

Mark Scheme Summer 2008

GCE

GCE O level Accounting (7011/01)

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Question Number	Answer	Mark
1(a)(i)-(iv)	Each mark is for a correct narration and figure. Dates can be ignored	(18)

(i) Purchases Day Book

	£	£	£
	Goods	VAT	Total
4 April Superstrings	3 200 /C		
Less 25% trade discount	(800) /C		
	2 400 /OF	240 /OF	2 640 /OF

5 marks

(ii) Sales Day Book

	£	£	£
	Goods	VAT	Total
10 April Harmony	1 400 /C		
Less 20% trade discount	(280) /C		
	1 120 /OF	112 /OF	1 232 /OF

5 marks

(iii) Returns Inwards Day Book

	£	£	£
	Goods	VAT	Total
18 April Harmony	150 /C		
Less 20% trade discount	(30) /C		
	120 /OF	12 /OF	132 /OF

5 marks

In each case the OF are given as follows:

The after-discount goods figure: for the original goods figure minus the trade discount

The VAT: for 10% of the final goods figure

The total: for the final goods figure plus the VAT

(iv) General Journal

	Debit	Credit
	£	£
2 April Shop fittings/fixtures	4 200 /C	
VAT	420 /C	
Shop Space		4 620 /C
Purchase of shop fittings on credit from Shop Space		

3 marks

Total 18 marks

Question Number	Answer	Mark
1(b)		(14)

Cash Book

	Disc All	Cash	Bank		Disc Rec	Cash	Bank
	£	£	£		£	£	£
1.4 Capital			6 000 /C	1.4 Rent			1 500 /C
5.4 Bank		300 /C		3.4 Computer			800 /C
8.4 Sales		1 100 /C		5.4 Cash			300 /C
24.4 Harmony	50		1 050 /C	14.4 Wages		180 /C	
30.4 Cash			870 /OF	20.4 Drawings		250 /C	
				26.4 Superstrings	40		2 600 /C
				30.4 Bank		870 /OF	
				30.4 Balance c/f		100 /C	2 720 /OF
	<u>50</u>	<u>1 400</u>	<u>7 920</u>		<u>40</u>	<u>1 400</u>	<u>7 920</u>
1.5 Balance b/f		100	2 720				

The OF figure for the cash transfer on the 30th to the bank account is for the same figure as that taken from the cash account on the credit side.

The mark for Harmony on 24th and for Superstrings on 26th is for a correct Bank figure with any Discount figure. The Discount column must be headed 'Discount' ignoring 'Allowed' and 'Received' if wrong.

Award the 870 OF on the credit side only if the correct cash balance of 100 is shown. The OF debit must be the same as the OF on the credit side. Where OF is clearly arithmetically wrong do not award the mark for the Credit entry.

Accept abbreviations 'bal' and 'b' if accompanied by appropriate 'c/f' or 'b/f'. 'Balance' or 'bal' on its own without 'c/f' or 'b/f' is insufficient for a mark.

Ignore contamination in cash book as a whole.

14 marks

Question Number	Answer	Mark
1(c)(i)-(iii)		(12)

(i) Harmony Account

	£		£
10.4 Sales	1 232 /OF	18.4 Returns	132 /OF
		24.4 Bank	1 050 /OF
		24.4 Discount allowed	<u>50 /OF</u>
	<u>1 232</u>		<u>1 232</u>

4 marks

(ii) Superstrings Account

	£		£
26.4 Bank	2 600 /OF	4.4 Purchases	2 640 /OF
26.4 Discount Received	<u>40 /OF</u>		
	<u>2 640</u>		<u>2 640</u>

3 marks

(iii) VAT Account

	£		£
2.4 Shop Space	420 /OF	8.4 Cash	100 /C
4.4 Superstrings	240 /OF	10.4 Harmony	112 /OF
18.4 Harmony	<u>12 /OF</u>	30.4 Balance c/f	<u>460</u>
	<u>672</u>		<u>672</u>
1.5 Balance b/f	460		

5 marks

Alternative narrations:

- 2.4 Shop Space / Shop Fittings / Journal
- 4.4 Superstrings / Purchases / Purchases Day Book
- 8.4 Cash / Cash Book / Sales (not Sales Day Book)
- 10.4 Harmony / Sales / Sales Day Book
- 18.4 Harmony / Returns Inwards / Returns Inwards Day Book

If Cash and Harmony totalled as sales 212 award both marks. If combined figure includes wrong Cash but OF Harmony award 1 mark.

To score OF marks, candidates must use their own final figures from the day books.

Total 12 marks

Question Number	Answer	Mark
1(d)(i)	You can not pay more than you have got (1 mark) - numerical example or further clarification (1 mark) Or A credit balance is a negative balance (1 mark) - you can not have negative cash (or equivalent comment) (1 mark) 2 marks	(2)

Question Number	Answer	Mark
1(d)(ii)	Drawings 2 marks	(2)

Question Number	Answer	Mark
2(a)		(8)

Journal

	£	£
	Debit	Credit
Electricity	120 /C	
Insurance		120 /C
Correction of error of including electricity in the insurance account / error of commission		
Bank	400 /C	
Debtors		400 /C
Correction of error of omission (of payment by debtor)		
Drawings	800 /C	
Purchases		800 /C
Correction of error of treatment of drawings as purchases / error of principle		

// for three reasonable narrations 2 or 0
 All three narrations must be present for 2 ticks
 Accept description or type of error

8 marks

Question Number	Answer	Mark
2(b)		(24)

Kim Lee Trading & Profit & Loss Account for the year ended 31 December 2007

	£	£
Sales		310 129 <i>∫C</i>
Less returns inwards		<u>(192) <i>∫C</i></u>
		309 937
Opening stock	5 400 <i>∫C</i>	
Purchases (£202 000 - £800)	201 200 <i>∫∫C</i>	
Less returns outwards	(478) <i>∫C</i>	
Carriage on purchases	410 <i>∫C</i>	
Less closing stock	(6 300) <i>∫C</i>	
Cost of sales		<u>(200 232)</u>
Gross profit		109 705 <i>∫OFNC</i>
Discounts received		789 <i>∫C</i>
Discounts allowed	915 <i>∫C</i>	
Carriage on sales	635 <i>∫C</i>	
Electricity (1250 + 120)	1 370 <i>∫∫C</i>	
General office expenses	4 624 <i>∫C</i>	
Insurances (£520 - £120 - £70)	330 <i>∫∫∫</i>	
Rent	6 400 <i>∫C</i>	
Wages (£14 300 + £200)	14 500 <i>∫∫</i>	
Depreciation on equipment	3 840 <i>∫C</i>	
Depreciation on office furniture	<u>1 350 <i>∫C</i></u>	
		<u>(33 964)</u>
Net profit		<u>76 530 <i>∫OFNC</i></u>

Purchases: £201 200 *∫∫*; £202 000 *∫*; £202 800 *∫*

Electricity: £1 370 *∫∫*; £1 250 *∫*; £120 *∫*; £1 130 *∫*

Insurances: £330 *∫∫∫*; £400 *∫∫*; £520 *∫*; £450 *∫∫*; any other figures must be explained by workings

Wages: £14 500 *∫∫*; £14 300 *∫*; £200 *∫*; £14 100 *∫*

Depreciation: £5190 *∫∫*

24 marks

Question Number	Answer	Mark
2(c)		(16)

Kim Lee Balance Sheet as at 31 December 2007

	£	£	£
Fixed assets	Asset at cost	Acc Dep	NBV
Equipment	38 400	(7 040)	31 360 /C
Office furniture	13 500	(2 350)	11 150 /C
			<u>42 510</u>
Current assets			
Stock	6 300 /C		
Debtors (£45 900 - £400)	45 500 /J		
Insurance prepaid	70 /C		
Bank (- 250 + 400)	<u>150 /J</u>		
		52 020 /OFNCSH	
Current liabilities			
Creditors	31 600 /C		
Wages owing	<u>200 /C</u>		
		(31 800) /OFNCSH	
Working capital			<u>20 220</u>
			<u>62 730</u>
Capital			23 000 /C
Net profit			76 530 /OF
Drawings (£36 000 + £800)			(36 800) /J
			<u>62 730</u>

Fixed assets: marks depend on asset at cost and accumulated depreciation being shown
 Debtors: £45 500 /J; £45 900 /; £46 300 /
 Bank: £150 /J; -£250 /; - £650 /; +£650 /
 Drawings: £35 200 /; £36 000 /

16 marks

Question Number	Answer	Mark
3(a)(i)		(14)

Scoupa Ltd Manufacturing Account for the year ended 31 March 2008

	£	£
Opening stock of raw materials		850 /C
Purchases of raw materials	128 000 /C	
Less returns of raw materials	(750) /C	
		127 250
Carriage on raw materials		2 600 /C
Less closing stock of raw materials		<u>(1 300) /C</u>
Cost of raw materials consumed		129 400 /OFNC
Factory wages		<u>64 000 /C</u>
Prime cost		193 400 /OFNC
Indirect factory overheads	7 500 /C	
Rent and rates (75%)	9 000 /C	
Depreciation on factory equipment	<u>3 000 /C</u>	
		19 500
		212 900
Work in progress 1.4.2007		630 /C
Less work in progress 31.3.2008		<u>(320) /C</u>
Manufacturing cost of finished goods		<u>213 210 /OFNC</u>

WIP 310 //

14 marks

Question Number	Answer	Mark
3(a)(ii)		(6)

Scoupa Ltd Trading Account for the year ended 31 March 2008

	£	£
Sales		240 000 /C
Opening stock finished goods	920 /C	
Manufacturing cost of finished goods	213 210 /OF	
Less closing stock finished goods	<u>(1 420) /C</u>	
Cost of sales		<u>(212 710) /OFNC</u>
Gross profit		<u>27 290 /OF</u>

Items must be in the correct sections in order to score marks.

6 marks

Question Number	Answer	Mark
3(b)	<p>Value falling / wear and tear / obsolescence (1 or 2 marks) Spread the cost over the years of useful life (1 or 2 marks) Better picture of value of business / net book value of assets (1 or 2 marks) Not overstating profit (1 or 2 marks)</p> <p>In all the above, 1 mark for statement, 2 marks for statement + development. Mention of accruals or matching concept. (1 mark) Mention of prudence or conservatism concept. (1 mark) Maximum 6 marks.</p> <p style="text-align: right;">6 marks</p>	(6)

Question Number	Answer	Mark
4(a)(i)-(ii)	<p>(i) Return on capital employed:</p> <p>Lagos: $[300 - (160 + 30)] / 800 = 13.75\%$ (2 marks) Nairobi: $[600 - (380 + 90)] / 1,300 = 10\%$ (2 marks)</p> <p>Accept 13.7, 13.8 or 14 and accept as decimals e.g. 0.1375 and fractions. Do not accept if shown as ratio e.g. 0.1375 : 1 incorrect but 1 mark for workings.</p> <p>(ii) Acid test ratio</p> <p>Lagos: $(10 + 5) : 15 = 1 : 1$ (2 marks) Nairobi: $24 : (18 + 14) = 0.75 : 1$ (2 marks)</p> <p>Accept 3 : 4 or 1 : 1.333 or any equivalent ratio.</p> <p>2 marks if correct (no workings required) 1 mark if correct working figures but wrong answer.</p> <p style="text-align: right;">8 marks</p>	(8)

Question Number	Answer	Mark
4(b)	<p>A simple statement comparing the liquidity positions eg L has better liquidity than N / L has a higher acid test ratio than N. (2 marks)</p> <p>A statement comparing the liquidity positions with comments eg L has an ideal acid test ratio but N risks not being able to pay its creditors. (3 marks)</p> <p>Further comment on the wider liquidity position eg N has a higher current ratio (2.9 as compared to 1.8 for L). (2 marks)</p> <p>But is relying heavily on stocks, which are not very liquid. (1 mark)</p> <p style="text-align: right;">8 marks</p>	(8)

Question Number	Answer	Mark
4(c)	<p>A statement showing the importance of cash eg a business must have enough cash to be able to pay its short-term debts. (2 marks)</p> <p>A statement showing the importance of profit eg it must also make enough profit to be able to pay a return to its owners. (2 marks)</p> <p>A statement on the relationship between cash and profitability eg the more profitable an asset the less liquid it is and vice versa. (2 marks)</p> <p>A conclusion expressing judgement eg so a business must achieve a balance between liquidity and profitability. (2 marks)</p> <p>The conclusion may appear anywhere in the answer but must be supported e.g. 'because....'</p> <p>An extension of this conclusion eg and it should achieve a minimum of each. (2 marks)</p> <p>Alternatively: The consequences of not having enough profit. (2 marks) The consequences of not having enough cash. (2 marks)</p> <p style="text-align: right;">10 marks</p>	(10)

Question Number	Answer	Mark
5(a)(i)	<ul style="list-style-type: none"> • Prudence or • Conservatism <p style="text-align: right;">2 marks</p>	(2)

Question Number	Answer	Mark
5(a)(ii)		(6)

Bad Debts Account

	£		£
Louis Swiss / Debtor ✓	500/C		

2 marks

Provision for Doubtful Debts Account

	£		£
Balance c/f ✓	350 C/	Balance b/f	200 C/
	<u>350</u>	Profit & Loss	<u>150 OF/</u>
			<u>350</u>

Credit side 1 mark for narration and amount.

4 marks

Total 6 marks

Question Number	Answer	Mark
5(a)(iii)	<p>Treatment of the change in the provision for doubtful debts:</p> <ul style="list-style-type: none"> • Profit and Loss Account - Debit (2 marks) with £150 OF (2 marks) • Balance Sheet - Deduct £350 (2 marks) from the debtors (2 marks) <p style="text-align: right;">8 marks</p>	(8)

Question Number	Answer	Mark
5(b)	<p>The debtors' collection period = (Net debtors / sales) × 365</p> <p>$(7,000 / 200,000) \times 365 = 12.775$ i.e. 13</p> <p>3 marks if answer shown in any incorrect unit, e.g. percentage 2 marks for the correct formula only</p> <p>If wrong debtors figure 7500 used: 2 marks for $(7,500 / 200,000) \times 365 = 13.68 / 14$ 3 marks if formula also stated</p> <p style="text-align: right;">4 marks</p>	(4)

Question Number	Answer	Mark
5(c)(i)	<p>Possible methods of encouraging prompt payment:</p> <ul style="list-style-type: none"> • Cash discount for prompt payment (do not accept trade discount) • Charge interest on overdue bills • Withdraw credit • Threaten legal action <p>2 marks for a suitable method.</p> <p style="text-align: right;">2 marks</p>	(2)

Question Number	Answer	Mark
5(c)(ii)	<p>Disadvantages: up to 4 marks depending on level of detail.</p> <p>Examples:</p> <ul style="list-style-type: none"> • Allowing a cash discount means that less cash will be received (2 marks) so sales revenue will be lower (2 marks). • Customers might refuse to pay the interest (2 marks) and might withdraw their accounts (2 marks). • Some customers depend on credit (2 marks) and they might reduce or withdraw their orders (2 marks). • Legal action is expensive (2 marks) and causes bad customer relations (2 marks). <p style="text-align: right;">4 marks</p>	(4)

Question Number	Answer	Mark
6(a)		(18)

Tropical Fruits Ltd Balance Sheet as at 31 December 2007

	£	£	£
Fixed Assets			
Buildings at cost		250 000/C	
Equipment at cost	150 000 /C		
Less accumulated depreciation	<u>(70 000) /C</u>		
		<u>80 000</u>	
			330 000 / OFNCSH
Current Assets			
Stocks	22 000/C		
Trade debtors	15 000/C		
Cash	<u>2 000/C</u>		
		39000/ OFNCSH	
Current Liabilities			
Trade creditors	20 000/C		
Dividends and taxes owing	30 000/C		
Bank overdraft	<u>18 000/C</u>		
		<u>(68 000)/ OFNCSH</u>	
Working capital/net current assets			<u>(29,000)/ OFNCSH</u>
			301 000
Less Debentures 2015 8%			<u>(90 000)/C</u>
			<u>211 000</u>
Issued ordinary shares £1 each fully paid			160 000/OF
Share premium account			25 000/C
Profit and loss account			<u>26 000/C</u>
Shareholders' funds			<u>211 000/ OFNCSH</u>

C = Correct

OFNCSH = Own Figure Not Contaminated with Sub-Heading

- If the equipment is given as £80,000, this scores 1 mark. For the second mark, the candidate must show the asset at cost and the depreciation.
- Details of shares and debentures must be given in full, as in the question, in order to score marks.
- Debentures can be added to the shareholders' funds instead of being deducted from net assets. If debentures are included in the Shareholders' Funds figure, the mark for SF is lost.
- All sub-headings must be identified in order to score a mark.

18 marks

Question Number	Answer	Mark
6(b)	<p>Debentures 2015 8%</p> <p>2015: the year the debentures have to be repaid / mature. (2 marks)</p> <p>8%: the rate of interest the company has to pay for borrowing the money. (2 marks)</p> <p style="text-align: right;">4 marks</p>	(4)

Question Number	Answer	Mark
6(c)	<p>Issued ordinary shares £1 each fully paid</p> <p>£1 each: the nominal value of the shares. (2 marks)</p> <p>Fully paid: the shareholders have paid the full value ie the £1. (2 marks)</p> <p style="text-align: right;">4 marks</p>	(4)

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