



ASSESSMENT and  
QUALIFICATIONS  
ALLIANCE

# Mark scheme

# June 2003

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## GCSE

### Accounting

3122

Paper 2H

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**Higher Tier****3122/2H****1****Total for this question: 32 marks**

*David Ford is an electrical wholesaler. Information about some of the business's transactions for February 2003 is given below.*

*On 8 February 2003 David Ford sent two invoices to customers. The details were as follows.*

	£
Invoice number 00121 to Melchester Electrical Supplies	
10 personal stereos model A43 at £40 each	400.00
plus VAT	<u>70.00</u>
	<u>470.00</u>
£	
Invoice number 00122 to Town Traders Ltd	
12 personal stereos model AT79 at £70 each	840.00
6 micro hi-fis model T24 at £90	<u>540.00</u>
	1 380.00
Less trade discount 20%	<u>276.00</u>
	1 104.00
plus VAT	<u>193.20</u>
	<u>1 297.20</u>

(a) *Record the information from the two invoices in the sales journal.*

**Sales Journal**

Date		Customer	Invoice No	Goods		VAT		Total	
				£	p	£	p	£	p
Feb	8	Melchester Electrical Supplies	00121	400	00(1)	70	00(1)	470	00(1)
	8	Town Traders Ltd	00122	1104	00(1)	193	20(1)	1 297	20(1)

(1) for use of dates and correct names

(7 marks)

**Account of PCD Manufactures Ltd**

*PCD Manufactures Ltd is one of David Ford's suppliers. The following information relates to the account of this creditor.*

- Feb 1 Balance, amount owed to PCD Manufactures Ltd by David Ford, £600.*
- 14 David Ford settled his account with PCD Manufactures Ltd by cheque, £600.*
- 23 Invoice sent by PCD Manufactures Ltd to David Ford for goods £1 000 plus VAT £175.*
- 27 David Ford received a credit note from PCD Manufactures Ltd for £160 plus VAT £28, for goods returned.*

*The account was balanced on 28 February 2003.*

**(b)** *Record the above information in the account of PCD Manufactures Ltd.*

*Note: Bring down the balance on the account at 1 March 2003.*

**PCD Manufactures Ltd Account**

Date			£	p	Date			£	p
Feb	14	Bank	600	00(1)	Feb	1	Balance b/d	600	00(1)
	27	Returns out	188	00(1)		23	Purchases	1 175	00(1)
	28	Balance c/d	987	00(1)					
			1 775	00				1 775	00
					Mar	1	Balance b/d	987	00(10/f)

(6 marks)

**Cash Book**

*David Ford maintains a three-column cash book. The transactions for March 2003 have been recorded.*

Debit						Cash Book						Credit	
Date	Details	Folio	Discount £	Cash £	Bank £	Date	Details	Folio	Discount £	Cash £	Bank £		
Mar 1	Balance	b/d		800		Mar 1	Balance	b/d				3 000	
Mar 5	T Wolf		75		1 425	Mar 3	Cleaning			40			
Mar 8	Sales				2 025	Mar 8	A Kalifa		100			1 900	
Mar 17	F Townson		250		4 750	Mar 11	Motor expenses			30			
Mar 18	Cash	C			700	Mar 18	Bank	C		700			
Mar 30	Sales			55		Mar 20	Wages					350	
						Mar 23	B Hughes		40			760	
						Mar 27	Drawings					400	
						Mar 31	Balance	c/d		85	2 490		
			325	855	8 900				140	855	8 900		
April 1	Balance	b/d		85	2 490								

*Answer the questions on the following pages.*

(c) *What does the balance b/d of £3 000 on 1 March represent?*

Bank overdraft (1 mark)

(d) (i) *Do the columns headed "Discount" refer to cash discount or trade discount?*

Cash (1 mark)

(iv) *Give a reason for your choice of answer in (d) (i).*

Trade discount does not appear in the Cash Book/ledger.

or

Cash discount is an allowance for prompt payment and will result in the debt being settled but not all being paid in "cash". (2 marks)

(e) (i) *Is the discount on 5 March discount allowed or discount received?*

Discount allowed (1 mark)

(ii) *Give a reason for your choice of answer in (e) (i).*

Debit side of Cash Book, cheque £1 425 received from debtor, less than balance £1 500. David Ford has allowed T Wolf a discount of £75. (2 marks)

(v) *What percentage is the discount in (e) (i)?*

5% (1 mark)

(f) (i) *Is the discount on 8 March discount allowed or discount received?*

Discount received (1 mark)

(iii) *Give a reason for your choice of answer in (f) (i).*

Credit side of Cash Book, cheque £1 900 paid to a creditor, less than the balance of £2 000. David Ford has received a discount of £100. (2 marks)

(g) (i) *What does the C in the Folio column on 18 March stand for?*

Contra (1 mark)

(ii) *Explain why there are two entries in the Cash Book on 18 March?*

Both cash and bank accounts are used

or

Cash is being paid into the bank (1 mark)

(h) *What do the drawings on 27 March represent?*

The owner of the business has withdrawn £400 for his own use. (2 marks)

- (i) Name and complete the following accounts to show where the totals of £325 and £140 will be transferred to at the end of March?

Discount Allowed (1)	Account
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Date			£	p	Date			£	p
Mar	31	Sundries	325	00(1)					

Discount Received (1)	Account
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Date			£	p	Date			£	p
					Mar	31	Sundries	140	00(1)

(4 marks)

2

**Total for this question: 21 marks**

The following list of balances appeared in the books of W Boardman at 31 March 2003.

<b>W Boardman</b>		
<b>Trial Balance as at 31 March 2003</b>		
	<b>£</b>	<b>£</b>
Sales		492 700
Purchases	240 000	
Capital		272 600
Drawings	29 000	
Carriage inwards	1 200	
Carriage outwards	1 500	
Discounts	2 800	2 400
Returns	7 000	8 000
Vehicles at cost	70 000	
Fixtures and fittings at cost	40 000	
Premises	200 000	
Trade debtors	50 000	
Provision for depreciation		
- Vehicles		28 000
- Fixtures and Fittings		16 000
Motor expenses	24 000	
Insurance	12 000	
Stock at 1 April 2002	33 000	
Electricity	16 000	
Salaries	102 000	
Trade creditors		30 000
Bank	23 000	
Cash	2 800	
Sundry expenses	4 400	
Provision for Doubtful debts		2 000
Rent received		7 000
	<b>£ 858 700</b>	<b>£ 858 700</b>

The following additional information is also available.

- Stock at 31 March 2003 was £35 000.
- Provide for depreciation on cost as follows:  
     Vehicles 20% p.a.  
     Fixtures and fittings 20% p.a.
- Electricity of £4 000 and sundry expenses of £450 were both outstanding at 31 March 2003.
- The provision for doubtful debts is to be adjusted to 5% of debtors.
- Insurance of £3 000 was prepaid at 31 March 2003.

*Prepare W Boardman's trading and profit and loss accounts for the year ended 31 March 2003.  
A Balance Sheet is not required.*

**W Boardman**  
**Trading and Profit and Loss Account for the year ended 31 March 2003**

	£	£
Sales		492 700(1)
less Returns inwards		<u>7 000(1)</u>
net sales		485 700
less cost of sales		
Opening stock	33 000(1)	
add purchases	240 000(1)	
add carriage inwards	<u>1 200(1)</u>	
	274 200	
less purchase returns	8 000(1)	
less closing stock	<u>35 000(1)</u>	<u>231 200</u>
Gross profit		254 500(1o/f)
add Discounts received		2 400(1)
add Rent received		<u>7 000(1)</u>
		263 900
less Expenses		
Discounts allowed	2 800(1)	
Insurance	9 000(1)	
Electricity	20 000(1)	
Sundry expenses	4 850(1)	
Salaries	102 000(1)	
Carriage outwards	1 500(1)	
Motor expenses	24 000(1)	
Increase in prov for bad debts	500(1)	
Pro for Depn – vehicles	14 000(1)	
Pro for Depn – F+F	<u>8 000(1)</u>	<u>186 650</u>
Net Profit		<u>77 250(1o/f)</u>



3

**Total for this question: 19 marks**

*Hansen and Bone are in partnership. A profit and loss appropriation account for the year ended 31 December 2002 has been prepared.*

**Profit and Loss Appropriation Account  
of Hansen and Bone for the year ended 31 December 2002**

Net Trading Profit			39 000
Add Interest on Drawings			
- Hansen	500		
- Bone	500	1 000	
			40 000
Less Salary			
- Bone	8000		
Less Interest on Capital			
- Hansen	3 000		
- Bone	<u>4 000</u>	7 000	
Less Share of Profits			
- Hansen	15 000		
- Bone	<u>10 000</u>	<u>25 000</u>	<u>40 000</u>

*On 1 January 2002 Hansen had a credit balance of £3 000 and Bone had a debit balance of £1 500 on their current accounts. Each partner withdrew £2 000 during the year for their own personal use.*

- (a) *Complete the current accounts of both Hansen and Bone and bring down the balances at 1 January 2003.*

**Current Account - Hansen**

		£			£
2002			2002		
31 Dec	Drawings	2 000(1)	1 Jan	Balance b/d	3 000(1)
31 Dec	Int on Drawings	500(1)	31 Dec	Int on Capital	3 000(1)
31 Dec	Balance c/d	18 500	31 Dec	Share of profits	15 000(1)
		21 000			21 000
			2003		
			1 Jan	Balance b/d	18 400(1)

**Current Account - Bone**

		£			£
2002			2002		
1 Jan	Balance	1 500(1)	31 Dec	Salary	8 000(1)
31 Dec	Drawings	2 000(1)	31 Dec	Int on Capital	4 000(1)
31 Dec	Int on Drawings	500(1)	31 Dec	Share of profits	10 000(1)
31 Dec	Balance c/d	18 000			
		22 000			22 000
			2003		
			1 Jan	Balance b/d	18 100(1)

*(13 marks)*

- (b) *At 1 January 2002 Bone had a debit balance on his current account. What does this mean?*

The debit balance for Bone at 1 January 2002 means that he has overdrawn (1) his account and has thus withdrawn part of her capital. The balance represents an amount owing to the business. (1) for development *(2 marks)*

- (c) *In partnership accounts, why is:*

- (i) *interest allowed on capital;*

Balances the rights of partners where the profits are not shared in the same proportions as capital invested.

or

Rewards the partner taking the greater risk *(2 marks)*

- (ii) *interest charged on drawings?*

Discourages partners from taking too much money out of the business too early in the financial year in anticipation of profits

or

It is a penalty

or

It is in the best interests that the profits should be kept in the business for as long as possible *(2 marks)*

4

**Total for this question: 14 marks**

The trial balance of Firhill Traders Ltd did not balance on 31 December 2002 and a suspense account was opened with a credit balance of £460. The following errors were then discovered.

- A. Sales were undercast by £200.
- B. The purchase of goods by cheque for £360 had been entered in both the Cash Book and Purchases Account as £630.
- C. The total of the wages account was undercast by £90.
- D. Cash received from a debtor £250 was entered in the Cash Book only.
- E. The balance on the rent account was overcast by £100.

(a) Complete the journal entries required to correct these errors. (Narratives are not required.)

		<b>Dr £</b>	<b>Cr £</b>
A.	Suspense	200(1)	
	Sales		200(1)
B.	Bank	270(1)	
	Purchases		270(1)
C.	Wages	90(1)	
	Suspense		90(1)
D.	Suspense	250(1)	
	Debtor		250(1)
E.	Suspense	100(1)	
	Rent		100(1)

(10 marks)

(b) Write up the suspense account showing the correction of the errors.

**Suspense Account**

<b>2002</b>		<b>£</b>	<b>2002</b>		<b>£</b>
31 Dec	Sales	200(1)	31 Dec	Difference as per trial balance	460
31 Dec	Debtor	250(1)	31 Dec	Wages	90(1)
31 Dec	Rent	100(1)			
		550			550

(4 marks)

5

**Total for this question: 34 marks**

The following information is available for the business of J Boyle, a trader, at 31 March 2003. All sales and purchases are on credit.

	£	
Sales	120 000	
Stock 1 April 2002	10 400	
Stock 31 March 2003	9 600	
Purchases	90 000	
Gross Profit	29 200	
Net Profit	12 000	
Capital employed	96 000	
Bank	2 900	(dr)
Debtors	16 000	
Creditors	22 000	
Cash	100	

The following information at 31 March 2002 is also available.

Current ratio	1.5:1
Acid test ratio	1:1
The percentage of gross profit to sales ratio	25%
The percentage of net profit to sales ratio	10%
Return on capital employed ratio	11%
Rate of stock turnover	10 times
The debtors collection period	40 days
The creditors payment period	75 days

(a) Calculate at 31 March 2003:

(i) The current ratio;

$$28\,600(1)/22\,000(1) = 1.3:1(1) \quad (3 \text{ marks})$$

(ii) the acid test ratio.

$$19\,000(2)/22\,000(1) = 0.86:1(1) \quad (4 \text{ marks})$$

(b) Make use of your answers to (a) (i) and (ii) to explain briefly and comment on the solvency (liquidity) position of the business.

Current ratio to low (1)

Acid test to low (1)

Too much tied up in stock (1)

Cash flow problem (1)

Comparison with previous years (1)

Any other valid points - 1 mark each

(Max 3 marks)

(c) Calculate for the year ended 31 March 2003:

(i) the percentage of gross profit to sales;

$$29\,200(1)/120\,000(1) = 24.33\%(1) \quad (3 \text{ marks})$$

(ii) the percentage of net profit to sales;

$$12\,000(1)/120\,000(1) = 10\%(1) \quad (3 \text{ marks})$$

(iii) the net profit to capital employed ratio.

$$12\,000(1)/96\,000(1) = 12.5\%(1) \quad (3 \text{ marks})$$

(d) Make use of your answers to (c) (i), (ii) and (iii) to explain briefly and comment on the profitability position of the business.

Gross profit ratio should be similar from year to year (1)

Net profit ratio should be similar from year to year (1)

ROCE higher the better (1)

Can be compared with available interest rates (1)

Need to compare with previous years/competitors

Any other valid points – 1 mark each

(Max 3 marks)

(e) Calculate for the year ended 31 March 2003:

(i) the rate of stock turnover;

$$90\,800(1)/10\,000(1) = 9.08 \text{ times}(1) \quad (3 \text{ marks})$$

(ii) the debtors' collection period;

$$16\,000(1)/120\,000(1) \times 365(1) = 48/49 \text{ days} \quad (3 \text{ marks})$$

(iii) the creditors' payment period.

$$22\,000(1)/90\,000(1) \times 365(1) = 89/90 \text{ days} \quad (3 \text{ marks})$$

(f) Make use of your answers to (e) (i), (ii) and (iii) to describe the activity (efficiency) of the business.

The business sells its average stock 9.08 times per year (1)

Normal period of trade credit 28/30 days therefore debt collection high/bad (1)

Taking a long time to pay creditors (1) may improve cash flow (1)

Compare with previous years

Any other valid point 1 mark each

(Max 3 marks)