

Mark Scheme (Results) January 2010

GCE

GCE O level Accounting (7011/01)

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Section A

Question Number	Answer	Mark																																																																																																									
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1(d)(i)	Refers to the names of two or more of the different ledgers ✓ Gives examples of the accounts which are included in two or more of these ledgers ✓	(2)

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1(d)(ii)	Gives one reason for the sub-division of the ledger eg to group similar accounts together ✓ Develops this reason eg makes it easier to control the ledger / to check for errors ✓	(2)

(Total 48 marks)

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2(b)	<p style="text-align: center;">Ruby Biro Balance Sheet as at 31 December 2009</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> </tr> <tr> <th>Fixed assets</th> <th style="text-align: center;">Asset at cost</th> <th style="text-align: center;">Acc Dep</th> <th style="text-align: center;">NBV</th> </tr> </thead> <tbody> <tr> <td>Delivery van</td> <td style="text-align: right;">10 000 /C</td> <td style="text-align: right;">(8 500) /OF</td> <td style="text-align: right;">1 500</td> </tr> <tr> <td>Shop fixtures</td> <td style="text-align: right;">4 520 /C</td> <td style="text-align: right;">(3 728) /OF</td> <td style="text-align: right;"><u>792</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">2 292 /OFNC</td> </tr> <tr> <td>Current assets</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Stock</td> <td style="text-align: right;">35 700 /C</td> <td></td> <td></td> </tr> <tr> <td>Debtors</td> <td style="text-align: right;">3 915 /C</td> <td></td> <td></td> </tr> <tr> <td>Rent prepaid</td> <td style="text-align: right;">650 /C</td> <td></td> <td></td> </tr> <tr> <td>Bank</td> <td style="text-align: right;">3 700 /C</td> <td></td> <td></td> </tr> <tr> <td>Cash</td> <td style="text-align: right;"><u>500 /C</u></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">44 465 /OFNC SH</td> <td></td> </tr> <tr> <td>Current liabilities</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Creditors</td> <td style="text-align: right;">4 610 /C</td> <td></td> <td></td> </tr> <tr> <td>Wages owing</td> <td style="text-align: right;">200 /C</td> <td></td> <td></td> </tr> <tr> <td>Interest owing</td> <td style="text-align: right;">250 /OF</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>(5 060) /OFNC SH</u></td> <td></td> </tr> <tr> <td>Working capital (mark only awarded if figure labelled 'working capital')</td> <td></td> <td></td> <td style="text-align: right;"><u>39 405 /OF</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>41 697</u></td> </tr> <tr> <td>Capital account</td> <td></td> <td style="text-align: right;">60 000 /C</td> <td></td> </tr> <tr> <td>Less net loss</td> <td></td> <td style="text-align: right;">(11 703) /OF</td> <td></td> </tr> <tr> <td>Less drawings</td> <td></td> <td style="text-align: right;"><u>(11 600) /C</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">36 697</td> </tr> <tr> <td>Bank loan</td> <td></td> <td></td> <td style="text-align: right;"><u>5 000 /C</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>41 697</u></td> </tr> </tbody> </table>		£	£	£	Fixed assets	Asset at cost	Acc Dep	NBV	Delivery van	10 000 /C	(8 500) /OF	1 500	Shop fixtures	4 520 /C	(3 728) /OF	<u>792</u>				2 292 /OFNC	Current assets				Stock	35 700 /C			Debtors	3 915 /C			Rent prepaid	650 /C			Bank	3 700 /C			Cash	<u>500 /C</u>					44 465 /OFNC SH		Current liabilities				Creditors	4 610 /C			Wages owing	200 /C			Interest owing	250 /OF					<u>(5 060) /OFNC SH</u>		Working capital (mark only awarded if figure labelled 'working capital')			<u>39 405 /OF</u>				<u>41 697</u>	Capital account		60 000 /C		Less net loss		(11 703) /OF		Less drawings		<u>(11 600) /C</u>					36 697	Bank loan			<u>5 000 /C</u>				<u>41 697</u>	(20)
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2(c)(i)	<p>The business has made a loss of £11 703 /OF on a capital of £60 000 and a bank loan of £5 000 /C. This is a negative 18% ROCE. /OF (Accept 19.5% if the loan is omitted from the calculation) or The business has made a loss of £11 703 /OF on sales of £144 710 /C. This is a negative net profit ratio of 8%. /OF</p>	(4)

Question Number	Answer	Mark
2(c)(ii)	<p>Possible ways of improving the profit and loss situation:</p> <ul style="list-style-type: none"> • Increase sales by reducing prices / spending more on advertising • Increase sales by spending more on advertising • Decrease purchases by finding new cheaper suppliers • Reduce wages by driving the van herself • Reduce motor costs by buying a smaller or more efficient van • Reduce administration expenses by increasing efficiency • Repay the loan to save the interest • Any other suitable suggestion <p>✓ for relevant suggestion with a further ✓ for development - max ✓✓✓✓. For example "Reduce wages" is a relevant suggestion; (1 mark) "Reduce wages by driving the van herself" is a relevant suggestion developed (2 marks).</p>	(4)

(Total 48 marks)

Section B

Question Number	Answer	Mark																																																																								
3(a)	<p style="text-align: center;">Phidippides' Journal</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;">Date</th> <th style="width: 55%;">Narration</th> <th style="width: 15%;">Dr</th> <th style="width: 15%;">Cr</th> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">£</td> <td style="text-align: center;">£</td> </tr> </thead> <tbody> <tr> <td>3 Dec</td> <td>Office Equipment</td> <td style="text-align: right;">100 ✓C</td> <td></td> </tr> <tr> <td></td> <td>VAT</td> <td style="text-align: right;">10 ✓C</td> <td></td> </tr> <tr> <td></td> <td>Dodgy Dossiers Ltd</td> <td></td> <td style="text-align: right;">110 ✓C</td> </tr> <tr> <td></td> <td>Purchase of shredding machine on credit ✓</td> <td></td> <td></td> </tr> <tr> <td>10 Dec</td> <td>Stock Loss/Insurance Co</td> <td style="text-align: right;">2 500 ✓C</td> <td></td> </tr> <tr> <td></td> <td>Purchases / trading account</td> <td></td> <td style="text-align: right;">2 500 ✓C</td> </tr> <tr> <td></td> <td>Writing off of stock lost in burglary ✓</td> <td></td> <td></td> </tr> <tr> <td>15 Dec</td> <td>Discount received</td> <td style="text-align: right;">20 ✓C</td> <td></td> </tr> <tr> <td></td> <td>Marathon Supplies Ltd</td> <td></td> <td style="text-align: right;">20 ✓C</td> </tr> <tr> <td></td> <td>Cancellation of cash discount taken from supplier in error ✓</td> <td></td> <td></td> </tr> <tr> <td>22 Dec</td> <td>V Williams</td> <td style="text-align: right;">500 ✓C</td> <td></td> </tr> <tr> <td></td> <td>S Williams</td> <td></td> <td style="text-align: right;">500 ✓C</td> </tr> <tr> <td></td> <td>Correction of error of commission / posting sale to wrong customer ✓</td> <td></td> <td></td> </tr> <tr> <td>31 Dec</td> <td>Profit & Loss</td> <td style="text-align: right;">120 ✓C</td> <td></td> </tr> <tr> <td></td> <td>Provision for doubtful debts</td> <td></td> <td style="text-align: right;">120 ✓C</td> </tr> <tr> <td></td> <td>Increase in provision for doubtful debts ✓</td> <td></td> <td></td> </tr> </tbody> </table>	Date	Narration	Dr	Cr			£	£	3 Dec	Office Equipment	100 ✓C			VAT	10 ✓C			Dodgy Dossiers Ltd		110 ✓C		Purchase of shredding machine on credit ✓			10 Dec	Stock Loss/Insurance Co	2 500 ✓C			Purchases / trading account		2 500 ✓C		Writing off of stock lost in burglary ✓			15 Dec	Discount received	20 ✓C			Marathon Supplies Ltd		20 ✓C		Cancellation of cash discount taken from supplier in error ✓			22 Dec	V Williams	500 ✓C			S Williams		500 ✓C		Correction of error of commission / posting sale to wrong customer ✓			31 Dec	Profit & Loss	120 ✓C			Provision for doubtful debts		120 ✓C		Increase in provision for doubtful debts ✓			(16)
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Question Number	Answer	Mark
3(b)	<p>The advantages and disadvantages of switching from a manual bookkeeping system to customised accounting software:</p> <p>Advantages:</p> <ul style="list-style-type: none"> • Less time-consuming as all accounts are entered up for every transaction • More accurate as it does not make arithmetical errors • Everything is stored in one place and can easily be accessed • An audit trail is kept and past transactions can easily be traced • Can be used by non-specialist staff after a short period of training • Any other relevant advantage <p>✓ for stating an advantage and a further ✓ for development - max ✓✓✓✓.</p> <p>Disadvantages</p> <ul style="list-style-type: none"> • The system might break down and data might be lost • The business must pay to train staff to use the system • The system might be too complex for a small business • Data might not be secure • High capital cost of installation • Any other relevant disadvantage <p>✓ for stating a disadvantage and a further ✓ for development - max 4 marks.</p> <p>Up to ✓✓ for a balanced conclusion or opinion stated</p>	(10)

(Total 26 marks)

Question Number	Answer	Mark																																														
4(a)(i)	Insurance Account																																															
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th></th> <th style="text-align: right;">£</th> <th></th> <th></th> <th style="text-align: right;">£</th> </tr> </thead> <tbody> <tr> <td>1 Sept</td> <td>Balance b/f</td> <td style="text-align: right;">65</td> <td>/C</td> <td>31 Aug</td> <td>Profit & loss</td> <td style="text-align: right;">955</td> <td>/OF</td> </tr> <tr> <td>31 Aug</td> <td>Bank</td> <td style="text-align: right;">820</td> <td>/C</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>31 Aug</td> <td>Balance c/f</td> <td style="text-align: right;"><u>70</u></td> <td>/C</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>955</u></td> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>955</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>1 Sept</td> <td>Balance b/f</td> <td style="text-align: right;">70</td> <td>/OF</td> </tr> </tbody> </table>			£			£	1 Sept	Balance b/f	65	/C	31 Aug	Profit & loss	955	/OF	31 Aug	Bank	820	/C					31 Aug	Balance c/f	<u>70</u>	/C							<u>955</u>				<u>955</u>						1 Sept	Balance b/f	70	/OF	(5)
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Question Number	Answer	Mark																																						
4(a)(ii)	Wages Account																																							
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th></th> <th style="text-align: right;">£</th> <th></th> <th></th> <th style="text-align: right;">£</th> </tr> </thead> <tbody> <tr> <td>31 Aug</td> <td>Bank</td> <td style="text-align: right;">36 000</td> <td>/C</td> <td>1 Sept</td> <td>Balance b/f</td> <td style="text-align: right;">7 250</td> <td>/C</td> </tr> <tr> <td>31 Aug</td> <td>Balance c/f</td> <td style="text-align: right;"><u>5 100</u></td> <td>/C</td> <td>31 Aug</td> <td>Profit & loss</td> <td style="text-align: right;"><u>33 850</u></td> <td>/OF</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>41 100</u></td> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>41 100</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>1 Sept</td> <td>Balance b/f</td> <td style="text-align: right;">5 100</td> <td>/OF</td> </tr> </tbody> </table>			£			£	31 Aug	Bank	36 000	/C	1 Sept	Balance b/f	7 250	/C	31 Aug	Balance c/f	<u>5 100</u>	/C	31 Aug	Profit & loss	<u>33 850</u>	/OF			<u>41 100</u>				<u>41 100</u>						1 Sept	Balance b/f	5 100	/OF	(5)
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Question Number	Answer	Mark																																						
4(a)(iii)	Provision for Doubtful Debts Account																																							
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Question Number	Answer	Mark														
4(a)(iv)	Bad Debts Account															
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th></th> <th style="text-align: right;">£</th> <th></th> <th></th> <th style="text-align: right;">£</th> </tr> </thead> <tbody> <tr> <td>31 Aug</td> <td>Norman Rock</td> <td style="text-align: right;"><u>300</u></td> <td>/C</td> <td>31 Aug</td> <td>Profit & loss</td> <td style="text-align: right;"><u>300</u></td> <td>/OF</td> </tr> </tbody> </table>			£			£	31 Aug	Norman Rock	<u>300</u>	/C	31 Aug	Profit & loss	<u>300</u>	/OF	(2)
		£			£											
31 Aug	Norman Rock	<u>300</u>	/C	31 Aug	Profit & loss	<u>300</u>	/OF									

Question Number	Answer	Mark														
4(a)(v)	Provision for Depreciation (Office Furniture) Account															
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th></th> <th style="text-align: right;">£</th> <th></th> <th></th> <th style="text-align: right;">£</th> </tr> </thead> <tbody> <tr> <td>31 Aug</td> <td>Balance c/f</td> <td style="text-align: right;"><u>160</u></td> <td></td> <td>31 Aug</td> <td>Profit & loss</td> <td style="text-align: right;">160</td> <td>/C</td> </tr> </tbody> </table>			£			£	31 Aug	Balance c/f	<u>160</u>		31 Aug	Profit & loss	160	/C	
		£			£											
31 Aug	Balance c/f	<u>160</u>		31 Aug	Profit & loss	160	/C									

					1 Sept	Balance b/f	160 /OF	(2)
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Question Number	Answer	Mark
4(b)	// for stating a reason and a further // for development	(4)

Question Number	Answer	Mark
4(c)(i)	A provision for doubtful debts is made to enable a business to apportion some of this years profits in anticipation of future bad debts. / or // according to the way this is explained.	(2)

Question Number	Answer	Mark
4(c)(ii)	A reduction in the provision for doubtful debts is made when the business expects bad debts to be less. / or // according to the way this is explained.	(2)

(Total 26 marks)

Question Number	Answer	Mark																																				
5(a)	<p style="text-align: center;">Receipts and Payments Account</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 35%;"></th> <th style="width: 15%; text-align: center;">£</th> <th style="width: 35%;"></th> <th style="width: 15%; text-align: center;">£</th> </tr> </thead> <tbody> <tr> <td>Subscriptions received</td> <td style="text-align: right;">15 000 / C</td> <td>General expenses</td> <td style="text-align: right;">8 150 / C</td> </tr> <tr> <td>Sale of tickets for trip</td> <td style="text-align: right;">1 630 / C</td> <td>Purchase of equipment</td> <td style="text-align: right;">5 000 / C</td> </tr> <tr> <td>Loan</td> <td style="text-align: right;">1 000 / C</td> <td>Training course</td> <td style="text-align: right;">200 / C</td> </tr> <tr> <td></td> <td></td> <td>Purchase of block of tickets</td> <td style="text-align: right;">800 / C</td> </tr> <tr> <td></td> <td></td> <td>Coach hire</td> <td style="text-align: right;">585 / C</td> </tr> <tr> <td></td> <td style="text-align: center;">_____</td> <td>Balance c/f</td> <td style="text-align: right;">2 895</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">/OFNC</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>17 630</u></td> <td></td> <td style="text-align: right;"><u>17 630</u></td> </tr> </tbody> </table>		£		£	Subscriptions received	15 000 / C	General expenses	8 150 / C	Sale of tickets for trip	1 630 / C	Purchase of equipment	5 000 / C	Loan	1 000 / C	Training course	200 / C			Purchase of block of tickets	800 / C			Coach hire	585 / C		_____	Balance c/f	2 895				/OFNC		<u>17 630</u>		<u>17 630</u>	(9)
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5(b)	<p style="text-align: center;">Income and Expenditure Account for the year ending 31 December 2009</p> <p style="text-align: right;">£</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Subscriptions (15 000 - 1 300 + 175)</td> <td style="text-align: right;">13 875 <i>///</i> OF</td> </tr> <tr> <td>Profit on trip (1 630 - 800 - 585)</td> <td style="text-align: right;"><u>245 <i>///</i> OF</u></td> </tr> <tr> <td></td> <td style="text-align: right;">14 120</td> </tr> <tr> <td>General expenses</td> <td style="text-align: right;">8 150 <i>/</i> C</td> </tr> <tr> <td>Training course</td> <td style="text-align: right;">200 <i>/</i> C</td> </tr> <tr> <td>Depreciation on equipment</td> <td style="text-align: right;"><u>500 <i>/</i> C</u></td> </tr> <tr> <td>Surplus of income over expenditure</td> <td style="text-align: right;">5 270 <i>/</i> OFNC</td> </tr> </table> <p>Subscriptions and profit on trip: <i>/</i> for each component. <i>///</i> only for C</p>	Subscriptions (15 000 - 1 300 + 175)	13 875 <i>///</i> OF	Profit on trip (1 630 - 800 - 585)	<u>245 <i>///</i> OF</u>		14 120	General expenses	8 150 <i>/</i> C	Training course	200 <i>/</i> C	Depreciation on equipment	<u>500 <i>/</i> C</u>	Surplus of income over expenditure	5 270 <i>/</i> OFNC	(10)
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Question Number	Answer	Mark																
5(c)	<p style="text-align: center;">Balance Sheet as at 31 December 2009</p> <p style="text-align: right;">£</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Equipment (5 000 - 500 OF)</td> <td style="text-align: right;">4 500 <i>//</i></td> </tr> <tr> <td>Subscriptions owing</td> <td style="text-align: right;">175 <i>/</i> C</td> </tr> <tr> <td>Cash</td> <td style="text-align: right;"><u>2 895 <i>/</i> OF</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>7 570</u></td> </tr> <tr> <td>Surplus</td> <td style="text-align: right;">5 270 <i>/</i> OF</td> </tr> <tr> <td>Loan</td> <td style="text-align: right;">1 000 <i>/</i> C</td> </tr> <tr> <td>Subscriptions received in advance</td> <td style="text-align: right;"><u>1 300 <i>/</i> C</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>7 570</u></td> </tr> </table>	Equipment (5 000 - 500 OF)	4 500 <i>//</i>	Subscriptions owing	175 <i>/</i> C	Cash	<u>2 895 <i>/</i> OF</u>		<u>7 570</u>	Surplus	5 270 <i>/</i> OF	Loan	1 000 <i>/</i> C	Subscriptions received in advance	<u>1 300 <i>/</i> C</u>		<u>7 570</u>	(7)
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(Total 26 marks)

Question Number	Answer	Mark						
6(a)(i)	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 35%;"></th> <th style="width: 30%; text-align: center;">2008</th> <th style="width: 35%; text-align: center;">2009</th> </tr> </thead> <tbody> <tr> <td>Return on capital employed</td> <td style="text-align: center;">(15 000 / 55 000) × 100 = 27.27% C</td> <td style="text-align: center;">(35 000 / 75 000) × 100 = 46.67% C</td> </tr> </tbody> </table> <p>1 mark for each correct figure must be rounded to 2 decimal places</p>		2008	2009	Return on capital employed	(15 000 / 55 000) × 100 = 27.27% C	(35 000 / 75 000) × 100 = 46.67% C	(2)
	2008	2009						
Return on capital employed	(15 000 / 55 000) × 100 = 27.27% C	(35 000 / 75 000) × 100 = 46.67% C						

Question Number	Answer	Mark						
6(a)(ii)	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 35%;"></th> <th style="width: 30%; text-align: center;">2008</th> <th style="width: 35%; text-align: center;">2009</th> </tr> </thead> <tbody> <tr> <td>Net profit ratio</td> <td style="text-align: center;">(15 000 / 82 500) × 100 = 18.18% C</td> <td style="text-align: center;">(35 000 / 153 800) × 100 = 22.76% C</td> </tr> </tbody> </table> <p>1 mark for each correct figure must be rounded to 2 decimal places</p>		2008	2009	Net profit ratio	(15 000 / 82 500) × 100 = 18.18% C	(35 000 / 153 800) × 100 = 22.76% C	(2)
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Question Number	Answer	Mark			
6(a)(iii)	<table border="1"> <tr> <td>Current ratio</td> <td> $(20\,750 + 8\,475) : (10\,900 + 5\,600)$ $= 1.77 : 1\text{ C}$ </td> <td> $(12\,300 + 4\,320) : (9\,065 + 1\,580)$ $= 1.56 : 1\text{ C}$ </td> </tr> </table> <p>1 mark for each correct figure - must be rounded to 2 decimal places</p>	Current ratio	$(20\,750 + 8\,475) : (10\,900 + 5\,600)$ $= 1.77 : 1\text{ C}$	$(12\,300 + 4\,320) : (9\,065 + 1\,580)$ $= 1.56 : 1\text{ C}$	(2)
Current ratio	$(20\,750 + 8\,475) : (10\,900 + 5\,600)$ $= 1.77 : 1\text{ C}$	$(12\,300 + 4\,320) : (9\,065 + 1\,580)$ $= 1.56 : 1\text{ C}$			

Question Number	Answer	Mark			
6(a)(iv)	<table border="1"> <tr> <td>Rate of stock turnover</td> <td> $\text{Cost of sales} = (82\,500 - 32\,000) = 50\,500$ $50\,500 / 20\,750 = 2.43\text{ times C}$ </td> <td> $\text{Cost of sales} = 153\,800 - 68\,000 = 85\,800$ $85\,800 / 12\,300 = 6.98\text{ times C}$ </td> </tr> </table> <p>2 marks for each correct figure - must be rounded to 2 decimal places</p>	Rate of stock turnover	$\text{Cost of sales} = (82\,500 - 32\,000) = 50\,500$ $50\,500 / 20\,750 = 2.43\text{ times C}$	$\text{Cost of sales} = 153\,800 - 68\,000 = 85\,800$ $85\,800 / 12\,300 = 6.98\text{ times C}$	(4)
Rate of stock turnover	$\text{Cost of sales} = (82\,500 - 32\,000) = 50\,500$ $50\,500 / 20\,750 = 2.43\text{ times C}$	$\text{Cost of sales} = 153\,800 - 68\,000 = 85\,800$ $85\,800 / 12\,300 = 6.98\text{ times C}$			

Question Number	Answer	Mark
6(b)	<p>Points in support of an improvement in the performance:</p> <ul style="list-style-type: none"> • Return on capital employed has increased from 27.27% to 46.67%. • Net profit ratio has increased from 18.18% to 22.76% • Sales have increased from £82 500 to £153 800 - an increase of 86.42% • Rate of stock turnover has increased from 2.43 times to 6.98 times • Taking on the new partner has probably helped the sales, as he is an expert salesman and manager • The new partner has brought in capital and part of this has been used to buy a computer, which should make the business more efficient. • The additional capital has allowed the bank overdraft to decrease, thus exposing the business to less risk <p>Points against:</p> <ul style="list-style-type: none"> • The current ratio has fallen from 1.77 : 1 to 1.56 : 1 • Liquidity was less than 2 : 1 previously and is now even lower • A large percentage of the current assets is accounted for by stock in both years • Creditors are much larger than debtors in both years <p><i>/</i> or <i>//</i> for each point explained up to a maximum of 4 marks for each section</p> <p><i>//</i> for a conclusion eg the partner has improved the performance of the business.</p>	(10)

Question Number	Answer	Mark
6(c)(i)	Under the existing partnership agreement, Iroko will receive $\text{£}35\,000 / 2 = \text{£}17\,500$ ✓✓	(2)

Question Number	Answer	Mark
6(c)(i)	<p>Under the scheme proposed by the bank manager:</p> <p>Iroko will receive interest on capital of 5% of $\text{£}55\,000 = \text{£}2\,750$ ✓</p> <p>Sapele will receive interest on capital of 5% of $\text{£}20\,000 = \text{£}1\,000$ ✓</p> <p>The amount to be shared equally will be $\text{£}35\,000 - (\text{£}2\,750 + \text{£}1\,000)$ ✓✓OF</p> <p>$\text{£}31\,250 / 2 = \text{£}15\,625$ ✓OF</p> <p>So Iroko will receive $\text{£}15\,625 + \text{£}2\,750 = \text{£}18\,375$ ✓OF</p>	(4)

(Total 26 marks)

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