

Mark Scheme with Examiners' Report

GCE O Level Accounting (7011)

June 2005

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ACCOUNTING 7011, MARK SCHEME

Question 1

(a)(i) Purchases Day Book

		Goods		VAT		Total	
Apr 9	Sparkes Ltd	12 000	✓C				
	Less trade discount 25%	3 000	✓OF				
	<i>(if TDisc not shown)</i>	9 000	✓OF	900	✓OF	9 900	✓OF

If purchase of office equipment included in PDB disallow all marks in Gen Journal.

(ii) Sales Day Book

		Goods		VAT		Total	
Apr 16	Wyre Ltd	1 000	✓C	95	✓✓C	1095	✓OF

(iii) Returns Outward Day Book

		Goods		VAT		Total	
Apr 28	Sparkes Ltd	240	✓C				
	Less trade discount 25%	60	✓OF				
	<i>(if TDisc not shown)</i>	180	✓OF	18	✓OF	198	✓OF

(iv) Cash Book

		Disc All	Bank			Disc Rec	Bank	
Apr 1	Balance b/d		4 000	✓C	Apr 3	Sparkes	3640	✓C
Apr 6	Pylon Ltd	35✓ C	665	✓C	Apr 10	Insurance	1 560	✓C
Apr 15	Sales (inc VAT)		11 000	✓C	Apr 11	Current Ltd	40	✓ C
					Apr 26	Telephone (inc VAT)	154 (140)	✓✓C (✓)OF
					Apr 28	Pylon Ltd	665	✓C
					Apr 30	Charges	62	✓C

If discount 35 is included under discount received column on Apr 28 penalise by removing the ✓ for £665 credit bank column

(v) General Journal

		Debit	Credit
Apr 23	Office equipment	4 000✓C	
	VAT	400✓C	
	Top Equipment & Co		4 400✓C
Being purchase of office equipment on credit/			

30 x 3 = 15 marks

(b) Sales Ledger

Wyre Ltd							
		£					
Apr 1	Balance b/d	900	✓C				
Apr 16	Sales	1 095	✓OF				

Pylon Ltd							
		£					
Apr 1	Balance b/d	700	✓C		Apr 6	Bank	665 ✓OF
Apr 28	Bank	665	✓OF		Apr 6	Disc All	35 ✓OF
Apr 28	Disc All	35	✓✓C				

8 x ✓ = 4 marks

(c) (i) VAT Account

VAT							
		£					
Apr 23	Top Equip & Co	400	✓C		Apr 15	Bank(sales)	1 000 ✓C
Apr 26	Bank (telephone)	14	✓OF		Apr 30	Sales/Wyre	95 ✓OF
Apr 30	Purchases/Sparkes	900	✓OF		Apr 30	Returns out	18 ✓OF
					Apr 30	Balance c/d	201 ✓OF (nc)
		<u>1314</u>				<u>1314</u>	
May 1	Balance b/d	<u>201</u>	✓OF				

8 x ✓ = 4 marks

✓ is for figure and narration ...as usual narration should indicate double entry ...day book not acceptable

eg on debit side on Apr 30 ...accept purchases/Sparkes/creditors/sundry creditors/sundries

on Apr 26 bank is the key word ...do not accept telephone ...accept cash

on Apr 15 bank is the key word ...do not accept sales ...accept cash

on Apr 30 credit side accept sales/Wyre/debtors/sundry debtors/sundries

on Apr 30 accept returns outward/returns/Sparkes/sundry

creditors/creditors/sundries

(c) (ii)

The closing balance on the VAT account means that the tax authority owes £201 ✓OF to the business ✓.

2 x ✓ = 1 mark

(Total 24 marks)

Question 2

Debit or credit must be correct. Figure must be correct and in correct column. ONLY award capital figure mark if correct.

X		Amount £	Dr. £	Cr. £
B✓	Capital			744 300✓C
T✓	Sales	500 000		500 000✓
M✓	Stocks, 1 May 2004: raw materials	22 000	22 000✓	
T✓	finished goods	35 000	35 000✓	
M✓	Returns outwards	900		900✓
B✓	Sundry debtors	12 000	12 000✓	
B✓	Sundry creditors	16 500		16 500✓
B✓	Bank loan	30 000		30 000✓
B✓	Petty cash	45	45✓	
B✓	Bad debts provision at 1 May 2004	240		240✓
M✓	Carriage on purchases	255	255✓	
P✓	Carriage outwards	2 900	2 900✓	
P✓	Discount received	160		160✓
B✓	Drawings	35 000	35 000✓	
M✓	Factory power, lighting and heating	2 500	2 500✓	
M✓	Factory wages	95 000	95 000✓	
B✓	Factory premises	500 000	500 000✓	
B✓	Office equipment	15 900	15 900✓	
B✓	VAT owing	2 500		2 500✓
P✓	Office salaries	27 000	27 000✓	
B✓	Plant and machinery	300 000	300 000✓	
M✓	Purchases	340 000	340 000✓	
B✓	Provision for depreciation on plant & machinery	90 000		90 000✓
B✓	Provision for depreciation on office equipment	3 000		3 000✓
			1 387 600	1 387 600

48 X ✓ = 24 marks

Question 3

(a) *Where 2 ✓ split between DIRECTION and FIGURE*

Item	Trial balance	Net profit
(i)	Credit side would exceed debit side by £360	Higher than it should be, by £360
(ii)	Credit side would exceed debit side by £400 ✓C	No effect ✓C
(iii)	No effect C	Lower than it should be by £160 ✓✓
(iv)	No effect ✓	Lower than it should be by £800 ✓✓
(v)	Credit side would exceed the debit side by £100 ✓✓	Higher than it should be by £100 ✓✓
(vi)	Credit side would exceed the debit side by £500 ✓✓	Higher than it should be by £500 ✓✓
(vii)	No effect ✓	No effect ✓

18 x ✓ = 9 marks

(b)

If a suspense account had been opened to make the trial balance agree, how much would the suspense account balance have been and on which side?

Since the credit side in total would exceed the debit by (£360 + £400 + £100 + £500) £1 360, the suspense account would have needed a debit balance ✓OF of £1 360 ✓OF. Proved by any two entries in (c) ✓✓.

If no working as above, award marks if consistent with suspense account.

4 x ✓ = 2 marks

(c) **Suspense Account**

Balance b/d	1 360	Bad debts	360 ✓C
		Janet Andrews	200 ✓C
		Julie Andrews	200 ✓C
		Returns inward	100 ✓C
		Discount received	250 ✓C
		Discount allowed	250 ✓C
	<u>1 360</u>		<u>1 360</u>

4 x ✓ = 2 marks

(Total 13 marks)

Question 4

(a) (i)

Return on Capital Employed	=	Net Profit	✓	
		Capital Employed	✓	

(ii)

Rate of Stock turnover	=	Cost of sales	✓	
		Average stock	✓	

Formula can be reversed providing it is multiplied by relevant factor, eg 365 52
12 4

4 x ✓ = 2 marks

(b) (i) Calculate the net profit for 2004

Net Profit to Sales	=	Net Profit		
		Sales		

15	=	Net Profit		
100 ✓ for both		£180 000 ✓		

15 x £180 000	=	Net Profit		
100				

Net Profit	=	£27 000	✓✓	
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4 x ✓ = 2 marks

(b) (ii) Calculate the mark up for 2004
Margin is 33.33% so

Let Cost price =	£2	Mark up 50% ✓✓
So Profit must be	£1	
And Selling price	£3	Margin 33.3% ✓✓

4 x ✓ = 2 marks

(c)

Liquidity measures the firm's ability to pay its debts ✓ as they fall due. The current ratio in 2004 is 2:1 3.

Profitability is a measure of how successful the firm is compared to sales/capital employed etc ✓. Net profit to sales figure in 2004 is 15% ✓.

No figures = maximum ONE ✓ for each

4 x ✓ = 2 marks

(d)

Evaluation of performance between 2004 and 2005

Conclusion

Decision based on evidence ✓✓.

Comment on profitability ✓ with figure ✓ and further ✓✓ for development.

Comment on liquidity ✓ with figure ✓ and further ✓✓ for development.

Or

Comment on eg rate of stock turnover ✓ ...with figure ✓ and further ✓ for development.

Example answer

The return on capital employed is a key profitability ratio and this has increased (from 20% to 22%) ✓ (for figure). This means that the return on the investment in the business has improved ✓ (for comment). Perhaps advertising was increased thus lowering the NP% but boosting sales volume ✓✓ (for development).

The rate of stock turnover has moved up from 8 times to 10 times ✓ (for figure). This means that Chris is selling goods more quickly ✓ (for comment). Perhaps this was generated by lowering selling price to increase sales volume ✓✓ (for development).

Or

The current ratio has moved from 2:1 to 1.5:1 ✓ (for figure). Debts can be paid as they fall due ✓ (for comment) ...and although this is tighter ...it is not critical. ✓✓ (for development).

Question 5

(a) (i)
Calculation of Total Sales

Trade Debtors Account			
Balance b/d	940 ✓C	Bank	8 460 ✓C
Sales	8 500 ✓OF	Balance c/d	980 ✓C
	<u>9 440</u>		<u>9 440</u>

Credit sales	8 500 ✓OF
Cleaning shop windows	300 ✓C
Cash sales	202030 ✓C
Total Sales	<u>210 830 ✓OF</u>

8 x ✓ = 4 marks

(ii) Rent Account

Balance b/d	600 ✓C	Profit and loss	7 780 ✓OF
Bank	7 900 ✓C	Balance c/d	720 ✓C
	<u>8 500</u>		<u>8 500</u>

4 x ✓ = 2 marks

(iii) Stock Account

Balance b/d	14 400 ✓C	Trading	14 400 ✓OF
Trading	21 000 ✓C	Balance c/d	21 000 ✓OF

4 x ✓ = 2 marks

(b)

Up to ✓✓✓✓ for points made in example

Up to ✓✓ for a point against

Up to ✓✓✓✓ for conclusion

If just explained prudence concept, ie conclude: profits of a business should never be overstated ✓✓. Further ✓✓ if example taken from Joan's Business.

Award ✓ for (eg) don't count your chickens before they hatch.

Example answer

Example of Prudence from the Accounts such as: Wages, stock valuation or provision for bad debt. ✓✓✓✓ maximum for one example eg

Debtors ✓ are not over estimated ✓ by providing bad debt provision ✓ based upon age of debtors or nature of the business ✓.

Stock valuation ✓ is valued at cost not selling price ✓ or the lower of cost or net realisable value ✓✓.

Wages ✓ are adjusted by the accrual ✓ thus ensuring all expenses are recognised in the accounting period ✓ (note only three ✓ awarded for this example).

Explanation of limitations ✓✓.

Overall, it is essential that prudence is applied to give an accurate profit 33 and a true and fair balance sheet ✓✓.

10 x ✓ = 5 marks

(Total 13 marks)

Question 6

✓ is for figure and correct narration

Balance Sheet at 31 December 2005

	£000	£000	£000
Fixed Assets			530 ✓C
Current Assets			
Stock	30 ✓C		
Trade debtors	18 ✓C		
Prepayments	3 ✓C		
Cash at bank	26 ✓C	77 ✓OF(NC)	
Less Current Liabilities			
Creditors	14 ✓C		
Commission received in advance	2 ✓✓C		
Loan stock interest in arrears	6 ✓✓C		
Proposed ordinary share dividend	30 ✓✓C		
Proposed preference share dividend	4 ✓✓C		
Expenses owing	9 ✓C	65 ✓OF(NC)	
Working capital			12 ✓OF
			<u>542</u>

	£000	£000
Issued Capital		
Issued ordinary shares (£1 each, fully paid)	300 ✓C	
Issued 8% preference shares (50p each, fully paid)	50 ✓C	350 ✓OF
Profit and loss account (-30 ✓OF -4 ✓OF)		170F
Share premium		25 ✓C
Shareholders' funds		392 ✓OF (NC)
Loan stock (10%)		150 ✓C
		<u>542</u>

26 x ✓ = 13 marks

ACCOUNTING 7011, CHIEF EXAMINER'S REPORT

General Comments

This was the first paper on the Revised Specification. The revisions gave additional weighting to evaluation and made the accounting process more realistic by including taxation (Value Added Tax). Accounting concepts were also brought into sharper focus by the revisions. Each of these three areas caused some difficulty to candidates and contributed to a lower average mark. For the first time, all questions were compulsory, enabling the assessment process to make the same demands on every candidate.

Question 1

Apart from the cash book, books of original entry continue to cause problems for most candidates. The requirement to deal with VAT and trade discount proved challenging, especially in the sales day book. Only a handful of candidates recognised that when cash discount is shown on the invoice, VAT is calculated net of the cash discount.

The operation of the General Journal is not widely understood. Many candidates included the purchase of the office equipment in the purchases day book, rather than the General Journal.

In general terms, the ledger is better understood than the day books. However, incorrect ledger narrations were frequent. The key to mastery of double entry is to understand that the narration gives the name of the other account. This means that the word 'sales' may be a correct narration whereas 'sales day book' is not. Narrations proved problematic for the dishonoured cheque and especially in the VAT account. Centres are advised to check through the mark scheme to note whether their approach is an acceptable one.

Question 2

Although it was very rare to find a perfect response, the average mark on this question was high. This shows a good ability to prepare a trial balance and allocate items to final accounts (including the manufacturing account). Items causing most difficulty were: provisions for bad debts and depreciation; carriage; and returns outwards. Candidates should recognise that when provisions are shown in the trial balance they are liabilities to be recorded in the credit column of the trial balance and in the balance sheet. Carriage, whether on purchases or on sales (outwards), is expenses.

Question 3

This type of question - requiring an understanding of the effect of mistakes on the trial balance and the preparation of a suspense account - is standard in accounting examinations. It is clear that most candidates understand the effects because the numbers given are often correct. Using words to convey the analysis is, of course, more difficult. General advice is to try to stick to the wording used in the example.

Question 4

Marks were not high on this question. This was anticipated because half the question was devoted to explanation and evaluation, giving the most able candidates their opportunity to show what they could do. Only a very small number of candidates understood the term 'mark up' and could convert from margin to mark up.

In part (c), profitability required the candidate to link profit with some other item like sales or capital employed. Some just said “profitability is the amount of profit you make”. Again, in general terms it would be useful for candidates to think of making the point and then follow this up with brief development (please study the mark scheme).

In part (d), the command word *evaluate* was key. This means to give items in favour and against and draw a conclusion. The question was specific in asking candidates to give reasons backed up with figures. Marks were awarded for a comment and a figure and a point of development. Only the very best candidates included a point of development. Centres will need to tackle evaluation in a systematic way to improve marks. This will also help with preparation for other subjects and with A Level Accounting, for those who choose to go on further. The very best candidates provided the sort of answer given in the mark scheme, and this quality of approach and development of points should be a target for all.

Question 5

The calculation of sales including the preparation of the total debtors account was well done by many. However, candidates must avoid incorrect abbreviation. For example instead of ‘balance b/d’ simply ‘b/d’ was written. In the rent account, instead of writing ‘balance b/d’, some wrote ‘prepaid b/d.’ Usually such abbreviation was made by weaker candidates whose rent account was attracting few marks anyway. Nevertheless the message should be understood that it is dangerous to abbreviate because marks may be lost.

Stock is an unusual account and only the very best candidates had an awareness of how it needed to appear.

Evaluating the importance of prudence also proved difficult to many candidates. However the best candidates did well. These selected stock or provision for bad debts and showed, for example, why it was important to value stock at cost or net realisable value and the impact if this was not done. In other words, candidates evaluated by analysing the strengths and weaknesses of the approach and made a judgement about the overall value of prudence.

Question 6

This question was well done by most candidates. There were many examples of excellent balance sheets. The adjustments caused difficulty for some, especially the impact on profit. Shareholders’ funds is not widely understood as a heading and narrations for issued capital lacked full detail. The weakest candidates were not able to re-sort the current assets and the current liabilities.

ACCOUNTING 7011, GRADE BOUNDARIES

Grade	A	B	C	D	E
Lowest mark for award of grade	60	49	38	33	26

Note: Grade boundaries may vary from year to year and from subject to subject, depending on the demands of the question paper.

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