

Mark Scheme (Results) Summer 2007

GCE

GCE Accounting (6001) Paper 1

Unit 1 Mark Scheme

Question 1

(a)

Nutwell Book Club - Book trading account for the year ended 30 April 2007

	£	£
Book sales		19 980 ✓
less		
Opening stock of books	1 650	
Book purchases 16 700-2 750+4 400	<u>18 350</u> ✓✓ (one for each correct adjustment)	
	20 000	
Closing stock of books	<u>2 100</u> ✓	
Cost of sales		<u>17 900</u>
Profit on book sales		<u>2 080</u>

Income and expenditure account

	£	£
Profit on book sales	2 080 ✓	
Subscriptions 8 100 +540 - 70		
-420 +95 -1 080	7 165 ✓✓✓✓ (one for three, two for four, three for	
Investment income 20 +40	<u>60</u> ✓	five or 8245) ✓✓✓
		9 305
less		
Mortgage interest 1 100+100	1 200 ✓	
Insurance 320 +25 - 35	310 ✓	
Electricity 1 410 -150 +350	1 610 ✓	
Accounting fees	600 ✓	
Redecoration	2 000 ✓	
Depreciation - premises	2 120 ✓	
- fixtures	1 650 ✓	
Visiting speakers	<u>250</u> ✓	
		<u>9 740</u>
Deficit		<u>435</u>

Balance sheet as at 30 April 2007

	£	£
<u>Fixed assets</u>		
Premises 98 000 + 5 880	103 880 ✓	
Fixtures and fittings	<u>9 350</u> ✓	
		113 230
<u>Current assets</u>		
Book stock	2 100	
Investment account	2 000 ✓	
Subs in arrears	95 ✓	
Insurance prepaid	35 ✓	
Investment income due	10 ✓	
Bank	<u>6 445</u> ✓	
	10 685	
<u>Current liabilities</u>		
Book creditors	4 400 ✓	
Building creditors	8 000 ✓	
Subs in advance 420 + 1 080	1 500 ✓	
Electricity accrued	350 ✓	
Mortgage interest accrued	<u>100</u> ✓	
	14 350	
Net current assets		(3 665)
less		
Mortgage		<u>(18 000)</u> ✓
		<u>91 565</u>
Accumulated fund		92 000 ✓
Deficit		<u>(435)</u>
		<u>91 565</u>

(16)

(b) Market price ✓✓ is different from cost ✓✓

(2)

(c) The accrual (matching) concept apportions the value of capital items which will be used for more than one accounting period ✓✓ to those accounting periods on the basis that cost is matched to the benefit gained. ✓✓

In the case of a premises extension this is capital expenditure and the benefit will be received for a number of years and therefore the cost should be apportioned to those years by matching only a small element of the cost to each year. Capital ✓✓

In the case of the redecoration of the premises, this is revenue expenditure because there is no long term addition to the premises and therefore the whole of the expenditure will be charged to the year of expenditure and the accruals concept will not apply. Revenue ✓✓

(4)

(d) Evaluation

Valid points may include:

Benefits:

- Cash received early
- May result in lower borrowings and savings in interest
- Members maintained for 10 years
- No collection costs for 10 years.

Disadvantages:

- Cash received in single payment will be low to tempt members to pay for ten years in a single payment.
- Liability to provide services long after the cash has been spent.

✓✓ For each benefit or disadvantage x 3 MAX two benefits or disadvantages

✓✓ For decision if supported by rationale

(4)

(Total 26 marks)

Question 2

(a)

Eclipse manufacturing account for the year ended 30 April 2007

	Regular £	Premium £	Total £	
Opening stock of raw materials			48 000	✓
Purchases of raw materials			<u>176 000</u>	✓
			224 000	
Closing stock of raw material			<u>49 000</u>	✓
Raw materials consumed	100 000	75 000	175 000	✓ or 4x✓ if no workings above
Direct labour	<u>88 000</u>	<u>102 000</u>	<u>190 000</u>	✓✓
PRIME COST ✓	188 000	177 000	365 000	✓✓ OF if RM + DL
Factory overheads:				
Management salaries	30 000	36 000	66 000	✓
Premises and general running	60 000	80 000	140 000	✓✓ one each
Depreciation	<u>32 000</u>	<u>41 500</u>	<u>73 500</u>	✓✓ one each
	122 000	157 500	279 500	
W.I.P at start	8 600	10 500	19 100	✓
at end	<u>(9 000)</u>	<u>(11 000)</u>	<u>(20 000)</u>	✓
	(400)	(500)	(900)	
MANUFACTURING/PRODUCTION COST				
	✓ 309 600	334 000	<u>643 600</u>	✓ OF

Machinery account

	£		£
Balance b/d	200 000	Disposal	50 000
Creditor/Bank ✓	<u>80 000</u>	balance c/d	<u>230 000</u>
	<u>280 000</u>		<u>280 000</u>

Machinery - provision for depreciation account

	£		£
Disposal	12 500	Balance b/d	100 000
Balance c/d	<u>129 000</u>	Profit and loss ✓	<u>41 500</u>
	<u>141 500</u>		<u>141 500</u>

Disposal account

	£		£
Machinery	50 000	Depreciation	12 500
		Creditor	20 000
		Loss	<u>17 500</u>
	<u>50 000</u>		<u>50 000</u>

OF if 3 other items included in account

(b) Characteristics:

- Expense is a fixed cost or contains a high fixed cost element, e.g., rent.
- Expense does not vary with levels of production.
- Expense is an indirect cost and therefore cannot be directly related to a product.
- Cost has to be absorbed into product cost.

✓✓ per point for recognition plus ✓✓ per point for development x 3

(6)

(c) Evaluation:

Valid points may include:

Benefits:

- Straight line is simpler to operate.
- Gives equal depreciation for equal benefit received in each year.
- Does not distort profit with higher levels of depreciation in early years.

Disadvantages:

- Machinery will lose more value in early years of ownership than later years.
- Balance sheet values may not be in line with market value of machinery.
- Total costs of ownership will increase using straight line as maintenance costs rise as the asset becomes older

✓✓ for recognition x 3 (MAX 2 benefits or disadvantages).

✓✓ for decision based upon a valid rationale.

(4)

(Total 26 marks)

Question 3

(a)

		<u>Journal</u>		
		Dr	Cr	
		£	£	
Purchases	1 200			✓ Account + entry
Office stationery			1 200	✓
Returns inwards	2 800			✓
Debtor			2 800	✓
Bank	400			✓✓ Account one ✓,
Suspense	122			✓✓ entry one ✓
Rent receivable			522	✓✓
Discount received	20			✓
Creditor/supplier			20	✓
Debtors	4 000			✓
Sales			4 000	✓
Bad debts	1 500			✓
Debtor			1 500	✓

(8)

(b)

Purchases ledger control account			
	£		£
Returns outward	950 ✓	Balance b/d	25 310 ✓
Bank	33 200 ✓	Purchases (29 470+1 200)	30 670 ✓✓
			one each adjustment
Discount received (850 - 20)	830 ✓✓		
Balance c/d	<u>21 000</u> ✓✓ (✓ OF)		
	<u>55 980</u>		<u>55 980</u>

Sales ledger control account			
	£		£
Balance b/d	36 400 ✓	Returns in (900 + 2 800)	3 700 ✓✓
Sales (68 650 + 4 000)	72 650 ✓✓	Bad debts (2 100 + 1 500)	3 600 ✓✓
Dishonoured cheques	1 450 ✓	Bank	63 000 ✓
		Balance c/d	40 200 ✓✓ (✓ OF)
	<u>110 500</u>		<u>110 500</u>

(10)

(c) Limitations of trial balance:

- Does not reveal errors if one account has been debited and another account credited with the same value.
- If transaction omitted from the accounts the trial balance will not record the error.
- Provides a summarised position for many creditors and debtors which may contain many errors.
- Only records the position as at a point in time.

✓✓ per limitation x 2

Errors of principle - One account has been correctly posted but the other account is incorrect because the wrong class of account has been posted e.g motor vehicles instead of motor expenses. ✓✓

Error of reversal - Both accounts have been incorrectly posted with the debit entry credited and the credit entry debited. e.g debit sales credit the debtor. ✓✓

(4)

(d) Valid points may include:

Benefits of control accounts:

- Control accounts act as a check against the total of debtors or creditors.
- Act as a protection against fraud.
- Reveal errors such as incorrect addition

Disadvantages

- The control account will not identify errors in individual accounts.
- Considerable additional work will be required to pinpoint errors.
- Errors not revealed by the trial balance will not be revealed by the control accounts.

✓✓ for recognition x 3 (MAX 2 benefits or disadvantages).

✓✓ for decision based upon a valid rationale.

(4)

(Total 26 marks)

Question 4

(a)

Realisation Account					
	£		£		
Fixed assets	127 000	✓	Current liabilities	9 700	✓
Current assets	58 400	✓	Hameed - vehicle	30 700	✓
Profit on realisation:			Bank	200 000	✓
Gill	33 000	✓			
Hameed	<u>22 000</u>	✓			
	<u>240 400</u>			<u>240 400</u>	

Capital accounts						
	Gill	Hameed		Gill	Hameed	
	£	£		£	£	
Realisation		30 700	✓	Balance b/d	60 000 80 000	
Bank	<u>93 000</u>	<u>71 300</u>	✓	Realisation	<u>33 000 22 000</u>	✓ OF
	<u>93 000</u>	<u>102 000</u>			<u>93 000 102 000</u>	

Bank account					
	£		£		
Balance b/d	4 300	✓	Loan	40 000	✓
Solar Systems	200 000	✓✓	Capital:		
			Gill	93 000	✓
			Hameed	<u>71 300</u>	✓
	<u>204 300</u>			<u>204 300</u>	

(8)

- (b) (i) The balance sheet will record the values of the tangible assets. Solar Systems will be prepared to pay more than the net value of the tangible assets if they believe that there are intangible assets known as goodwill.

Value of business above net value of tangible assets ✓✓✓✓

Examples of goodwill could:

- Location of the business
- Established customers
- Product being offered ✓✓ x 2 for examples

(ii)

- Asset that becomes realised on sale of business
- To enable the asset to be split between parties ✓✓ x 2

(6)

(c) Valid points may include:

Benefits:

- Clear statement of how the partners will work together and their responsibilities.
- Clear agreement of how profit will be apportioned
- Less room for disputes at a later date.

Disadvantages:

- Generally requires legal services to prepare.
- If not prepared provisions of 1890 Partnership Act imposed.
✓✓ benefit ✓✓ disadvantages

(2)

(Total 16 marks)

Question 5

(a)

	Jameel	Kalid
Gross profit to sales %	$\frac{180}{500} \times 100 = 36\%$ ✓✓	$\frac{160}{500} \times 100 = 32\%$ ✓
Stock turnover	$\frac{320}{40} = 8$ times ✓✓✓	$\frac{340}{20} = 17$ times ✓✓✓
Fixed assets to sales	$\frac{500}{230} = £2.17$ per £1 of sales ✓✓✓ or 46%	$\frac{500}{200} = £2.50$ per £1 of sales ✓✓✓ or 40%
Current ratio	$\frac{140}{70} = 2:1$ ✓	$\frac{75}{125} = 0.6:1$ ✓
Liquid (acid test)	$\frac{95}{70} = 1.36:1$ ✓✓	$\frac{60}{125} = 0.48:1$ ✓✓

(8)

(b) Profitability is the ability to make an surplus of income as measured by sales turnover less costs/expenditure as measured by the total costs/expenditure incurred during an accounting period. ✓✓

The profit is then measured against a yardstick of sales or capital employed to generate that profit to ensure its' sufficiency. ✓✓

(2)

(c)

	Jameel	Kalid
Customer	<p><u>More</u> stock in evidence. <u>More/newer</u> fixed assets <u>Less</u> on expenses service may be slower.</p> <p>✓✓ for recognition x 2</p>	<p><u>Minimal</u> stock available. No OF <u>Fewer/older</u> fixed assets <u>More</u> on expenses service May be quicker.</p>
Creditor	<p><u>Good</u> current ratio <u>Good</u> acid test ratio Funded by long term debt <u>Low risk</u> to provide credit</p> <p>✓✓ for recognition x 2</p>	<p><u>Very poor</u> current ratio <u>Poor</u> acid test ratio Funded by short term creditors <u>High risk</u> to provide credit.</p>

(4)

(d)

Valid points may include:

Benefits

- Provides a yardstick against accepted standards e.g current ratio
- Provides a yardstick against other similar businesses.
- A quantitative objective measure.

Disadvantages

- Does not take account of state of assets e.g probability of debtors paying.
- Does not take account of non financial factors e.g skill of workforce or management.

✓✓ Benefit ✓✓ Disadvantage

(2)

(Total 16 marks)

Question 6

(a) Fixed cost - A cost which tends to be unaffected by variations in volume of output. ✓✓
e.g. business rent or rates. ✓✓

Semi fixed cost - A cost which is partly fixed and partly variable ✓✓ e.g. telephone. ✓✓

(4)

(b)

Cost of mini digger

	£	£ per day	
Depreciation	6 000	50	✓✓
Maintenance	3 000	25	✓✓
Labour	2 hrs @ £20	40	✓✓
Gen overhead	6 000	<u>50</u>	✓✓
Daily cost of mini digger		165	✓OF if all costs present
Cost of Greg			
Labour 8 - 2 hours @ £20		<u>120</u>	✓✓
Daily cost inc Greg		285	✓OF if all costs present

Alternative:

	Digger	Digger + Driver
Depreciation	2 500 ✓✓	3 500
Maintenance	1 250 ✓✓	1 750
Salary	2 000 ✓✓	40 11 200 ✓✓
Gen overhead	<u>2 500</u> ✓✓	<u>3 500</u>
	8 250	19 950
	50	70
÷		
Per Day	165 ✓	285 ✓

(6)

(c) (i)

- The rate charged of £250 per day for the digger alone, compared to a cost including the time of Greg seems high.
- The rate charged for Greg of an additional £100 (350-250) seems low compared to the above additional cost of £120 (285-165)

✓✓ for recognition x 2

(ii)

- Vary his pricing to reflect actual cost.
 - Reduce cost of digger hire but increase operator cost.
 - By reducing costs overall increase demand and spread fixed costs over greater level of activity. Spare capacity
 - Digger currently used only 120 days out of approx 250 working days available.
- ✓✓ for recognition x 2

(4)

(d)

Valid points may include:

Benefits:

- Calculate current costs accurately. ✓✓ for benefit
- Project impact of different levels of activity.
- Link costing to financial accounts.

Disadvantages:

- Cost of employing an accountant disadvantage ✓✓ for a
- Personal time commitment in dealing with accountant.

✓✓ for benefit

✓✓ disadvantage

(2)

(Total 16 marks)

Question 7

(a)

Provision for doubtful debts account			
	£		£
Profit and loss ✓	170 ✓	Balance b/d ✓	1 120 ✓
Balance c/d	<u>950 ✓</u>		<u>1 120</u>
	<u>1 120</u>		

Rent receivable account			
	£		£
Balance b/d	475 ✓	Bank	475 ✓
Suspense ✓	270 ✓	Bank	475
Profit and loss	1 925 ✓	Bank	745 ✓
	<u>2 670</u>	Bank	475
		Balance c/d	<u>500 ✓</u>
			<u>2 670</u>

} Could be 2170 ✓✓

Telephone account			
	£		£
Balance b/d	480 ✓	Balance b/d	160 ✓
Western telephones	2 060 ✓	Profit and loss ✓	4 450 ✓
Blue phones	2 000 ✓		
Balance c/d	<u>320 ✓</u>	Balance c/d ✓	<u>250</u>
	<u>4 860</u>		<u>4 860</u>

(10)

- (b) (i) A provision for doubtful debts prudently withholds profit where debtors payment is in doubt. ✓✓

The value of debtors in the balance sheet is reduced by the value of the provision therefore not overstating the projected value ✓✓

- (i) The accruals concept attempts to match all expenditure to the accounting period that it will be used up. ✓✓

The materiality concept attempts to write off expenses in the period in which they are paid unless in so doing this would distort the calculation of profit. ✓✓

Therefore, for small expenditures which will be used up over more than one accounting period, the concepts are in conflict. ✓✓

(MAX 4)

(c)

Valid points may include:

Benefits

- Provides a framework for preparation.
- Accounts of different businesses can be compared.
- Profit calculations can be relied upon.

Disadvantages

- Concepts can be in conflict with each other.
 - Requires professional skills to implement.
- ✓ each point x 3 (MAX 2 benefits or disadvantages).
- ✓ for decision based upon a valid rationale.

(2)

(Total 16 marks)

