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ASSESSMENT and QUALIFICATIONS ALLIANCE

General Certificate of Secondary Education

Accounting 3122/1F

Mark Scheme

2005 examination - June series

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Paper 1 Foundation Tier (3122/1F)

1 **Total for this question: *8 marks***

The treasurer of a social club is preparing financial statements to send to the club's members. Indicate by placing **one** tick (✓) in the appropriate column where each item should appear.

The first one has been completed as an example.

	Item	Bar Trading Account	Income and Expenditure Account	Balance Sheet
(a)	*Bar Purchases*	✓		
(b)	Subscriptions for the year		✓	
(c)	Bar Sales	✓		
(d)	Opening stock	✓		
(e)	Accumulated Fund			✓
(f)	Bar staff wages	✓		
(g)	Rent paid for the year		✓	
(h)	Creditor for bar stock			✓
(i)	Cash at Bank			✓

One mark each correct answer.

Two ticks = 0

(8 x 1 mark)

2 **Total for this question: *5 marks***

Answer the following questions in the spaces provided.

(a) Name the accounting statement used to check the business cash book against the bank statement.

Bank Reconciliation *(1 mark)*

(b) Name the account used to check the totals of the accounts in the purchases ledger.

Purchase Ledger (or Creditors) Control Account *(1 mark)*

(c) If the purchase of a fixed asset was entered in the purchases account, what type of error would have been made?

Principle *(1 mark)*

(d) In a non-profit making organisation, what term is given to the excess of income over expenditure?

Surplus *(1 mark)*

(e) With which type of business organisation do you associate debentures?

Limited Companies, plc's *(1 mark)*

3 **Total for this question:** ***7 marks***

Brian Jones is starting a business as a sole trader. He has already bought a delivery vehicle and fixtures and fittings. He has arranged for a bank loan to help with the purchase of these assets. He has negotiated 2 months trade credit with a supplier and has purchased goods for resale. After these transactions, he has £1500 cash remaining in the bank from his initial capital.

He wishes to start recording all his business transactions using the double entry bookkeeping system.

Record the following assets, liabilities and capital as an opening journal entry. You will need to calculate the value of his capital.

	£
Delivery Vehicle	10 000
Fixtures and Fittings	2 000
Bank Loan	8 000
Stock of Goods	5 000
Creditor	5 000
Cash at Bank	1 500

The Journal

	Debit £	Credit £
Delivery vehicle	10 000 (1)	
Fixtures and fittings	2 000 (1)	
Bank loan		8 000 (1)
Stock of goods	5 000 (1)	
Creditor		5 000 (1))
Cash at bank	1 500 (1)	
Capital		5 500 (1of)
Totals	18 500	18 500

Apply own figure to capital only if the two totals agree.

(7 x 1 mark)

4 **Total for this question: *18 marks***

From the following list of balances produce a Balance Sheet at 31 May 2005 for Ranjiv Singh.

	£
Capital at 1 June 2004	119 500
Machinery (at cost)	90 000
Vehicles (at cost)	60 000
Debtors	29 500
Closing stock	15 000
Drawings	13 000
Bank overdraft	2 000
Creditors	17 000
Provision for depreciation:	
Machinery	20 000
Vehicles	15 000
Prepayments	1 000
Net Profit for the year ended 31 May 2005	35 000

<u>Balance Sheet(1) for Ranjiv Singh (1) at 31 May 2005 (1).</u>

Fixed Assets	Cost		Depreciation		NBV	
Machinery	90 000	(1)	20 000		70 000	(1)
Vehicles	<u>60 000</u>	(1)	<u>15 000</u>		<u>45 000</u>	(1)
	<u>150 000</u>		<u>35 000</u>		115 000	(1of)
Current Assets						
Stock			15 000	(1)		
Debtors			29 500	(1)		
Prepayments			<u>1 000</u>	(1)		
			45 500	(1of)		
Current Liabilities						
Creditors	17 000	(1)				
Bank Overdraft	<u>2 000</u>	(1)	<u>19 000</u>	(1of)		
Working Capital					<u>26 500</u>	
					<u>141 500</u>	
Capital at 1 June 2004					119 500	(1)
Net Profit for the year					<u>35 000</u>	(1)
					154 500	
Drawings					<u>13 000</u>	(1)
Capital at 31 May 2005					<u>141 500</u>	

(18 marks)

5 **Total for this question: *8 marks***

Fred and Barney have been operating a small business as a partnership for several years. They share profits equally. Given below is their recent appropriation account but certain words, phrases and figures have been omitted.

(a) Insert the appropriate word phrase or figure in the shaded areas. *(6 marks)*

Fred and Barney Appropriation Account for the year ended **31 March 2005.**

			£	£
Net profit for the year				35 750
Plus:	Interest on drawings			
		Fred		500
		Barney		250
				36 500
Less:	Interest on capital			
		Fred	5 000	
		Barney	6 500	
	Salary:	Fred	15 000	26 500
				10 000
Balance of profits shared:				
		Fred	5 000	
		Barney	5 000	10 000

(6 marks)

(b) Suggest **two** reasons why Fred is paid a salary and Barney is not.

Fred is senior, has more expertise, actually works / runs the business, Barney is a sleeping partner (any 2 x 1 mark each) *(2 marks)*

6 **Total for this question: *8 marks***

Bob Shaw has bought a delivery vehicle for £8 000. He is unsure which method of depreciation to use.

He estimates that the vehicle will last for 3 years and could then be sold for £2000.

(a) Calculate the depreciation to be charged in the **first** year of trading using the **Straight Line Method** of depreciation.

$$\frac{8\,000 - 2\,000\ (1)}{3\ (1)} = 2\,000\ (1)$$

(3 marks)

(b) Calculate the depreciation to be charged in the **first** year of trading using the **Reducing Balance Method** of depreciation at a rate of 40% p.a.

8 000 (1) x 40% = 3 200 (1) *(2 marks)*

(c) Calculate the depreciation to be charged in the **second** year of trading using the **Reducing Balance Method** of depreciation at a rate of 40% p.a.

4 800 (1of) x 40% (1) = 1 920 (1) apply own figure rule from part (b) *(3 marks)*

7 **Total for this question: *8 marks***

Lawrence Johnson records the VAT on his business transactions in his books of original entry. The totals in these books for the month of May 2005 are as follows:

Sales Book

Date	Details	Goods £	VAT £	Total £
May 2005	Total for month	28 000	4 900	32 900

Purchases Book

Date	Details	Goods £	VAT £	Total £
May 2005	Total for month	20 000	3 500	23 500

Sales Returns Book

Date	Details	Goods £	VAT £	Total £
May 2005	Total for month	2 600	455	3 055

Purchases Returns Book

Date	Details	Goods £	VAT £	Total £
May 2005	Total for month	1 200	210	1 410

(a) From the data opposite, draw up the VAT account for the month of May 2005. Balance the account at the end of the month and bring down the balance on 1 June 2005.

VAT Account

Dr. Cr.

Date		£	Date		£
	Purchases Book	3 500 (1)		Sales Book	4 900 (1)
	Sales Returns Book	455 (1)		Purchase Returns Book	210 (1)
	Balance c/d	1 155 (1of)			
		5 110			5 110
				Balance b/d (1)	1 155

(6 marks)

(b) Explain the meaning of the balance brought down on 1 June 2005.

Lawrence owes (1) £1155 in VAT. *(2 marks)*

Apply the own figure rule regarding to answer to (a)

8 **Total for this question: *18 marks***

The following information is available about a business owned by Julia Bennett.

Trading and Profit and Loss Account for the year ended 31 May 2005

	£	£
Sales		120 000
Opening stock	20 000	
Purchases	80 000	
	100 000	
Closing stock	40 000	60 000
Gross profit		60 000
Expenses	20 000	
Depreciation	10 000	30 000
Net profit		30 000

Julia monitors the performance of her business using accounting ratios.

(a) State how the following ratios are calculated:

(i) percentage of Gross Profit to Sales Ratio

Gross Profit / Sales x 100 *(1 mark)*

(ii) percentage of Net Profit to Sales Ratio

Net Profit / Sales x 100 *(1 mark)*

(iii) rate of Stock Turnover

Cost of Goods Sold / average stock *(1 mark)*

(b) Calculate the following ratios for the year ended 31 May 2005:

(i) percentage of Gross Profit to Sales ratio

60 000 (1) / 120 000 (1) x 100 = 50% (1) *(3 marks)*

(ii) percentage of Net Profit to Sales Ratio

30 000 (1) / 120 000 (1) x 100 = 25% (1) *(3 marks)*

(iii) rate of Stock Turnover

60 000 (1) / 30 000 (1) = 2 times p.a. (1) *(3 marks)*

(c) The ratios calculated for the year ending **31 May 2004** were:

percentage of Gross Profit to Sales ratio	60%
percentage of Net Profit to Sales ratio	30%
rate of Stock turnover	6 times p.a.

Compare your ratios from part (b) with those given for the year ending 31 May 2004 above. Explain in which year the business was more successful, giving **two** reasons for your choice.

The year ending 31 May 2004 was the better year because:

Gross profit to sales was higher (1) indicating a greater ability to pay expenses (1)

Net profit to sales was higher (1) indicating better overall profitability (1)

The rate of stock turnover was higher/faster/better (1) indicating that they were selling goods more quickly (1) they were keeping stock for a shorter period (1) better liquidity (1).

Each reason: 1 for idea + 1 for development. *(4 marks)*

(d) **State** two more items of information that Julia should take into consideration when monitoring the performance of her business

Other ratios
Liquidity
Other businesses
Other forms of investment e.g. interest rates

Any two x 1 mark each. *(2 marks)*