Mark Scheme Summer 2009

GCE O level Accounting (7011)

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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.

Section A

Question Number	Answer	Mark
1(a)	 Kofi Appiah Sales Day Book	

	£	£	£
	Goods	VAT	Total
Vernon Chan	5 000 √C		
Less 20% trade discount	(1 000) √C	_____	_____
	4 000 √OF	390 √√C	4 390 √OF

(6 marks)

Sales Returns Book

	£	£	£
	Goods	VAT	Total
Vernon Chan	1 000 √C		
Less 20% trade discount	(200) √C	_____	_____
	800 √OF	78 √√C	878 √OF

(6 marks) (12)

Question Number	Answer	Mark
1(b)	Sales Ledger	

Vernon Chan Account

		£			£
1 April	Balance b/f	240 √C	3 April	Bank	230 √C
2 April	Sales	4 390 √OF	3 April	Discount allowed	10 √C
30 April	Bank R/D	3 312 √OF	4 April	Returns	878 √OF
			20 April	Bank	200 √C
			28 April	Bank	3 312 √C
		_____	30 April	Balance c/f	3 312 √OF
		7 942			7 942
1 May	Balance b/f	3 312 √OF			

(10 marks)
(5 marks for complete reversal) (10)

Question Number	Answer	Mark
1(c)	Suppliers allow cash discounts to encourage their customers to pay their outstanding accounts promptly. √√

This improves the supplier's cash flow / liquidity / working capital position. √√ | (4) |

Question Number	Answer	Mark
1(d)	(table below)	(18)

Debit	Details	Credit				
		Total	Office Supplies	Postage	Wages	VAT
88 √C	1.4 Bal b/f					
312 √C	1.4 Bank					
	2.4 Paper	44 √C	40 √C			4 √C
	5.4 Postage	22 √C		22 √C		
	8.4 Toner	132 √C	120 √C			12 √C
	14.4 Wages	150 √C	___	__	150 √C	__
		348	160 √OF	22 √OF	150 √OF	16 √OF
___	14.4 Bal c/f	52 √OF				
400		400 √OF (for both totals)				

The marks in the Debit and Total Credit columns are for correct narration plus figure.

Question Number	Answer	Mark
1(e)	The petty cashier might take the following actions:

• check the petty cash balance √√
• check the petty cash box √√
• tighten the security of the petty cash box procedures √√
• check the vouchers. √√

2 marks for every reasonable suggestion. | (4) |

(Total 48 marks)

Question Number	Answer	Mark
2(a)	Curly Kale Trading & Profit & Loss Account for the year ended 31 March 2009	

		£	£
Sales			516 280 √C
Less sales returns			(621) √C
			515 659
Opening stock		36 190 √C	
Purchases	444 760 √C		
Less returns	(846) √C		
		443 914	
Carriage inwards		1 200 √C	
Less closing stock		(27 380) √C	
Cost of sales			453 924
Gross profit			61 735 √OF
Income from delivery charges			10 500 √C
			72 235
Running expenses			
Rent and rates		7 900 √C	
Insurance (625 √ – 50 √)		575	
Bad debts (340 √ – 30 √)		310	
Carriage outwards		8 175 √C	
Administration expenses		3 122 √C	
Wages (12 600 √ + 400 √)		13 000	
Depreciation on motor vehicles		840 √C	
Depreciation on fixtures and fittings		600 √C	
Depreciation on equipment		1 600 √C	
Provision for doubtful debts		45 √C	
			(36 167)
Net profit			36 068

(22)

Question Number	Answer	Mark
2(b)		

Curly Kale Balance Sheet as at 31 March 2009

	£	£	£
Fixed assets	Asset at cost	Acc Dep	NBV
Motor van	8 400 √C	(2 520) √OF	5 880 √OF
Fixtures and fittings	3 200 √C	(1 800) √OF	1 400 √OF
Equipment	2 600 √C	(1 600) √OF	1 000 √OF
			8 280
Current assets			
Stock	27 380 √C		
Debtors (1 800 – 45)	1 755 √√		
Insurance prepaid	50 √C		
Cash (147 + 30)	177 √√		
		29 362	
Less Current Liabilities			
Creditors	4 674 √C		
Wages owing	400 √C		
Bank	500 √C		
		(5 574)	
Working capital			23 788 √OF
			32 068
Capital			40 000 √C
Add net profit			36 068 √OF
Less drawings			(44 000) √C
			32 068

For each fixed asset accumulated appreciation must be Own Figure from profit and loss account plus the balance brought forward.

(22)

Question Number	Answer	Mark
2(c)	Curly's drawings are £44 000 and her net profit is £36 086, ie the drawings are more than the profit. √√	
	A sole trader should not take out more drawings than the profit made. √√ This is because this reduces the capital figure and also the worth of the business. √√	
	The high level of drawings might explain the bank overdraft. √√ Or some other comment about liquidity, for example working capital is positive but this is because of the high level of stock. Accept OF arguments.	(4)

(Total 48 marks)

Section B

Question Number	Answer	Mark
3(a)(i)	Net profit ratio	

2007	2008
Profit = 56 400 – 40 700 = 15 700 √C	Profit = 92 600 – 72 200 = 20 400 √C
Net profit ratio = (15 700 / 56 400) × 100 = 27.84% √OF	Net profit ratio = (20 400 / 92 600) × 100 = 22.03% √OF

(4)

Question Number	Answer	Mark
3(a)(ii)	Return on capital employed	

2007	2008
ROCE = (15 700 / 30 000) × 100 = 52.33% √OF	ROCE = (20 400 / 30 000) × 100 = 68% √OF

(2)

Question Number	Answer	Mark
3(a)(iii)	Current ratio	

2007	2008
3 660 : 1220 = 3 : 1 √C	2 810 : 2 370 = 1.18 : 1 √C 1.19 acceptable √C

(2)

Question Number	Answer	Mark
3(a)(iv)	Bad debts as a % of debtors	

2007	2008
Debtors = 3 660 / 2 = 1 830 √C	Debtors = 2 810 / 2 = 1 405 √C
(160 / 1 830) × 100 = 8.74% √OF	(560 / 1 405) × 100 = 39.85% √OF
	39.86% acceptable √OF

(4)

Note: Only percentages and ratios accepted for marks, ie decimal equivalents are not acceptable.

(12)

Question Number	Answer	Mark
3(b)	4 marks should be allocated to profitability and 4 marks to liquidity as follows. In each case: 1 mark for stating a change in a profitability / liquidity ratio or figure. 1 mark for making a comment on this change. Up to 2 marks for further analysis of the change or for a balancing statement. 4 marks × 2 = 8 marks. 2 further marks for evaluative comments as to whether the financial performance has improved or not. Sample answer: The ROCE has increased from 52.33% to 68% as there is an increased profit on the same amount of capital. However, although sales have increased, expenses have increased even more and the net profit to sales ratio has fallen. Liquidity has deteriorated since the current ratio has decreased from 3 : 1 to 1.18 : 1, a less than safe position when compared with the accepted benchmark of 2 : 1. The level of bad debts has increased considerably on a lower amount of debtors. The overall position is better since profits and profitability are higher and the product is selling better. Expenses need to be brought under control. Or The overall position is worse since liquidity threatens to become a problem. Bad debts must be reduced by giving credit only where a customer is creditworthy. Here are some further points which candidates might bring into their answers: • Total current assets have decreased while current liabilities have increased. • Total debtors are lower but are the same percentage of total current assets.	(10)

Question Number	Answer	Mark
3(c)	Ways in which a business could increase its working capital include: • bank loan • take on a partner • issue shares • sell fixed assets • sale and leaseback of fixed assets • accept answers which relate to ways of increasing capital in any business. 2 marks for each relevant suggestion × 2 = 4 marks.	(4)

(Total 26 marks)

Question Number	Answer							Mark
4(a)				Cash Book				

Cash Book

		£				£	
Apr 30	Credit transfer	560 √C		Apr 30	Balance b /d	250 √C	
					Internet	120 √C	
					Bank charges	44 √C	
		___			Balance c /d	146 √OF	
		560				560	
May 1	Balance b /d	146 √C					

(6)

Question Number	Answer	Mark
4(b)		

Bank Reconciliation Statement at 30 April 2009

	£	£
Balance as per bank statement √		991√C
Add uncleared cheques:		
Leila Khan	300 √C	
Omar Ali	150 √C	
		450
Less unpresented cheques		
Alpha Supplies Ltd	685 √C	
Omega & Co	410 √C	
		(1 095)
Less correction of bank error		(200)√√C
Balance as per cash book √		146 √OF

(Accept balance as per cash book as starting point).

(10)

Question Number	Answer	Mark
4(c)	Two reasons for the usefulness of a bank reconciliation statement: ∫∫ for each reason or valid comment. For example: • To explain the difference between the balance in the cash book and that on the bank statement. • To correct errors and omissions in the cash book or bank statement. • To protect against fraud. ∫∫ x2 = ∫∫∫∫ Two limitations to the usefulness of a bank reconciliation statement: ∫∫ for each reason or valid comment. For example: • Errors can take place in both versions of the account. • There is a time cost of drawing up a reconciliation statement. • A reconciliation statement would not be necessary if the cash book were always kept up-to-date. ∫∫ x2 = ∫∫∫∫ A balanced conclusion: ∫∫	(10)

(Total 26 marks)

Question Number	Answer	Mark
5(a)	**Computer Account**	(4)

Computer Account

		£			£
Jan 1 07	Bank	3 500 √C	Dec 31 07	Balance c/f	3 500 √C
Jan 1 08	Balance b/f	3 500	Dec 31 08	Disposal √C	3 500 √C

Question Number	Answer	Mark
5(b)	**Provision for Depreciation Account**	(7)

Provision for Depreciation Account

		£			£
Dec 31 07	Balance c/f	2 100 √OF	Dec 31 07	Profit & loss √	2 100 √C
Dec 31 08	Disposal √	2 940 √C	Jan 1 08	Balance b/f	2 100
			Dec 31 08	Profit & loss √	840 √OF
		2 940			2 940

Question Number	Answer	Mark
5(c)	**Disposal of Computer Account**	(7)

Disposal of Computer Account

		£			£
Dec 31 08	Computer	3 500 √C	Dec 31 08	Provision for depreciation	2 940 √OF
				Bank	230 √C
				Tony Rom	200 √√C
				Profit and loss √	130 √OF
		3 500			3 500

Question Number	Answer	Mark
5(d)	Two advantages of the straight-line method √√ for each advantage. Two advantages of the diminishing balance method √√ for each advantage. The advantages of the straight-line method: • It is easier to calculate. • The same figure is deducted from the asset every year. • The residual value can be included in the calculation. • The final balance of the asset comes to zero. The advantages of the diminishing balance method: • It does not write the asset down to zero and this reflects its residual value. • It deducts more depreciation in the early years and better reflects market values. • It allows the total asset cost to balance out.	
		(8)

(Total 26 marks)

Question Number	Answer	Mark
6(a)	**Calculations**	

Sales

	£
Receipts from debtors	22 610 √
Less opening debtors	(3 970) √
Add closing debtors	3 034 √
Add cash takings	58 420 √
Add drawings	1 250 √
	81 344

Purchases

	£
Payments to creditors	32 530 √
Less opening creditors	(2 814) √
Add closing creditors	3 662 √
	33 378

Rent and Rates

	£
Payments	3 500 √
Less opening balance	(583) √
Add closing balance	935 √
	3 852

Trading and Profit & Loss Account for year ended 31 December 2008

	£	£
Sales		81 344 √√√√
Opening stock	1 780	
Purchases	33 378 √√√	
Less closing stock	(2 835)	
Cost of sales		(32 323)
Gross profit		49 021
Rent and rates	3 852 √√√	
Interest on loan	980 √C	
Administration expenses	4 630 √C	
Depreciation on equipment	1 400 √C	
		(10 862)
Net profit		38 159

(14)

Question Number	Answer				Mark
6(b)	Balance Sheet as at 31 December 2008				
			£	£	
	Equipment		7 000		
	Less depreciation		(1 400)		
				5 600 √OF	
	Stock		2 835 √C		
	Debtors		3 034 √C		
	Bank		27 270 √√C		
			33 139		
	Less				
	Creditors	3 662 √C			
	Rent and rates owing	935 √C			
			(4 597)		
				28 542	
				34 142	
	Capital			3 733	
	Net profit			38 159 √OF	
	Less drawings (16 500 √ + 1 250 √)			(17 750)	
				24 142	
	Bank loan			10 000 √C	
				34 142 √OF (award mark only if balance sheet balances)	(12)

(Total 26 marks)