



Mark Scheme (Results)

Summer 2022

Pearson Edexcel International Advanced Level
In Accounting (WAC11)
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.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

1(a) **AO1 (4)****AO1: Four marks for explaining the difference**

Revenue Expenditure	Capital expenditure
Day to day running expenses	Purchasing non-current assets
Costs appear in the income statement	Cost appears in the financial position statement
Cost charged against income for one year	Cost spread over several years by charging depreciation

Note: do not accept examples only.

2 x 2 x **(1) AO1****(4)**(b) **AO1 (3)****AO1: Three marks for stating whether expense is revenue expenditure or capital expenditure**

Redecoration	Revenue (1) AO1
Additional computer equipment	Capital (1) AO1
Advertising refurbished premises	Revenue (1) AO1

(3)(c) **AO2 (4)****AO2: Four marks for preparing journal entries**

Journal

	Dr	Cr
	£	£
Statement of Profit or Loss and Other Comprehensive Income /Redecoration /Refurbishment	12 600	(1) AO2 Both
Bank		12 600
Computer equipment	6 000	
JK Computers		6 000 (1) AO2 Both
Statement of Profit or Loss and Other Comprehensive Income /Advertising	2 400	
Bank		1 800 (1) AO2
Northtown newspapers		600 (1) AO2

(4)

(d)(i) **AO1 (6) AO2 (5) AO3 (5)****AO1: Six marks for transferring balances or calculating appropriation****AO2: Five marks for calculating and inserting entries****AO3: Five marks for two stage calculations and inserting entries**

Linda and Rishi

Statement of Profit or Loss and Other Comprehensive Income and Appropriation
for the year ended 30 April 2022

	£	£
Revenue		570 000
Less		
Opening inventory	61 000	
Purchases	390 000	
Carriage inwards	<u>3 600</u>	
	454 600	
Closing inventory	<u>(72 000)</u>	
Cost of sales		<u>(382 600)</u> (1) AO3
Gross profit		187 400
Other income		
Commission receivable	6 750 (1) AO1	
Decrease in allowance for irrecoverable debts	<u>600</u> (1) AO3	
		<u>7 350</u>
		194 750
Less expenses:		
Carriage outwards	8 100 (1) AO1	
Staff wages	57 500 (1) AO1	
General expenses	9 200 (1) AO1	
Management salaries	38 000 (1) AO1	
Rent and insurance (4 800 + 450 - 800)	4 450 (1) AO3	
Irrecoverable debts	2 850 (1) AO1	
Advertising (7 950 + 2 400)	10 350 (1) AO3	
Premises refurbishment (12 600)	12 600 (1) AO2	
Depreciation:		
Computer equipment	7 000 (1) AO3	
Fixtures and fittings	<u>4 200</u> (1) AO2	
		<u>(154 250)</u>
Profit for the year		40 500
Interest on drawings:		
Linda	1 200 (1) AO2	
Rishi	<u>1 600</u> both	
		<u>43 300</u>

Interest on capital:		
Linda	(2 000) (1) AO2	
Rishi	(3 000) both	
		<u>38 300</u>
Share of profit/loss:		
Linda	(19 150) (1of) AO2	
Rishi	(19 150) both split equally	
		<u>38 300</u>

(16)

(d)(ii)

AO1 (1) AO2 (3)**AO1: One mark for balances****AO2: Three marks for correctly inserting entries**

Current accounts

	Linda	Rishi		Linda	Rishi
	£	£		£	£
			Balance b/d	2 000	450
Drawings	15 000	20 000	Int on capital	2 000	3 000
Int on drawings	1 200	1 600	Share of profit	19 150	19 150
Balance c/d	<u>6 950</u>	<u>1 000</u>			
	<u>23 150</u>	<u>22 600</u>		<u>23 150</u>	<u>22 600</u>
			Balance b/d	6 950	1 000

Drawings/interest on drawings, Int on capital, Share of profit 3 x **(1 of) AO2**Balances c/d brought down on 1 May 2022 1 x **(1 of) AO1 No aliens**

(4)

(e) **AO1 (2) AO2 (8) AO3 (2)****AO1: Two marks for transferring balances****AO2: Eight marks for calculating and inserting entries****AO3: Two marks for two stage calculations and inserting entries**

Statement of Financial Position at 30 April 2022

Assets			
Non-current assets			
	Cost	Accumulated depreciation	Carrying value
	£	£	£
Computer equipment	56 000	(28 000)	28 000 (1of) AO3
Fixtures and fittings	<u>28 000</u>	<u>(13 200)</u>	<u>14 800 (1of) AO2</u>
	<u>84 000</u>	<u>(41 200)</u>	42 800
Current assets			
Inventory		72 000 (1) AO1	
Trade receivables	8 000		
Less Allowance for irrecoverable debts	<u>(400)</u>	7 600 (1) AO3	
Other receivables:			
Insurance prepaid		800 (1) AO2	
Bank (17 350 - 12 600 - 1 800)		<u>2 950 (2) AO2</u>	
	[1] [1]		<u>83 350</u>
TOTAL ASSETS			<u>126 150</u>
Capital and Liabilities:			
	Linda	Rishi	
Capital accounts	40 000	60 000	100 000 (1) AO1
Current accounts	6 950	1 000	7 950 (1 of) AO2
Current Liabilities			
Trade payables (11 150 + 6 000 [1] + 600 [1])		17 750 (2) AO2	
Other payables:			
Rent owing		<u>450 (1) AO2</u>	
			<u>18 200</u>
TOTAL CAPITAL AND LIABILITIES			<u>126 150</u>

(f) **AO1 (1) AO2 (1) AO3 (5) AO4 (5)**

Positive points in favour of selling cash only

Improves the cash flow of Linda and Rishi as cash is received immediately.

Eliminates irrecoverable debts as customers are not receiving credit.

Less book-keeping for Linda and Rishi with no trade receivables ledger to prepare.
Less demand for book-keeping services.

No cash discounts to pay improved profit

No credit control, telephone calls and letters

Negative points against selling cash only

Not everybody has cash to purchase with, therefore, sales will be lost. Many customers will need to sell the goods before making their payment.

Some **customers will go to rival sellers** rather than purchase from Linda and Rishi. Smaller market share.

Competitors will be able to grow their businesses and provide greater competition to Linda and Rishi.

Security issues with a large amount of cash on hand will make Linda and Rishi a target for thieves.

Possibility of fraud as cash is being paid into the business. The temptation for fraud will be higher.

Decision

Candidates may conclude that it is/or is not better to trade on a cash only basis. Candidates should support that decision with an appropriate rationale.

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-3	Isolated elements of knowledge and understanding recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
Level 2	4 - 6	Elements of knowledge and understanding, which are applied to the scenario. Chains of reasoning are present, but may be incomplete or invalid. A generic or superficial assessment is present.
Level 3	7 - 9	Accurate and thorough understanding, supported throughout by relevant application to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects. An attempt at an assessment is presented, using financial and non-financial information, in an appropriate format and communicates reasoned explanations
Level 4	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and non-financial information and makes informed recommendations and decisions.

(12)

Q1	Total marks	55
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2 (a)

AO2 (12)**AO2: Twelve marks for calculating and inserting correct entries**

Ratio	Calculation	Answer
(i) Inventory turnover (in times per year)	$\frac{90\,000}{(12\,000 + 18\,000)/2}$ (1) AO2	6 times (1) AO2
(ii) Gross profit as a percentage of revenue	$\frac{150\,000 \times 100}{240\,000}$ (1) AO2	62.50% (1) AO2
(iii) Profit for the year as a percentage of revenue	$\frac{40\,000 \times 100}{240\,000}$ (1) AO2	16.67% (1) AO2
(iv) Percentage return on capital employed	$\frac{40\,000 + 4\,000 \times 100}{120\,000 + 50\,000}$ (1) AO2	25.88% (1) AO2
(v) Trade payables collection period (in days)	$\frac{15\,000 \times 365}{96\,000}$ (1) AO2	57.03 days (1) AO2
(vi) Trade receivables collection period (in days)	$\frac{18\,000 \times 365}{216\,000}$ (1) AO2	30.42 days (1) AO2

Accept reasonable rounding**(12)**(b)(i) **AO2 (2) AO3 (2)****AO2: Two marks for a qualitative comment about the movement of the ratio.****AO3: Two marks for development of a possible reason for the movement.****OWN FIGURE RULE APPLIES**

Gross profit as a percentage of revenue has **improved (1) AO2** this may be due to reducing costs of purchasing or increasing selling prices. **(1) AO3**

Profit as a percentage of revenue has **improved (1) AO2** although expenses appeared to have increased in the year they have been controlled. **(1) AO3**

The return on capital employed has **deteriorated, (1) AO2** this is probably due to the increased capital employed through the bank loan. **(1) AO3**

The return on capital employed is still at a **high level** of 25.9%, **(1) AO2** well above an acceptable return level of 10-15%. **(1) AO3**

MAX 2 points x **(1) AO2** plus 2 x **(1) AO3** for development.

(4)

(ii) **AO2 (2) AO3 (2)**

AO2: Two marks for a qualitative comment about the movement of the ratio.

AO3: Two marks for development of a possible reason for the movement.

OWN FIGURE RULE APPLIES

The current ratio has **improved (1) AO2** this is probably due to increasing the level of inventory over the period. **(1) AO3**

The current ratio **improvement above the accepted level** of 1.4-2:1 **(1) AO2** has led to idle funds in the current assets. **(1) AO3**

The rate of inventory turnover has **deteriorated (1) AO2** this may be due to increasing the level of inventory by the end of the period. **(1) AO3**

The liquid ratio is **fairly constant** over the period **(1) AO2** and within the accepted levels of 0.7-1:1. **(1) AO3**

Trade payables payment period has **deteriorated** substantially. **(1) AO2** Possibly may cause problems with future credit purchases. **(1) AO3**

Trade receivables collection period has **improved** marginally **(1) AO2** and is around the accepted 30 days /showing good credit control procedures. **(1) AO3**

MAX 2 points x **(1) AO2** plus 2 x **(1) AO3** for development.

(4)

(c)(i) **AO1 (4)**

AO1: Four marks for explaining the difference.

Fixed costs **do not change (1) AO1** with the **level of activity. (1) AO1**

Variable costs change in **direct proportion (1) AO1** to the **level of activity. (1) AO1**

(4)

(ii) **AO1 (4)**

AO1: Four marks for explaining the difference.

Semi-fixed costs are **constant over a range of activity (1) AO1** The cost will then increase and then remain **constant over the next range of activity. (1) AO1**

Semi-variable costs include an element of **fixed cost regardless of the level of activity. (1) AO1** As activity increases the variable element will **increase in proportion to the increase in activity. (1) AO1**

(4)

(d) **AO2 (4)****AO2: Four marks for interpreting behaviour of costs.**

Fixed cost	Rent	(1) AO2
Variable cost	Purchases or Cost of sales	(1) AO2
Semi-fixed cost	Depreciation	(1) AO2
Semi-variable cost	General expenses	(1) AO2

(4)

(e) **AO2 (3) AO3 (2)****AO2: Three marks for calculating and inserting entries.****AO3: Two marks for two stage calculations and inserting entries.**

Forecast Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 April 2023

	£	£
Revenue		300 000 (1) AO2
Less		
Cost of sales (90 000 +25%) - 10%)		<u>(101 250)</u> (1) AO3
Gross profit		198 750
Less		
Depreciation	19 000 (1) AO2	
Rent	25 000	
Expenses (including bank loan interest)	<u>75 000</u> (1) AO3	
		<u>(119 000)</u>
Forecast profit for the year		<u>79 750</u> (1 of) AO2 +w

No aliens**(5)**

(f) **AO1 (3) AO2 (3)**

AO1: Three marks for identifying social accounting issues.

AO2: Three marks for developing the issues.

Social accounting	Development
Local community	Support the local community with an appropriate level of paid employment.
Environment	Non-polluting process/transport which limits emissions to stay within legal limits.
Workforce	Ensure that workforce is appropriately trained and is developed to better meet objectives.
Health and safety	Ensure that the process and practices do not injure or adversely affect the health of employees.
Use of natural resources	Use sustainable materials ensuring the future supply of materials.

3 x **(1) AO1** for identification PLUS 3 x **(1) AO2** for development.

(6)

(g) **AO1 (1) AO2 (1) AO3 (5) AO4 (5)**

Positive points in favour of judging a business solely on profitability ratios

Ratios **enable comparison** to be made between Syed's business and other similar businesses.

There are '**yardsticks**' that can be used to assess progress of the business, most commonly the businesses comparison with its previous year's results.

Return on capital employed percentage is directly comparable across all businesses and can be comparable with alternative investments.

Profit is the main driver for the businessman

Negative points against judging a business solely on profitability ratios

Non-financial factors are ignored but these are critical for future prospects of Syed's business. Factors such as the innovation of the management, skill of the workforce, product development are critical but ignored if only financial considerations are considered.

Social factors are ignored, such as the businesses impact on the workforce, the environment, the community, this will have a detrimental effect on the image of Syed's business.

Liquidity and use of assets also needs to be considered.

Ethical factors needs to be considered.

Decision

Candidates may conclude that the use of profitability ratios as the way of judging the success of a business is or is not appropriate. Candidates should support that decision with an appropriate rationale.

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-3	Isolated elements of knowledge and understanding recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
Level 2	4 - 6	Elements of knowledge and understanding, which are applied to the scenario. Chains of reasoning are present, but may be incomplete or invalid. A generic or superficial assessment is present.
Level 3	7 - 9	Accurate and thorough understanding, supported throughout by relevant application to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects. An attempt at an assessment is presented, using financial and non-financial information, in an appropriate format and communicates reasoned explanations
Level 4	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and non-financial information and makes informed recommendations and decisions.

(12)

Q2	Total marks	55
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3(a) **AO1 (7) AO3 (2)****AO1: Seven marks for transferring balances****AO3: Two marks for two stage calculations and inserting entry**

**Hillside Sports Club
Trial Balance at 30 April 2022**

	Dr	Cr
	£	£
Subscriptions received		2 950
Trade payables		1 850
Rent payable	1 500	
Telephone charges	320	
Equipment (cost)	4 510	
Equipment- provision for depreciation		1 100
Bank overdraft		70
Equipment repairs	600	
Disposal account (profit on sale)		150
Sale of dance tickets		2 100
Catering cost for dance	390	
Hire of band for dance	500	
Donations received		300
Sundry expenses	1 450	
Accumulated fund		750
	<u>9 270</u>	<u>9 270</u>

7 x **(1) AO1** for each 2 correct entries**(2/1of) AO3** for accumulated fund on **credit** side.**(9)**(b) **AO2 (5)****AO2: Five marks for calculating total figures**

Income			£
Sale of tickets	2 100 + 580	=	2 680 (1) AO2
Expenditure			
Catering	390 + 910 (1) AO2	=	(1 300) (1of) AO2 own figure if adjusted
Band hire	500 + 750	=	<u>(1 250)</u> (1of) AO2 own figure if adjusted (2 550)
Profit of dance		—	<u>130</u> (1of) AO2

(5)

(c) **AO1 (2) AO2 (7) AO3 (1)**

AO1: Two marks for transferring balances

AO2: Seven marks for calculating and inserting entries

AO3: One mark for multiple stage calculation

Income and Expenditure Account
For the year ended 30 April 2022

	£	£
Income		
Subscriptions (2 950 – 200 + 860)	3 610	(1) AO2
Profit on dance	130	(1of) AO2
Donations received	300	(1) AO2
Disposal profit	<u>150</u>	(1) AO2
	4 190	
Expenditure		
Rent payable	1 500	(1) AO2
Telephone charges	320	(1) AO1
Equipment repairs 600 - 250	350	(1) AO2
Sundry expenses 1 450 + 420 - 130	1 740	(1) AO2
Depreciation on equipment	<u>350</u>	(1) AO3
(4 510 + 250 – 1 100 – 3 310)	(4 260)	
Deficit	<u>70</u>	(1of) AO1 + w
		(10)

(d) **AO1 (1) AO2 (1) AO3 (5) AO4 (5)**

OWN FIGURE RULE APPLIES

Positive points for the club

The Hillside Club made a **profit on the dance**.

The Hillside Club was **close to breaking-even** on its activities with only a small deficit.

Negative points against the club

The Hillside Club made a small **deficit which will need addressing** over time to retain the funds to maintain the activities and club growth.

There are still £860 of **subscriptions due** for the last year which could result in some irrecoverable debts.

The Hillside Club should assess whether these are likely to be paid and should improve its **subscription collection process**.

The Hillside Club has **not allowed for any possible irrecoverable debts**.

The Hillside Club **has an overdraft** and a shortage of cash.

Decision

Candidates may conclude that the club is favourably or unfavourably placed. Candidates should support that decision with an appropriate rationale.

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

(6)

Q3	Total marks	30
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4(a) **AO1 (4)****AO1: Four marks for stating reasons.**

- Checks **accuracy** of the double entry system.
- Identify **arithmetical errors**.
- Locate/**localize errors**.
- **Totals of ledgers** can speed up the preparation of the trial balance and financial statements.
- **Internal control**, the prevention of fraud.
- To **reconcile** trade receivables to control account.

NOT

Aids decision making

Correct errors.

Determine credit purchases and sales

4 x (1) **AO1****(4)**(b) **AO1 (2) AO2 (5) AO3 (3)****AO1: Two marks for balancing account****AO2: Five marks for correct insertion of entries****AO3: Three marks for multiple stage calculation and posting.**

Trade Receivables Ledger Control Account

Date	Details	£	Date	Details	£
2022			2022		
1 April	Balance b/d	8 700	1 April	Balance b/d	250
April	Sales	8 900 (1) AO3	April	Bank	8 350 (1) AO2
	Bank (dishonoured Cheque)	420 (1) AO2		Sales returns	550 (1) AO3
	Interest charged	80 (1) AO3		Discount Allowed	350 (1) AO2
				Contra	50 (1) AO2
				Irrecoverable debts	730 (1) AO2
30 April	Balance c/d	<u>400</u>	30 April	Balance c/d	<u>8 220</u>
		<u>18 500</u>			<u>18 500</u>
1 May	Balance b/d	8 220 (1of) AO1	1 May	Balance b/d	400 (1) AO1

(10)

(c) **AO1 (2) AO2 (1)**

AO1: Two marks for heading and transferring balances

AO2: One mark for netting debit and credit balances

Statement of Financial Position (extract) at 30 April 2022

Current assets	£
Trade receivables	8 220 (1of) AO1
Less Credit balance	<u>(400) (1) AO1</u>
	7 820 (1of) AO2

(3)

(d) **AO1 (1) AO2 (6)**

AO1: One mark for transferring balances

AO2: Six marks for calculating and inserting entries

B. Luck Account

Date	Details	£	Date	Details	£
2022			2022		
1 April	Balance b/d	420	18 April	Bank	420 (1) AO2
20 April	Sales	120 (1) AO2			
28 April	Bank (dishonoured)	420 (1) AO2	30 April	Irrecoverable debts	540 (1) AO2
		<u>960</u>			<u>960</u>
25 May	Irrecoverable debts recovered (1) AO1	135 (1) AO2	25 May	Bank	135 (1) AO2
		<u>135</u>			<u>135</u>

(7)

(e)

AO2 (1) AO3 (2) AO4 (3)

Points for being able to avoid irrecoverable debts

Marvin **could only make cash sales**. However, a proportion will need to be made on credit or sales will decline substantially. The proportion on credit runs the risk of irrecoverable debts.

Marvin should ensure the **careful financial vetting of customers** to whom he intend to sell goods on credit this should reduce irrecoverable debts.

Speedy invoicing and credit control will pressure debtors to pay regularly.

Points for not being able to avoidable irrecoverable debts

Marvin will **have to sell some goods on credit running the risk of debts** being irrecoverable.

Marvin should ensure that **sufficient resource are applied to the collection of debts** through credit control procedures.

Regular **customers circumstances may change** making it more likely that they could become bankrupt and their debt will be irrecoverable.

Decision

Candidates may conclude that all recoverable debts can be avoided or not avoided. Candidates should support that decision with an appropriate rationale.

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

(6)

Q4	Total marks	30
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5(a) **AO1 (2)****AO1: Two marks for explaining**

- **Overhead allocation**

Charging costs to a cost centre where the total costs **(1) AO1** are completely associated with that cost centre. **(1) AO1**

- **Overhead apportionment**

Sharing of costs between two or more cost centres **(1) AO1** on the most appropriate and reasonable basis. **(1) AO1**

(4)(b)(i) **AO1 (3) AO2 (10) AO3 (3)****AO1: Three marks for transferring entries****AO2: Ten marks for correct insertion of entries****AO3: Three marks for multiple stage calculation and posting.****Manufacturing Account for the year ended 30 April 2022**

	£	£
Raw materials:		
Opening inventory	20 500	
Purchases	<u>134 250</u>	
	154 750	
Closing inventory	<u>(18 900)</u>	
Cost of raw materials		135 850 (1) AO3
Production wages		165 750 (1) AO1
Production expenses		5 400 (1) AO2
Royalties		<u>10 200</u> (1) AO1
Prime cost		317 200 (1of) AO3 +w No aliens
Overheads:		
Rent and rates	21 000 (1) AO2	
Electricity and power	4 800 (1) AO2	
Production expenses	3 600 (1) AO2	
Management salaries	45 000 (1) AO2	
Canteen costs	10 800 (1) AO2	
Non-current asset depreciation	<u>21 000</u> (1) AO2	
		<u>106 200</u>
		423 400 (1of) AO3 No aliens
Work in progress:		
Opening WIP	42 100	
Closing WIP	<u>(38 700)</u>	
		<u>3 400</u> (1) AO2
Cost of production		426 800 (1of) AO1
Profit on manufacture		<u>64 020</u> (1of) AO2 + w
Transfer to trading account		<u>490 820</u> (1of) AO2 + w No aliens

(16)

(b)(ii) AO1 (2) AO2 (2)

AO1: Two marks for description and opening balance on credit side.

AO2: Two marks for correct transfer and balancing sum

Provision for Unrealised Profit Account

Date	Details	£	Date	Details	£
2022			2021		
30 April	Income statement (1) AO1	400 (1) AO2	1 May	Balance b/d	6 700 (1) AO1
	Balance c/d	6 300			
		<u>6 700</u>			<u>6 700</u>
2022			2022		
			1 May	Balance b/d	6 300 (1of) AO2

Cr No aliens

Working

Unrealised profit £48 300 x $\frac{15}{115}$ = £6 300

(c)AO2 (1) AO3 (2) AO4 (3)

Positive points for day work/ negative points for group bonus scheme

Day work is a **lot simpler to operate** for Harptree Manufacturing. No standard times to complete goods required as would be the case with a bonus scheme.

Quality can be more accurately controlled by Harptree Manufacturing with day work as production workers have no incentive to 'cut corners' when producing work.

Slower workers will not feel that they are unable to keep up with the pace of other workers.

Negative points for day work/ positive points for group bonus scheme.

Day work does not **motivate** the production staff of Harptree Manufacturing to be efficient with their time, but group bonus scheme will. This will increase cost per unit.

Group bonus scheme should result in production workers **working faster and as a team**, but this may result in a higher accident rate.

Group bonus scheme will **reduce cost per unit** of goods produced by Harptree Manufacturing.

Decision

Candidates may conclude that the proposed change is/is not beneficial. Candidates should support that decision with an appropriate rationale.

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

(6)

Q5	Total marks	30
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6(a) **AO1(3) AO2(3)**

AO1: Three marks for stating the basic concept

AO2: Three marks for explaining concepts application

- (i) All non-current assets must be **recorded at their cost price (1) AO1** although the replacement/ **market value** may have increased or decreased. **(1) AO2**
- (ii) Once a depreciation method has been chosen it should be used **consistently over the life** of the asset. **(1) AO1** This will ensure that **profits are not distorted** over the years. **(1) AO2**
- (iii) It is assumed that the business will continue with **perpetual/indefinite life. (1) AO1**
The non-current asset should therefore be **depreciated over its full economic life. (1) AO2**

(6)

(b) **AO2 (1) AO3 (3)**

AO2: One mark for calculating depreciation owned for a full year

AO3: Three marks for multiple stage calculation of depreciation.

	£
Asset sold on 1 Aug 24 000 x 15% = 3 600 multiplied by 3/12	= 900 (1) AO3
Assets purchased on 1 November 32 000 x 15%=4 800 multiplied by 6/12	= 2 400 (1) AO3
Asset purchased on 1 January 16 000 x 15% x 4/12	= 800 (1) AO3
All other assets 216 000 x 15%	= <u>32 400</u> (1) AO3
Total depreciation charge	= <u>36 500</u>
	(4)

(c) (i) **AO1 (2) AO2 (9)**

AO1: Two marks for balancing and bringing down the balance

AO2: Nine marks for correct insertion of entries

Equipment Account

Date	Details	£	Date	Details	£
2021			2021		
1 May	Balance b/d	240 000	1 Aug	Disposal	24 000 (1) AO2
1 Nov	CT & Partners	32 000 (1) AO2			
2022			2022		
1 Jan	Bank	<u>16 000</u> (1) AO2	30 April	Balance c/d	<u>264 000</u>
		<u>288 000</u>			<u>288 000</u>
2022					
1 May	Balance b/d	264 000 (1) AO1			

(4)

(ii)

Equipment- Provision for Depreciation Account

Date	Details	£	Date	Details	£
2021			2021		
1 Aug	Disposal	16 900 (1) AO2	1 May	Balance b/d	45 000
2022			2022		
30 April	Balance c/d	<u>64 600</u>	30 April	Income Statement	<u>36 500 (1of)</u> AO2
		<u>82 700</u>			<u>82 700</u>
			1 May	Balance b/d	64 600 (1of) AO1

(3)

(iii)

Disposal Account

Date	Details	£	Date	Details	£
2021			2021		
1 Aug	Equipment	24 000 (1) AO2	1 Aug	Depreciation	16 900 (1) AO2
2022					
30 April	Income Statement	<u>1 900 (1) AO2</u>		Cash	<u>9 000 (1) AO2</u>
		<u>25 900</u>			<u>25 900</u>

(4)

(d) AO1 (3)

AO1: Three marks for stating disadvantages.

- Valuation is **just a judgement** and difficult to get accurate.
- **Considerable work** in revaluing non-current assets every year.
- Requires input from **specialist valuers**.
- Can **distort profits** as valuations fluctuate.
- Brings the use of the **historic cost concept into question**.
- Does **not comply with equal use** same depreciation
- Revaluation **usually used on small items** only.

3 x (1) AO1

(3)

(e) **AO2 (1) AO3 (2) AO4 (3)**

Positive points for straight line method/ negative points for an alternative method

Charges the **same depreciation to Highgate Construction income statement each year** representing even usage over the years.

Does **not distort the profits** of Highgate Construction by depreciation charges being high in the early years and lower in the later years.

The use of a **revaluation method would require annual input from a professional valuer** to assess current values. Straight line does not require that input or incur that cost.

Straight line is **based on historic cost concept**, re-valuation is subjective and may go against that concept.

Negative points for straight line method/positive points for alternative method

Many non-current assets **lose a high proportion of their value in the early years**. This is particularly common with equipment such as that are owned by Highgate Construction as evidenced by the market value of the digger.

Non-current assets such as **equipment will be over-valued in the books** of Highgate Construction in the early years using straight line method.

As the years progress the straight-line method will **increase the costs of Highgate Construction when depreciation and maintenance** are considered.

Decision

Candidates may conclude that the straight-line method is appropriate/is not appropriate. Candidates should support that decision with an appropriate rationale.

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

(6)

Q6	Total marks	30
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