



General Certificate of Secondary Education

Accounting 3122/2H

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 2 Higher Tier (3122/2H)

1

Total for this question: 29 marks

Ronika Begum owns a wholesale business. The following is an extract from her records of goods supplied to and returns from, customers.

Sales book

Date		Invoice No	Goods		VAT		Total	
			£	p	£	p	£	p
April								
2	XTC Ltd	1008	200	00	35	00	235	00
16	ELO plc	1018	240	00	42	00	282	00
28	XTC Ltd	1030	150	00	26	25	176	25
30	Total		590	00	103	25	693	25

Sales returns book

Date		Credit Note No	Goods		VAT		Total	
			£	p	£	p	£	p
April								
6	XTC Ltd	C38	20	00	3	50	23	50
23	ELO plc	C42	60	00	10	50	70	50
30	Total		80	00	14	00	94	00

- (a) Complete and balance the account of customer XTC Ltd on 30 April 2005, bring the balance down on 1 May 2005.

XTC Ltd account

Dr				Cr			
Date		£	p	Date		£	p
April				April			
1	Balance b/d	300	00	6	Returns	23	50 ✓
2	Sales	235	00 ✓	30	Balance c/d	687	75 ✓ of
28	Sales	176	25 ✓				
		<u>711</u>	<u>25</u>			<u>711</u>	<u>25</u>
May							
1	Balance b/d	687	75 ✓ of				

(5 marks)

- (b) Ronika has sent an invoice to XTC Ltd. Explain the purpose of this document.

Level	Descriptor	Mark
2	Candidate explains the purpose of an invoice	2 - 3
1	Candidate states purpose of an invoice	1

Examples

- It is a bill 1 mark.
- It is a record of the sale 2 marks.
- It records how much is owed 3 marks.

(3 marks)

- (c) Ronika sent a credit note to XTC Ltd. Explain the purpose of this document.

Level	Descriptor	Mark
2	Candidate explains the purpose of a credit note	2 - 3
1	Candidate states purpose of a credit note	1

Examples

- It is for returns 1 mark.
- It is a record of the return of goods 2 marks.
- It reduces how much how much is owed 3 marks.

(3 marks)

- (d) Ronika will send another business document to XTC Ltd on 30 April 2005. Identify which document this will be and explain the purpose of the document.

Level	Descriptor	Mark
3	Candidate fully explains the purpose of a statement of account	4
2	Candidate partially explains the purpose of a statement of account	2 - 3
1	Candidate states document (statement of account)	1

Examples

- L3 will include link to credit control.
- L2 Ronika will send this document to show how much is owed.

(4 marks)

- (e) Ronika keeps her Petty Cash Book on the imprest system, the imprest being £50. For the month of April 2005 her petty cash transactions were as follows.

			£
April 4	Paid cleaner		10.00
7	Bought petrol		5.00
13	Bought cleaning materials		6.25
21	Bought stamps		4.20
23	Paid bus fare		1.25
24	Receive cash personal telephone call		1.00
29	Bought envelopes		5.60

Enter these transactions into her petty cash book and balance it at the 30 April 2005. Bring the balance down on 1 May 2005 and restore the imprest at that date.

Ignore VAT

Receipts		Date	Details	Total		Postage and Stationery		Travel		Cleaning	
£	p			£	p	£	p	£	p	£	p
20	00	April 1	Balance b/d								
30	00	1	Cash								
		4	Cleaner	10	00 ✓					10	00
		7	Petrol	5	00 ✓			5	00		
		13	Cleaning materials	6	25 ✓					6	25
		21	Stamps	4	20 ✓	4	20				
		23	Bus fare	1	25 ✓			1	25		
1	00 ✓	24	Telephone call								
		29	Envelopes	5	60 ✓	5	60				
				32	30 ✓	9	80 ✓	6	25 ✓	16	25 ✓
		30	Balance c/d (of)	18	70 ✓						
51	00			51	00						
18	70 ✓ (of)	May 1	Balance b/d								
31	30 ✓ (of)	1	Cash								

(14 marks)

2**Total for this question: 31 marks**

David Stokoe has drawn up the following trial balance as at 31 March 2005. It contains a number of errors.

Trial Balance as at 31 March 2005

	Dr	Cr
	£	£
Sales	450 000	
Purchases		290 000
Capital		94 300
Drawings	43 000	
Carriage inwards	4 000	
Carriage outwards	3 000	
Discounts received	1 500	
Discounts allowed		2 300
Office equipment at cost		24 000
Fixtures and fittings at cost		13 000
Provision for depreciation office equipment	4 800	
Provision for depreciation fixtures and fittings		2 600
Premises		80 000
Debtors		50 000
Returns inwards		2 000
Returns outwards	1 000	
Insurance	8 000	
Stock as at 1 April 2004	30 000	
Stock at 31 March 2005		26 000
Heat and lighting	6 000	
Wages and salaries		35 000
Creditors	40 000	
Bank overdraft	12 000	
Cash	1 900	
Sundry expenses	14 000	
	<u>£619 200</u>	<u>£619 200</u>

- (a) Rewrite a corrected trial balance for David.

David Stokoe**Trial Balance as at 31 March 2005**

	Dr	Cr
	£	£
Sales		✓ 450 000
Purchases	✓ 290 000	
Capital		✓ 94 300
Drawings	✓ 43 000	
Carriage inwards	✓ 4 000	
Carriage outwards	✓ 3 000	
Discounts received		✓ 1 500
Discounts allowed	✓ 2 300	
Office equipment at cost	✓ 24 000	
Fixtures and fittings at cost	✓ 13 000	
Provision for depreciation office		✓ 4 800
Provision for depreciation fixtures		✓ 2 600
Premises	✓ 80 000	
Debtors	✓ 50 000	
Returns inwards	✓ 2 000	
Returns outwards		✓ 1 000
Insurance	✓ 8 000	
Stock	✓ 30 000	
Heat and lighting	✓ 6 000	
Wages and salaries	✓ 35 000	
Creditors		✓ 40 000
Bank overdraft		✓ 12 000
Cash	✓ 1 900	
Sundry expenses	✓ 14 000	
	606 200	606 200

Final mark for excluding closing stock

(25 marks)

- (b) State and explain
- two**
- types of error that will not be identified by the preparation of a trial balance.

Errors

- Commission
- Omission
- Principle
- Compensating
- Original
- Reversal

Level	Descriptor	Mark
3	Candidate fully explains the error – link to trial balance	3
2	Candidate partially explains the error	2
1	Candidate states error	1

(6 marks)

Apply twice

3**Total for this question: 25 marks**

The following list of balances appeared in the books of Priyesh Mistry at 31 March 2005.

	£
Carriage inwards	5 600
Carriage outwards	6 000
Debtors	40 000
Discounts allowed	2 200
Discounts received	3 700
Heating and lighting	9 000
Insurance	6 000
Motor expenses	13 000
Motor vehicles at cost	60 000
Office equipment at cost	16 000
Purchase returns	12 000
Purchases	380 000
Rent received	4 800
Sales returns	15 000
Sales	600 000
Stock at 1 April 2004	45 000
Stock at 31 March 2005	50 000
Sundry expenses	4 400
Wages	23 000

The following additional information is available:

1. Insurance of £500 has been paid in advance.
2. Sundry expenses of £300 are owing.
3. Depreciation is to be provided for on both motor vehicles and office equipment at 25% on cost.
4. A provision for doubtful debts of 5% of debtors is to be created.

- (a) Prepare Priyesh Mistry’s trading and profit and loss accounts for the year ended 31 March 2004.

Priyesh Mistry

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

	£	£	
Sales		✓ 600 000	
less sales returns		✓ 15 000	
net sales		✓ 585 000	
less cost of sales			
Opening stock	✓ 45 000		
add purchases	✓ 380 000		
add carriage inwards	✓ 5 600		
less purchase returns	✓ (12 000)		
	418 600		
less closing stock	✓ 50 000	✓ 368 600	
Gross profit		✓ 216 400	
add Discounts received		✓ 3 700	
add Rent received		✓ 4 800	
		✓ 224 900	o/f
less Expenses			
Carriage outwards	✓ 6 000		
Discounts allowed	✓ 2 200		
Motor expenses	✓ 13 000		
Insurance	✓ 5 500		
Heating and lighting	✓ 9 000		
Sundry expenses	✓ 4 700		
Wages	✓ 23 000		
Provision for doubtful debts	✓ 2 000		
Pro for Depn - Motor vehicles	✓ 15 000		
Pro for Depn - office equipment	✓ 4 000	✓ 84 400	o/f
Net Profit		✓ 140 500	o/f

(25 marks)

4

Total for this question: 10 marks

James Brady owns a business with a financial year that ends on 31 December. He purchased a delivery van by cheque for £40 000 on 1 January 2002. Depreciation was charged on the delivery van at 20% p.a. on cost. The delivery van was sold on 30 June 2004, payment by cheque of £26000. Depreciation was not charged in the year of disposal.

- (a) Show the relevant entries to show the sale of the delivery van in the delivery vans disposal account for the year ended 31 December 2004.

Delivery Van's Disposal Account

Dr			Cr		
2004		£	2004		£
30 June	Delivery van	✓ 40000	30 June	Bank	✓ 26000
31 Dec	Profit + Loss ✓ of	✓ 2000	30 June	Provision for depn	✓ 16000
		42000			42000

(5 marks)

- (b) James cannot understand why adjustments for provision depreciation should be made in his books of account. State and explain the effect of depreciation on the profits and assets of his business.

Maximum 3 marks for stating effects

- Reduces net profit
- Reduces value of fixed assets
- Business worth less

Development marks and comments on the following

- 1 mark for each development
- True and fair view
- Non cash expense

Total maximum 5

(5 marks)

5

Total for this question: 25 marks

The following information is available for ELP plc at 31 March 2005. All sales and purchases are on credit and all invoices should be paid within 30 days.

	£
Sales	500 000
Stock 1 April 2004	42 000
Stock 31 March 2005	38 000
Purchases	375 000
Cost of sales	379 000
Gross Profit	121 000
Net profit	60 000
Capital employed	600 000
Cash at Bank	2 000
Debtors	30 000
Creditors	40 000

Using the above information calculate:

- (i) the current ratio.

$$70\,000 / 40\,000 \checkmark = 1.75:1 \checkmark$$

(2 marks)

- (ii) the acid test ratio.

$$32\,000 \checkmark / 40\,000 \checkmark = 0.8:1 \checkmark$$

(3 marks)

- (iii) the percentage of gross profit to sales ratio.

$$121\,000 / 500\,000 \checkmark \times 100 = 24.2\% \checkmark$$

(2 marks)

- (iv) the percentage of net profit to sales ratio.

$$60\,000 / 500\,000 \checkmark \times 100 = 12\% \checkmark$$

(2 marks)

- (v) the net profit to capital employed ratio.

$$60\,000 / 600\,000 \checkmark \times 100 = 10\% \checkmark$$

(2 marks)

- (vi) the rate of stock turnover.

$$379\,000 / 40\,000 \checkmark = 9.47 \text{ or } 9.48 \text{ times } \checkmark$$

(2 marks)

- (vii) debtor collection period

$$30\,000 / 500\,000 \times 365 \checkmark = 22 \text{ days } \checkmark$$

(2 marks)

(viii) creditor payment period

$$40\,000 / 375\,000 \times 365 \checkmark = 39 \text{ days } \checkmark$$

(2 marks)

Additional Information

The following ratios for a close competitor DMC plc have been calculated.

	DMC	ELP
Current ratio	1.6:1	1.75:1
Acid test ratio	1.1:1	0.8:1
The percentage of gross profit to sales ratio	23%	24.2%
The percentage of net profit to sales ratio	10%	12%
Return on capital employed ratio	9%	10%
Rate of stock turnover	12 x	9.47 x
The debtor collection period	24 days	22 days
The creditor collection period	32 days	39 days

- (i) Which business performed better during the year ended 31 March 2005? Use the ratios that you have calculated for ELP plc and the ratios provided for DMC plc to justify your answer.

The ratios are quite similar so candidates can argue for either business on mark per point
Answers could include

ELP has

- cash flow problems
- Slightly better GP margin
- Better MP margin
- Better ROCE
- Slower stock turnover
- Collects debts faster
- Pays creditors quicker

DMC opposite of above

Recommendations “better because”

References to stock