
	<u>22 350</u>		<u>22 350</u>
Balance b/d	5 850 $\checkmark$ of		

Credit sales- Revenue 88 200 – Cash sales  
(1 200 + 30 680 + 41 320) = 15 000

## Trade Payables Control Account

	£		£
Discount received	900 $\checkmark$	Balance b/d	6 500 $\checkmark$
Bank payments	27 650 $\checkmark$	Credit purchases	31 500 $\checkmark$ of
Balance c/d	<u>9 450</u> $\checkmark$		<u>38 000</u>
	<u>38 000</u>	Balance b/d	9 450 $\checkmark$ of

**(11)**

**3 (d)**

Maintains orderly records  
Can obtain details of customers account easily  
Have a record of expenditure or income  
Can prepare financial statements easily  
Easier to make decisions based upon information

√√ x 4 points

**(8)**

**3 (e)**

Valid answers may include:

Points in support

- Will be able to make changes to the premises without permission
- May be cheaper as interest on loan may be less than rent
- Will be able to control future use of premises

Points against

- Finding or borrowing the £150 000 purchase price
- Will become responsible for property maintenance
- Long term commitment, may not be easy to sell property later

√√ per valid point. MAX two points in favour (2 x 2 marks) and two against (2 x 2 marks).

**(8)**

**Total for Question 3 = 52 Marks**

**Total for Section A = 104 Marks**

## Section B

### 4 (a)(i)

Hottenham United  
Receipts and Payments Account for the year ended 30 September 2016

	£		£
Accumulated fund	5 000	Salary	15 000
Subscriptions	48 000✓	Telephone & postage	4 000✓
Advance subs	3 000✓	Rent	3 000✓
Raffle income	450	General expenses	1 850✓
		Office furniture	1 200✓
		Office supplies	5 000
		Newsletter	9 000
		Cup tie tickets	200✓
		Balance c/d	<u>17 200</u>
	<u>56 450</u>		<u>56 450</u>
Balance b/d	17 200✓of		

**(8)**

### 4 (a)(ii)

Income and Expenditure Account for the year ended 30 September 2016

	£		£
<u>Income</u>			
Subscriptions			52 500 ✓
<u>Cup tie tickets</u>			
Sales	450		
Less costs	<u>200</u>		
Profit			<u>250✓✓(✓of)</u>
			52 750
<u>Less Expenditure</u>			
Salary	15 000		✓
Telephone & postage	4 000		✓
Rent (3 000 -500)	2 500		✓
General expenses (1 850 +300)	2 150		✓
Depreciation –office furniture	120		✓
Computer/photo	1 500		✓
Bad debts	4 500		✓
Newsletter	<u>9 000</u>		✓
			<u>38 770</u>
Surplus			<u>13 980✓of + w</u>

**(12)**

**4 (b)**

## Statement of Financial Position at 30 September 2016

	£	£
<u>Non-current assets</u>		
Office furniture (1 200 – 120)		1 080✓
Computer/photocopier (5 500 – 1 500)		<u>4 000</u> ✓
		5 080
<u>Current assets</u>		
Prepaid rent	500	✓
Bank	<u>17 200</u>	✓of
		<u>17 700</u>
		<u>22 780</u>
Accumulated fund		5 000
Surplus		<u>13 980</u>
		18 980 ✓of + w
<u>Current liabilities</u>		
Trade payable	500	✓
Subscriptions in advance	3 000	✓
Accrued general expenses	<u>300</u>	✓
		<u>3 800</u>
		<u>22 780</u>

**(8)****4 (c)**

Evaluation:

Valid points may include:

Benefits of writing off bad debts:

- Debtor level is high with 300 out of 3 500 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.

Disadvantages of accounting for bad debts:

- Income from subscriptions may still be collected.
- Need to chase debts to establish whether they are collectable.

✓✓ x 2 points( 1 benefit and 1 disadvantage).

**(4)****Total for Question 4 = 32 marks**

**5 (a)**Hutton Manufacturing Account for the year ended 30 September 2016

	Standard £	Delux £	Total £
Opening inventory of raw materials			72 000✓
Purchases of raw materials			<u>564 000</u> ✓✓
			636 000
Closing inventory of raw material			<u>(127 000)</u> ✓✓
Raw materials consumed	350 000	159 000	509 000✓of
Direct labour	<u>280 000</u>	110 000	390 000✓✓
PRIME COST	630 000	269 000	879 000✓of+w
Factory overheads:			
Management salaries	145 000	100 000	245 000
Premises	100 000	80 000	180 000
Depreciation	<u>60 000</u>	<u>60 000</u>	<u>120 000</u>
	305 000	240 000	545 000✓
	935 000	509 000	1 424 000
W.I.P at start	65 000	25 000	90 000
at end	(40 000)	(14 000)	(54 000) ✓✓
MANUFACTURING COST ✓	<u>960 000</u>	<u>520 000</u>	<u>1 460 000</u> ✓of

**(14)****5 (b)**

Cost per unit:

$$\text{Standard } \frac{\pounds 960\,000}{30\,000} = \pounds 32 \text{ per unit } \checkmark\checkmark$$

$$\text{Delux } \frac{\pounds 520\,000}{10\,000} = \pounds 52 \text{ per unit } \checkmark\checkmark$$

**(4)**

<b>5 (c)</b>	Standard £	Delux £
Factory overheads:		
Management salaries	175 000	70 000√√
Premises	135 000	45 000√√
Depreciation	<u>75 000</u>	<u>45 000√√</u>
	385 000	160 000√√ <b>(8)</b>

<b>5 (d)</b>	Delux £
Original total overhead	240 000
Apportionment overhead	<u>160 000</u>
Reduced overhead	80 000√
Total units	10 000
Cost <b>decrease</b> per unit	£8√ making the cost £44 per unit <b>(2)</b>

**5 (d)**

Evaluation:

Valid points may include:

Benefits of ceasing production:

- Could concentrate on producing the Standard if market is strong.

- Production could concentrate on producing the Standard

Disadvantages of ceasing production:

- Reduces the product range.

- Redundancy or retraining costs.

- With apportionment both products are making a positive contribution

- If Standard sales cannot be expanded, all fixed cost overheads will fall upon the Standard.

√√ for recognition /development of each point x 2 ( MAX 1 benefits or disadvantages).

**(4)****Total for Question 5 = 32 marks**

**6 (a)**

An £800 Dr balance on the rent receivable account shows that this sum of rent is owing to Gupta. The rent receivable is a debtor and will be shown as an asset in the financial statements.

**(4)****6 (b)**

## General Expenses Account

	£		£
Aug 2 Bank	525✓	Aug 1 Balance b/d	230
Aug 18 Bank	495✓	Aug 9 Bank	60✓
Aug 26 Bank	310✓	Aug 31 Income	
Aug 31 Balance c/d	<u>325</u>	statement	<u>1 365</u> ✓✓(✓of)
	<u>1 655</u>		<u>1 655</u>
		Sept 1 Balance b/d	325✓

## Rent Receivable Account

	£		£
Aug 1 Balance b/d	800	Aug 5 Bank	500 ✓
Aug 31 Income		Aug 20 Bank	1 000 ✓
Statement	<u>2 000</u> ✓	Aug 31 Balance b/d	<u>1 300</u>
	<u>2 800</u>		<u>2 800</u>
Sept 1 Balance b/d	1 300✓✓(✓of)		

## Provision for Doubtful Debts Account

	£		£
Aug 31 Income		Aug 1 Balance b/d	4 000
Statement	640 ✓✓(✓of)		
Aug 31 Balance c/d	<u>3 360</u> ✓		
	<u>2 000</u>		<u>4 000</u>
		Sept 1 Balance b/d	3 360 ✓of

**(16)**



**6 (c)**

- (i) Accrual - Matches the income for a period with the expenses incurred in that period. ✓ An example would be adjusting expenses accounts such as general expenses ✓
- (ii) Going concern- States the assumption that the business has perpetual life and therefore expenses can be spread over the life of assets. ✓ This applies particularly with non-current assets where depreciation can be spread over an extended period. ✓
- (iii) Consistency- The same principles should be applied across accounting periods. ✓ This applies in depreciation where the same method should be used for the same non-current asset over the life of the non-current asset. ✓
- (iv) Prudence- The principle that potential losses are accounted for as soon as they are anticipated. ✓ This principle applies where provisions for doubtful debts are maintained. ✓

**(8)****6 (d)**

Valid points may include:

- Benefits
- Provides consistency in the way in which accounts are prepared between businesses.
  - Stakeholders such as investors and lenders can rely upon the accuracy of the financial statements.

- Disadvantages
- Many accounting concepts are contradictory to one another.
  - Requires professional input to implement.

✓✓ one point benefit plus ✓✓ one point disadvantage.

**(4)****Total for Question 6 = 32 marks**

**7 (a)**

	2015	2016
Percentage gross profit to revenue	$\frac{150\,000}{300\,000} \times 100 = 50\% \checkmark\checkmark$	$\frac{210\,000}{420\,000} \times 100 = 50\% \checkmark\checkmark$
Inventory turnover	$\frac{150\,000}{25\,000} = 6 \text{ times } \checkmark\checkmark$	$\frac{210\,000}{27\,000} = 7.8 \text{ times } \checkmark\checkmark$
ROCE	$\frac{20\,000 + 50\,000}{50\,000 + 50\,000} \times 100 = 25\% \checkmark\checkmark$	$\frac{40\,000 + 4\,000}{70\,000 + 40\,000} \times 100 = 40\% \checkmark\checkmark$
TR collection period	$\frac{20\,000 \times 365}{300\,000} = 24.3 \text{ days } \checkmark\checkmark$	$\frac{40\,000 \times 365}{420\,000} = 34.8 \text{ days } \checkmark\checkmark$
Current ratio	$\frac{70\,000}{30\,000} = 2.33:1 \checkmark\checkmark$	$\frac{65\,000}{50\,000} = 1.3:1 \checkmark\checkmark$
Liquid (acid test)	$\frac{70\,000 - 30\,000}{30\,000} = 1.33:1 \checkmark\checkmark$	$\frac{65\,000 - 24\,000}{50\,000} = 0.82:1 \checkmark\checkmark$

**(24)****7 (b)**

Reduce expenses  
 Make more profit  
 Sell surplus non-current assets  
 Reduce trade receivables  
 Increase trade payables  
 Take out a long term loan  
 Introduce more capital in cash.

$\checkmark$  per point x 4 points

**(4)**

**7 (c)**

Valid answers may include:

Points for:

- Profit is increasing
- The return on capital employed increased over the year.
- A higher volume of revenue

Points against:

- Repayment of the loan and the purchase of non-current assets has 'starved' the business of cash
- Trade receivables are taking longer to collect.

✓✓ for one point in favour and ✓✓ for one point against

**(4)**

**Total for Question 7 = 32 marks**