

Edexcel International
London Examinations
GCE Ordinary Level

Mark Scheme with Examiner's Report

**London Examinations Ordinary Level GCE in
Accounting (7011)**

May/June 2001

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Mark Scheme and Chief Examiner's Report
May/June 2001

ACCOUNTING 7011

Mark Scheme

Page 1 of 9

Chief Examiner's Report

Page 8 of 9

Grade Boundaries

Page 9 of 9

ACCOUNTING 7011, MARK SCHEME

Question 1

Bank Account

Balance b/d	3 500✓	J Montgomery	868✓
R Pitt	160✓	R Malone	380✓
		Balance c/d	2 412✓
	3 660		3 660

Sales Account

Trading	13 970✓	Balance b/d	10 300✓
		R Pitt	800✓
		D Watson	600✓
		R Malone	2 270✓
	13 970		13 970

J Montgomery Account

Bank	868✓	Balance b/d	895✓
Disc rec.	27✓	Purchases	1 200✓
Balance c/d	1 200✓		
	2 095		2 095

Purchases Account

Balance b/d	8 150✓	Trading	11 750✓
R Malone	2 400✓		
J Montgomery	1 200✓		
	11 750		11 750

R Malone Account

Rets outw.	150✓	Balance b/d	420✓
R Malone	2 270✓✓	Purchases	2 400✓
Bank	380✓		
Disc rec.	20✓		
	2 820		2 820

Returns Outward Account

Trading	470✓	Balance b/d	320✓
		R Malone	150✓
	470		470

R Pitt Account

Balance b/d	160✓	Bank	160✓
Sales	800✓	Balance c/d	800✓
	960		960

Discount Received Account

Profit & loss	47✓	J Montgomery	27✓
		R Malone	20✓
	47		47

D Watson Account

Balance b/d	540✓	Balance c/d	1 140✓
Sales	600✓		
	1 140		1 140

Sales Ledger Control Account

Balances b/d	700✓	Bank	160✓
Sales	3 670✓	R Malone cont.	2 270✓
		Balance c/d	1 940✓✓
	4 370		4 370

R Malone Account

Sales	2 270✓	R Malone	2 270✓✓

48✓ = 24 marks

Total 24 marks

Question 2

(a)

Cash and Bank Account				Trade Creditors Account			
Balance b/d	2 958✓	Creditors	11 840✓	Bank/ Cash	11 840✓	Balance b/d	5 392✓
Sales	17 980✓	Sundry exps.	1 440✓	Disc Rec	148✓	Purchases	12 284✓
		Drawings F	800✓	Balance c/d	5 688✓✓		
		Drawings B	600✓		17 676		17 676
		Loan	1 000✓				
		Equipment	350✓				
		Balance c/d	4 908✓✓				
	20 938		20 938				

16 x ✓ = 8 marks

(b)

Trading and Profit/Loss Account of Fairclough and Baldwin for 3 months ended 31 March 2001

Opening stock	7 124✓			Sales	17 980✓
Purchases	12 284✓	19 408			
Less closing stock		2 620✓			
Cost of sales			16 788		
Gross profit			1 192✓		
			17 980		17 980
Sundry expenses	1 440✓			Gross profit	1 192✓
Less prepaid insurance	18	1 422✓		Discount received	148✓
Loan interest owing		40✓		Net loss	352✓
Depr. on equipment	80✓				
Depr. on vehicles	150✓	230	1 692		1 692
Net loss			352✓	Share of loss	
				Fairclough	176✓
				Baldwin	176✓
			352		352

16 x ✓ = 8 marks

Balance Sheet at 31 March 2001

Capital accounts			Fixed assets			
Fairclough	18 000✓		Buildings		29 000	
Baldwin	16 000✓	34 000	Equipment	3 300		
Current accounts			Add new equipment	350		
Fairclough: Balance b/d	1 070✓		Less depreciation	80	3 570	
-Share of loss	-176✓		Vehicles	2 240		
-Drawings	-800✓	94✓	Less depreciation	150	2 090	34 660
Baldwin: Balance b/d	160✓		Current Assets			
-Share of loss	-176✓		Stock	2 620		
-Drawings	-600✓	-616✓	Prepaid insurance	18		
Long term liabilities ✓			Cash and Bank	4 908	7 546	
Loan	4 000		Less Current Liabilities			
Less repaid	1 000	3 000✓✓	Creditors	5 688✓		
			Loan interest owing	40✓	5 728✓	1 818
		36 478				36 478

16 x ✓ = 8 marks

Total 24 marks

Question 3

(a)

Rachael Guthrie's Journal

	Debit	Credit
Drawings/ Capital Dr	25 000✓	
Premises		25 000✓
Being <u>correction of error</u> ✓ of <u>principle</u> ✓		
Drawings Dr	200✓	
Cash		200✓
Being correction of error✓ of omission✓		
R Kerr Dr	600✓	
B Kerr		600✓
Being correction of error✓ of commission✓		

12 x ✓ = 6 marks

(b)

Suspense Account

Sales	500.00✓✓	Balance b/d or difference in trial balance	1025.75✓✓
		Discount received	74.25✓✓
Bank	600.00✓✓		
	<u>1100.00✓</u>		<u>1100.00✓</u>

10 x ✓ = 5 marks

(c) Credit side ✓✓ deficient by £1 025.75✓✓

4 x ✓ = 2 marks

Total 13 marks

Question 4

(a)

Income and Expenditure Account of Towbury Cricket Club for month ended 30 April 2001

Bad debts		12✓		Subscriptions	240✓
Opening stock of refreshments	35✓			Socials and dances	500✓
Purchases	by cheque	60✓			
	owing	100✓			
	on credit	145✓			
Less closing stock	-42✓	298			
Entertainment		85✓			
Rent		130✓			
General expenses		41✓			
Depreciation on equipment		25✓			
		591			
Surplus		149✓			
		740			740

13 x ✓ = 6.5 marks

(b)

Balance Sheet at 30 April 2001

Fixed assets				
Equipment	2000✓			
Less depreciation	25✓			1 975✓
Current assets				
Stock of refreshments		42✓		
Bank		735✓		
Cash		96✓	873✓	
Less current liabilities				
Creditors for refreshments	100✓			
Creditors for refreshments	145✓	245		
General expenses owing		20✓	265✓	608
				2 583
Accumulated fund				2 434✓
Surplus				149✓
				2 583

13 x ✓ = 6.5 marks

Total 13 marks

Question 5

- (a) Profitability measures how much profit a firm has made ✓
This can be compared with capital or sales to give more meaningful information ✓
Liquidity measures the ease with which a firm can pay its debts ✓ as they fall due ✓

(Award one ✓ for statement and further ✓ for development)

4 x ✓ = 2 marks

- (b) Any two acceptable formulae for profitability:

e.g. Net profit/Capital ✓✓ $\times \frac{100}{1}$
Gross profit/Sales ✓✓ $\times \frac{100}{1}$ etc.

4 x ✓ = 2 marks

- (c) Either Current ratio or Quick Assets ratio
Current Ratio = Current Assets: Current Liabilities
Quick Assets Ratio = Current Assets – Stock: Current Liabilities

2 x ✓ = 1 mark

- (d) Award up to ✓✓ for each correct calculation
One profitability and one liquidity required

8 x ✓ = 4 marks

Award up to ✓✓ for 2 comparative points

4 x ✓ = 2 marks

Award up to ✓✓✓✓ for an acceptable conclusion

4 x ✓ = 2 marks

e.g. Y's return on capital is 25% in comparison with X's 10% ✓✓
Y's Current Ratio is 0.5:1 in comparison with X's 2:1 ✓✓

Example Conclusion:

X appears to be the much safer business, it has an ideal liquidity situation so will comfortably be able to meet its current liabilities. However, its profitability is low in comparison to Y (✓).

Y makes excellent profits from a lower capital base but it might be over stretching itself, reflected by its liquidity problems (✓✓).

Overall Y is the better bet providing its creditors stay friendly (✓✓).

Total 13 marks

Question 6

(a)

Delivery Vehicles Account

Jan 1	Balance b/d	20 000✓✓✓	Jan 1	Del vehicle disposal	6 000✓
Jan 1	Bank	10 000✓	Dec 31	Balance c/d	24 000✓
		30 000			30 000
Jan 1	Balance b/d	24 000✓			

7 x ✓ = 3½ marks

Provision for Depreciation Account

Jan 1	Del vehicle disposal	3 000✓✓	Jan 1	Balance b/d	7 000✓✓✓✓✓
	Balance c/d	10 000✓	Dec 31	Profit and loss	6 000✓✓✓✓✓
		13 000			13 000
				Balance b/d	10 000✓

13 x ✓ = 6½ marks

Delivery Vehicle Disposals Account

Jan 1	Delivery vans	6 000✓	Jan 1	Provision for depr.	3 000✓
				Bank	2 000✓
				Profit and loss	1 000✓
		6 000			6 000

4 x ✓ = 2 marks

(b)

Profit and Loss Account

	Provision for depr.	6 000✓			
	Del vehicle disposal	1 000✓			

2 x ✓ = 1 mark

Total 13 marks

Question 7

(a) (i)

Trading Account ✓ of Donna Hutchinson ✓ for year ended 31 December 2000 ✓

Opening Stock	1 052 ✓✓			Sales	60 520 ✓	
Purchases	44 508 ✓	45 560		Less returns inward	280 ✓	
Less closing stock	4 980 ✓			Net sales		60 240
Less returns outward	420 ✓	5 400				
Cost of sales			40 160 ✓			
Gross profit			20 080 ✓✓✓			
			60 240			60 240

14 x ✓ = 7 marks

(Gross Profit is 50% on cost and is, therefore, $33\frac{1}{3}$ on sales. $\frac{£60240}{3}$ gives GP of £20 080)

(ii) Sales is £60 240, so Net Profit at 15% of Sales would be $60\,240 \times \frac{15}{100} = 9\,036$ ✓

So Total Expenses = Gross Profit – Net Profit

Total Expenses = 20 080 ✓ - 9 036 ✓

Total Expenses = £11 044 ✓

6 x ✓ = 3 marks

(b) Year 1 An overvalued closing stock would over state gross profit * and therefore over state net profit ✓✓✓.

Year 2 The closing stock becomes opening stock . Over valued opening stock would understate gross profit and therefore net profit ✓✓✓.

6 x ✓ = 3 marks

Total 13 marks

* one tick if candidate only mentions gross profit affect.

ACCOUNTING 7011, CHIEF EXAMINER'S REPORT

General Comments

Although there was no really different or unique angle to this paper, candidates found the combination of questions more demanding than usual. Every paper has its own chemistry and this chemistry is a relatively unknown factor until the paper goes 'live' and candidates show what they can do. The process of grade awarding takes into account the difficulty of the paper in comparison with previous examinations, and grade boundaries are adjusted if necessary.

Question 1

This question produced the full range of marks from candidates. Double entry lay at the heart of it and most candidates showed that they understood this concept. However, it was relatively few candidates who could cope with the layered opportunities presented in the form of: trade discount; cash discount; sub division of the ledger; closure of accounts by transfer to trading and profit and loss; contra entries between ledgers; and control accounts.

All of these aspects are of fundamental importance in building a basic accounting system. Candidates would benefit from graded exercises in abundance to practise the development of the necessary skills. This would undoubtedly lead to improved performance.

Question 2

This question required the preparation of trading and profit and loss accounts and balance sheet extract by collecting information from a variety of sources. Basic final accounts were soundly prepared by most candidates. However, the adjustments proved problematic to some and many had difficulty reacting to the notion of a combined cash and bank account. Some candidates prepared the entire balance sheet rather than the extract required, and therefore, used up precious time on something that gave no additional marks. Some candidates lost marks by preparing each partner's current account outside the balance sheet and not as part of the balance sheet, as requested.

Question 3

This was a relatively straightforward question. However, candidates found the notion of suspense accounts difficult. Knowledge of double entry needs to be sound and the skills of correcting mistakes need to have been practised. Many of the best candidates obtained full marks. However, the concept of the suspense account and its link with the trial balance caused difficulty. Weaker candidates could not state the type of error involved on entries not linked to the suspense account.

Question 4

The preparation of the accounts of non-profit making organisations is a specialised activity. Confidence comes from obtaining lots of practice on the full range of situations. Most candidates could offer basic income and expenditure accounts and balance sheets. However, relatively few could fully handle subscriptions and refreshments.

Question 5

It was encouraging to note an increasing understanding of profitability and liquidity, and some excellent answers were received on the evaluation required by part (d). Evaluation involves assessing strengths and weaknesses and making a judgement. Using formulae to produce figures is an essential part of this process.

Question 6

The double entry routine in connection with depreciation is not well known by candidates. Candidates can follow the logic involved and can do calculations but many are unable to translate this into ledger entries. Disposal, of course, raises the level of difficulty and exposes weaknesses in double entry. As with any other aspect of double entry, the remedy lies with practise on graded exercises. Candidates were required to prepare three accounts over one year. It was essential that they showed their calculations so that examiners could give credit for working, even where some of the entries were incorrect.

Question 7

This was a standard preparation of the trading account, providing the candidate realised the need to work backwards to find the opening stock as the missing figure. Many did realise this and scored well. However, even some of the better candidates did not understand the relationship between mark up and margin, and did not, therefore, reach the correct solution.

ACCOUNTING 7011, GRADE BOUNDARIES

Grade	A	B	C	D	E
Lowest mark for award of grade	68	53	38	33	25

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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