

# **Mark Scheme with Examiners' Report**

## **GCE O Level Accounting (7011)**

January 2005

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**Mark Scheme with Examiners' Report**

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## ACCOUNTING 7011, MARK SCHEME

KEY - please note the following abbreviations used in the mark scheme

OF (= Own Figure) is a system whereby a candidate misses a mark only once for a mistake. The mistake is noted where it first occurs and consequential incorrect figures or operations are awarded full marks as though they were correct.

NC (= Non Contaminated) applies when a mark is allocated to a sub heading / sub total. The mark for that sub heading is awarded only if the category of items does not contain an item that does not belong. Mostly when OF is indicated it will be OF (NC).

### Question 1

#### (a)(i)

Purchases Journal		
May 14 Sunderland Sports Ltd		
Goods	5000	
Less 20% trade disc	<u>1000</u>	4000 ✓C

#### (ii)

General Journal		
May 30 Furniture DR 3000		
Northern Furniture Ltd		3000 ✓C
Being furniture bought on credit ✓		

#### (iii)

Sales Journal		
May 17 Hartlepool Ltd		
		1000 ✓C

#### (iv)

Returns outwards Journal		
May 29 Sunderland Sports Ltd		
Goods	480	
Less 20% trade discount	<u>96</u>	384 ✓C

#### (v) Cash Book

	Disc All	Bank		Disc Rec	Bank
May 1 Balance b/d		500 ✓C	May 4 Sunderland Sp		2500 ✓C
May 5 Magpie Sp	10 ✓	390 ✓C	May 11 Insurance		575 ✓C
May 13 Sales		20000 ✓C	May 12 Boro Ltd	42 ✓C	798 ✓C
			May 26 Light + heat		220 ✓C
			May 28 Magpie Sp (Dis Chq)		390 ✓C
			May 31 Charges		85 ✓C
			May 31 Balance c/d		16322 ✓✓C/OF
	<u>10 ✓OF</u>	<u>20890</u>		<u>42 ✓OF</u>	<u>20890</u>

20 x ✓ = 10 marks

(b) the tick is for figure and narration

Sunderland Sports			
May 4 Bank	2500 ✓C	May 1 Balance b/d	2500 ✓C
May 29 Returns outward	384 ✓OF	May 14 Purchases	4000 ✓C

Boro Ltd			
May 12 Bank	798 ✓OF	May 1 Balance b/d	1700 ✓C
May 12 Discount Received	42 ✓OF		

Furniture			
May 1 Balance b/d	5000 ✓C		
May 17 Northern Furniture	3000 ✓OF		

Northern Furniture			
		May 17 Furniture	3000 ✓OF

Insurance			
May 11 Bank	575 ✓OF		

Light and Heat			
May 26 Bank	220 ✓OF		

Hartlepool Ltd			
May 1 Balance b/d	940 ✓C		
May 17 Sales	1000 ✓OF		

Magpie Sports			
May 1 Balance b/d	400 ✓C	May 5 Bank	390 ✓OF
May 28 Bank	390 ✓OF	May 15 Disc All	10 ✓OF
May 28 Discount Allowed	10 ✓OF		

Sales			
		May 13 Bank	20000 ✓OF
wed		May 31 Sundry Debtors/Hart	1000 ✓OF
Purchases			
May 1 Sundries/Sunderland Sports	4000 ✓of		

Return Outward			
		May 31 Sundries/Sunderland Sports	384 ✓of

Bank Charges			
May 31 Bank	85 ✓of		

Discount Allowed			
May 31 Sundries/Magpie Sports	10 ✓of	May 28 Magpie Sports	10 ✓of

Discount Received			
		May 31 Sundries/Boro Ltd	42 ✓of

Capital			
		May 1 Balance b/d	2640 ✓C

28 x ✓ = 14 marks  
Total 24 marks

Question 2

**Curl and Tong**  
**Profit and Loss account for the year ended 31 December 2004**

Rent of premises	18 000 ✓ C	Fees received (T)	90 000 ✓ c
Wages (T)	20 000 ✓ C	(GP 73050) 5✓'s	
Admin Exps	8 900 ✓ C	(GP 72550 ) 4✓'s	
Opening stock of materials (T)	6 000 ✓ C	(GP 53050) 6✓'s	
Materials (T)	12 000 ✓ C	(GP 52550) 5✓'s	
Less drawings (T)	500 ✓ C		
Less Cl stock (T)	550 ✓ C		
Advertising	840 ✓ C		
Depreciation on F/Equip	1 900 ✓ C		
Interest on Loan ..Curl	500 ✓ C		
Insurance owing	600 ✓ C		
NET Profit	22 310 ✓✓C/OF		
	<u>90 000</u>		<u>90 000</u>

Items marked (T) could appear in a trading account

**Appropriation a/c**

Interest on Capital		Net Profit	22310 ✓ OF
Curl 500 ✓ C		Interest on drawings	
Tong 250 ✓ C	750	Curl 400 ✓ C	
Salary to Tong	24000 ✓ C	Tong 700 ✓ C	1100
		Share of Loss	
		Curl 864 ✓ OF	
		Tong 576 ✓ OF	1440
	<u>24750</u>		<u>24750</u>

8 x ✓ = 4 marks

**Current accounts**

	Curl	Tong		Curl	Tong
Jan 1 Balance b/d	5000 ✓ C		Jan 1 Balance b/d		3000 ✓ C
Dec 31 Drawings	15500 ✓ C	25000 ✓ C	Dec 31 Int on Cap	500 ✓ OF	250 ✓ OF
Dec 31 Int on Drawings	400 ✓ OF	700 ✓ OF	Dec 31 Salary		24000 ✓ OF
Dec 31 Share of Loss	864 ✓ OF	576 ✓ OF	Dec 31 Int on Loan	500 ✓ OF	
Dec 31 Balance c/d		1074 ✓ OF	Dec 31 Balance c/d	20764 ✓ OF	
	<u>21764</u>	<u>27250</u>		<u>21764</u>	<u>27250</u>

14 x ✓ = 7 marks

**Balance sheet at 31 December 2004**

**Fixed Assets**

Fittings and equipment at cost	19000 ✓ C	
Less Prov for depr	<u>7900</u>	11,100 ✓ C

**Current Assets**

Stock	550 ✓C		
Cash	175	725 ✓C	
<b>LESS CURRENT LIABILITIES</b>			
Bank overdraft	4500 ✓C		
Creditors	1415 ✓C		
Insurance Owing	600 ✓OF	6515 ✓OF	-5790
			<u>5310</u>

**Capital Accounts**

Curl	10000		
Tong	5000	15000 ✓C	

**Current Accounts**

Curl	-20764 ✓OF		
Tong	1074 ✓OF	-19690	-4690
Loan from Curl			10000 ✓C
			<u>5310</u>

12 x ✓ = 6 marks  
Total 24 marks

**Question 3**

(a)(i) acid test ratio =  $\frac{\text{Current assets - stock } \checkmark\checkmark\text{C}}{\text{Current liabilities}}$

(ii) return on the capital employed =  $\frac{\text{Net Profit } \checkmark\checkmark\text{C}}{\text{Capital employed}}$

(iii) rate of stock turnout =  $\frac{\text{Cost of sales } \checkmark\checkmark\text{C}}{\text{Average stock}}$

6 x ✓ = 3 marks

(b) Award ✓✓ for any acceptable strategy to improve profit  
eg increase sales  
advertising campaign to boost sales  
reduce costs etc.

2 x ✓ = 1 marks

(c) Award ✓✓ for any acceptable strategy to improve liquidity  
eg bank loan  
offer cash discount to encourage quicker payment by debtors  
reduce prices to turn stock into cash  
sell off surplus fixed assets etc.

2 x ✓ = 1 mark

(d)(i) Award up to ✓✓✓✓ for each point  
 Turnover has gone up but profits have decreased  
 Break 4 ✓'s up as follows  
 Up to 2 ✓'s for explanation of turnover up and up to 2 ✓'s for explanation of profits down  
 Example ..Cost of materials increased but sales prices kept constant ...sales revenue up (sold more) ✓✓ but GP margin down and NP margin down✓✓

(ii) Profits have gone down yet working capital has improved.  
 Break 4 ✓'s up as follows  
 Up to 2 ✓'s for explanation of profits down and up to 2 ✓'s for explanation of WC improved

- Profits may have reduced due to a rise in advertising✓✓ This may have been accompanied by the sale of an asset for cash hence improving WC✓✓
- Profits may have been reduced due to selling items off cheap (sale) ✓✓ This may have been accompanied by raising a long term loan✓✓

16 x ✓ = 8 marks  
 Total 13 marks

#### Question 4

(a) S.N.O White✓ who  
Manufacturing Account for year ended 31 December 2004 ✓ what & when

<b>RAW MATERIALS</b>		Prime cost c/d	149500 ✓✓ OF(NC)
Opening Stock	400 ✓ C		
Purchases	<u>100,000</u> ✓ C 100, 400		
Less Purchases returns	300 ✓ C		
Less Closing stock	<u>600</u> ✓ C 900		
<b>Cost of RM Consumed</b>	99500 ✓ OF(NC)		
Factory wages	<u>50,000</u> ✓ C		
	<u>149500</u>		<u>149500</u>
Prime cost b/d	149500	Cost of finished goods	172,620 ✓✓ OF(NC)
Factory overheads			
Depreciation on P/M	10,000 ✓ C		
Vehicle running exps	5320 ✓ C		
Other indirect exps	5000 ✓ C		
Depreciation on vehicles	<u>3000</u> ✓ C <u>23320</u>		
	172620		
<b>WORK IN PROGRESS</b>			
Opening stock	600 ✓ C		
Less closing stock	800 ✓ C - <u>200</u>		
	172620		<u>172620</u>

18 x ✓ = 9 marks

(b)

Trading a/c for year ended 31 December 2004 ✓ what & when

Finished Goods		Sales	347040 ✓✓C/OF
Opening stock	3400 ✓C		
Cost of finished goods	172620 ✓OF	176020	
Less closing stock		2500 ✓C	
Cost of goods sold		173520 ✓OF	
Gross Profit		173520 ✓OF	
		347040	347040

8 x ✓ = 4 marks  
Total 13 marks

Question 5

(a)

Subscriptions Account

April 1 Balance b/d	150 ✓C	April balance b/d	200 ✓C
May 31 Inc/Exp (80 x £50)	4 000 ✓✓C	May 31 Bank/R+P	3 900 ✓C
May 31 Balance c/d	50 ✓C	May 31 Balance c/d	100 ✓✓C
	4200		4200
April 1 Balance b/d	100 ✓OF	April 1 balance b/d	50 ✓OF

10 x ✓ = 5 marks

Silksworth Cricket Club ✓ Income and Expenditure Account for year ended 30 March 2004 ✓

Rent	1 500 ✓C	Subscription	4 000 ✓✓C/OF
Less prepaid	150	Competition receipts	695 ✓C
Wages	6500 ✓C	Deficit	7 865 ✓✓C/OF
add accrued	200		
	6 700 ✓OF		
Repairs	620 ✓C		
Competition fees	340 ✓C		
Deprn on Equip	3 500 ✓C		
Loss on sales equip	50 ✓✓C		
	12 560		12 560

16 x ✓ = 8 marks  
Total 13 marks



**Question6**

- (a) Fixed assets are items owned ✓ long term/permanent ✓ eg premises, ✓✓ motor vans, machinery  
Award upto ✓✓ for explanation and up to ✓✓ for example 4 x ✓ = 2 marks
- (b) wearing out ✓ obsolete ✓ 2x ✓ = 1 marks
- (c)(i) diminishing balance  
straight line  
revaluation  
Award ✓✓ for each of 2 acceptable methods
- (ii) Motor vans costing £12,000 are to be depreciated by 25% on straight line method.  
So depreciation will be £3000 in year 1 and £3000 in year 2 ✓✓✓✓  
Maximum 2 ✓'s if no figures  
Award up to 2 ✓'s for year 1 and up to 2 ✓'s for year 2  
8 x ✓ = 4 marks
- (d) Leads to accurate net profit because depreciation is shown as an expense ✓✓  
Leads to a true and fair balance sheet because the asset less depreciation is shown at a fair figure ✓✓  
4 x ✓ = 2 marks

(e)

Vehicle Disposal a/c

Vehicles ✓	10 000 ✓C	Prov for depr ✓	3 600 ✓C
		Bank/Cash ✓	5 000 ✓C
		Profit and loss ✓	1 400 ✓OF
	<u>10 000</u>		<u>10 000</u>

8 x ✓ = 4 marks  
Total 13 marks

Question 7

McCarthy Ltd Balance Sheet at 31 December 2004

Fixed Assets	Cost	Aggregate Deprn	Net Value
Premises	200 000		200 000
Plant +machinery	500 000	100 000	400 000
			600 000 ✓ C

**Current Assets**

Stock	(-£60 000 ✓ - £15 000) ✓	15 900 ✓	
Debtors		19 500 ✓ C	
Income in arrears	(-£245 ✓)	245 ✓	
Cash	(+£5 000) ✓	7 000 ✓	42 645 ✓ OF

**Less Current Liabilities**

Bank overdraft		27 890 ✓ C	
Int on loan stock owing		3 000 ✓ C	
Prop share dividend		6 250 ✓ C	
Ordinary share dividend prop		25 000 ✓ C	
Creditors		15 000 ✓ C	77140 ✓ OF
Working Capital			-34 495
			<u>565 505</u>

**Registered Capital**

2,000,000 25p ordinary shares	500,000
250,000 50p 5% preference shares	125,000 ✓ C
	<u>625,000</u>
<b>Issued Capital</b>	
1 000 000 25p ordinary shares (fully paid)	250 000
250 000 50p preference shares (fully paid)	125 000 ✓ C
Revenue Reserves	20 000 ✓ C
P/L (-£3 000 ✓ -£245 ✓ -£6 250 ✓ -£60 000 ✓ -£10 000 ✓)	120 505 ✓
Shareholders Funds	415 505
6% loan stock	<u>50,000 ✓ C</u>
	<u>565,505</u>

26 x ✓ = 13 marks  
Total 13 marks

# ACCOUNTING O LEVEL 7011, CHIEF EXAMINER'S REPORT

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## General Comments

The quality of work produced by candidates continues to be high. However, candidates found aspects of this paper challenging. In general, further improvement can be made in the following ways.

- Attention given to the relationships between original documents, books of first entry and the ledger.
- Avoidance of abbreviation, for example, 'bal' should be 'balance'. 'B c/d' should be 'balance c/d'. Sometimes a candidate will miss the word 'balance' out completely and just write 'c/d'. This is unacceptable and can be put right with minimum effort.
- Reading the question carefully and following the instructions given by the question. When a question asks for an explanation, that is what is required. Sometimes a candidate will show some figures rather than explaining what the figures mean
- Practice on the type of analysis required by question 3(d). This can be done in the kind of practical way enjoyed by students. Practise pinning transactions on the balance sheet and describe the effect on the components of the balance sheet. This will develop crucial analysis skills required for the top grades at Ordinary Level and will provide a good grounding for AS and A2 levels.

## Question 1

This compulsory question was designed to test the entry of information from original documents into the subsidiary books and postings from these books of first entry to the ledger. Entries in the bank account were generally adequate but the daybooks and the general journal were very poor. On this occasion relatively few marks were allocated to the daybooks and the journal proper but centres are strongly advised to work with their candidates on these aspects.

The notion of posting to the ledger from books of prime entry was not widely understood. Again this is central to accounting and something candidates would therefore be well advised to practise.

## Question 2

This question related to a service business (hairdressing) and was owned by partners, Curl and Tong. Candidates were desperate to prepare a trading account even though not asked for and not required by such a business. Examiners understood this predisposition and did not penalise unduly. Once into the profit and loss account, answers flowed and scored well. The most difficult item in the profit and loss was the amount of the unpaid insurance. The loss arising in the profit and loss appropriation account caused difficulty for some candidates. However, the appropriation account and the current accounts were generally very well done. Interest on drawings was generally entered properly in the appropriation account and current accounts. Curl's personal use of the business was usually not recognised as drawings. Difficulties in the balance sheet related to the capital and current accounts. Weaker candidates prepared the capital section of the balance sheet for a sole trader rather than a partnership.

### Question 3

Definitely the least popular question. Parts (a), (b), and (c) were well done but only 5 marks were allocated to the rather straightforward notions tested.

Part (d) proved very difficult for most, specific, detailed responses were required. Candidates needed to provide an instance or example illustrating decreasing profits whilst turnover was increasing. This could have been a costly advertising campaign boosting sales but hitting expenses harder. Thus increased sales pushed up the gross profit but the cost of the advertising decreased the net profit by a greater amount. A similar type of analysis was required to (d) (ii).

### Question 4

This question was well done by many. However, the trading account requiring the mark up to calculate the sales was only achieved by the better candidates.

### Question 5

This question was adequately done by most. However, the finer detail of the subscriptions account was achieved only by the very best. These top candidates used their knowledge of the 80 members to transfer the correct amount to income and expenditure and deal appropriately with subscriptions in arrears and in advance. In part (b) the income and expenditure account was often contaminated by both the loan and the sale of equipment. Otherwise it was well done.

### Question 6

This written question was generally well done. However, candidates should note that when an explanation is asked for including figures, it is not sufficient just to show or list the figures without any words of explanation. Part (e) on disposal was well done but the only blemish here was the final narration. This should be profit and loss rather than loss on sale. The final entry in the disposal account, like any other narration, should name the place where one can find the double entry.

### Question 7

Company balance sheet is a favoured topic. Once again, impressive mastery was demonstrated. However, the adjustments caused difficulty, especially the parts that related to profits. Centres are advised to facilitate practice for candidates in pinning transactions on the balance sheet. When a question gives instructions to include workings in brackets next to the item concerned, candidates are strongly advised to follow such instructions. This process is designed to require candidates to show workings so that if the item is not fully correct an appropriate mark may still be awarded.

## ACCOUNTING 7011, GRADE BOUNDARIES

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Grade	A	B	C	D	E
Lowest mark for award of grade	63	51	40	35	30

**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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