

Mark Scheme with Examiners' Report

GCE O Level Accounting (7011)

January 2006

delivered locally, recognised globally

Mark Scheme with Examiners' Report

Edexcel is one of the leading examining and awarding bodies in the UK and throughout the world. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers.

Through a network of UK and overseas offices, Edexcel International centres receive the support they need to help them deliver their education and training programmes to learners.

For further information please call our International Customer Services Unit:

Tel +44 (0) 190 884 7750

Fax +44 (0) 207 190 5700

www.edexcel-international.org

January 2006

All the material in this publication is copyright

© Edexcel Limited 2006

ACCOUNTING 7011, MARK SCHEME

Question 1

Ifarne Juggasaw
Trading and profit and loss account for year ended 31 October 2005/

Opening stock	13 162	/				Sales	250 900/
Purchases (-500)	124 500	//	137 662				
Less cl stock			9 300	/	128 362		
Veh rung exps (20%)	640	//					
Depn on veh (20%)	486	//			1 126		
					129 488		
Gross Profit					121 412*	/	
					250 900		250 900

Carriage inward combined figure £1126 //

Heat & light	1 600	/				Gross Profit	121 412/
Add owing	55		1 655	/		Disc Rec	720/
Insurance	540	/					
Less prepaid	96		444	/			
Misc exps	151	/					
Less error	50		101	/			
Prov dep equip	405	/					
Prov dep veh (80%)	1 944	/	2 349				
Veh run exps (80%)			2 560	/			
Rates			2 500	/			
Wages			15 000	/	24 609		
Net profit					97 523	//	(/)*
					122 132		122 132

If total veh running exps £2430 and total depr on vehicles £3200 in P/L give one tick in each case.

If prepayments and accruals adjustments done but incorrectly give one tick in each case.

26 x / = 13 marks

Balance sheet at 31 October 2005

Capital	48 844	/				
Net profit	97 523*	/	146 367			
Less drawings			25 600	/	120 767	
Fixed Assets						
Premises			95000	/		
Equipment	5 000	/				
Less provision for depreciation	1 355	//	3 645*	/		
Vehicles	10 000	/				
Less provision for depreciation	4 330	//	5 670*	/	104 315*	/
Current Assets						
Stock	9 300	/				
Debtors	15 690	/				
Insurance prepaid	96	/				
Bank	12 600	/				
Cash	821	/	38 507*	/		
Less Current Liabilities						
Creditors	22 000	/				
Heat & light unpaid	55	/	22 055*	/		
Working capital					16 452	
					120 767	

22 x / = 11 marks

Total 24 marks

Question 2

(a)

General Journal

		Debit	Credit
Nov 20	Fittings & equipment	1 400/	
	VAT	140/	
	Zoe Fittings Ltd		1 540/
Being purchase of fittings on credit/			

Purchases Journal

		Goods	VAT	Total
Nov 6	Tara & Co	7 200 /		
	Less trade discount 25%	1 800 /		
		5 400* /	540*	5 940* /
Nov 13	Bovi Ltd	5 000 /		
	less trade discount 20%	1 000 /	(/)*	
		4 000* /	380 /	4 380* /
	Totals to ledger	9 400* /	920* /	10 320

Cash Book

		Bank			Disc Rec	Bank
Nov 1	Balance b/d	2 600 /	Nov 1	Petty cash		100 /
No30	Sales (inc VAT)	19 695 /	Nov 4	Insurance		900 /
			Nov 9	Bovi Ltd	20 /	1 630 /
			No 26	Bovi Ltd	200 /	4 180 /
					220* /	

26 x / = 13 marks

(b)

Stock Account

		£	
Nov 1	Balance b/d	15 000 /	

Fittings and Equipment Account

		£	
Nov 1	Balance b/d	20 000 /	
Nov 20	Zoe fittings	1 400 /	

Bovi Ltd

		£					
Nov 9	Bank	1 630	/		Nov 1	Balance b/d	1 650
Nov 9	Disc rec	20			Nov13	Purchases	4 380*
Nov 26	Bank	4 180	/				
Nov 26	Disc rec	200					

Short Stuff Ltd

		£					
Nov 13	Petty cash	30	/		Nov 1	Balance b/d	30

Capital Account

					Nov 1	Balance b/d	35 970
--	--	--	--	--	-------	-------------	--------

Tara & Co Account

					Nov 6	Purchases	5 940*
--	--	--	--	--	-------	-----------	--------

VAT Account

		£					
Nov 20	Zoe Fittings	140*	/		Nov30	Bank (sales)	1790
Nov 30	Sundries (Pch)	920*	/				
Nov 30	Petty cash	1	/				

Zoe Fittings Account

		£					
					Nov20	F & Equip	1 400
					Nov20	VAT	140

Sales Account

		£					
					Nov30	Bank	17 905

Purchases Account

		£					
Nov 30	Sundries	9 400*	/				

Cleaning Account

		£					
Nov 30	Petty cash	70*	/				

Postage Account

		£					
Nov 30	Petty cash	24*	/				

Discount Received

				Nov30	Sundries	220*	/

22 x / = 11 marks

Total 24 marks

Question 3

(a)

Tick is for comment and figure. If final figure given only e.g. WC increases by £2000 give one tick only because the Q is about explaining. Do not credit OFs that result in a different final answer.

(i)	Cash will increase by £10 000/, stock will decrease by £8 000/. Thus current assets will increase by £2 000/ and working capital will increase by £2 000/
(ii)	Stock will increase by £925/, creditors will increase by £925/. Thus current assets will increase by £925/, current liabilities will increase by £925/, so there will be no change in working capital/
(iii)	Cash will increase by £2 000/, so working capital will increase by £2 000/
(iv)	Bank will increase by £15 000/ and current assets will increase by £15 000/. Bank overdraft/creditors will increase by £5 000/ and current liabilities will increase by £5 000/. Thus working capital will increase by £10 000/
(v)	Stock will decrease by £1 600/, cash/debtors will increase by £1 200/. Thus current assets will decrease by £400/ and working capital will decrease by £400/

20 x / = 10 marks

(b)

Evaluate means that candidates should be looking for strengths and weaknesses and draw a conclusion. So, award up to // for strengths, // for weaknesses and // for conclusion

Example arguments for

- 2:1 means that debts can easily be paid as they fall due//
- 2:1 is clearly the industry benchmark and that will give the firm confidence//

Example arguments against

- It might be possible to manage on less than 2:1 and channel capital into profit generating assets//

Conclusion

- 2:1 steers a middle road between over and under trading and is clearly endorsed by practice in the trade//
- Perhaps the firm could manage on something nearer 1:1, providing the bank manager is friendly etc(//)

6 x / =3 marks (maximum)

Total 13 marks

Question 4

- (a) **April 9**
R Arms has sold goods on credit to Faisa
- April 10**
R Arms has received a cheque for £475 from Faisa and allowed cash discount of £25
- April 16**
R Arms has received returned goods £35 from Faisa
- April 29**
Faisa's account in the purchases ledger where she was owed £95 by R Arms has been "set off" or transferred to the sales ledger
- April 30**
R Arms is owed £578 by Faisa

14 x £ = 7 marks

- (b) **Running balance account**

Faisa Bache

		Debit	Credit	Balance
April 1				500 Dr
April 9	Sales	258		758*
April 10	Bank		475	
April 10	Discount allowed		25	258*
April 16	Returns inward		35	223*
April 23	Sales	450		673*
April 29	Contra (purchases ledger)		95	578*

Tick is for figure and narration - balance should be shown in the balance column

12 x £ = 6 marks

Total 13 marks

Question 5

(a)

Santa Catalina Golf Club

Shop Trading Account for year ended 31 December 2005

Opening stock	3 790	/				Sales	280 000/
Purchases	210 525	/	214 315				
Less cl stock			4 100	/	210 215		
Profit					69 785*	/	
					<u>280 000</u>		<u>280 000</u>

Income and expenditure account for year ended 31 December 2005

Treas salary	25 000	/	Profit on shop			69 785*	/
General exps	19 200	/	Subscriptions	140 000	/		
Ground staff wages	45 000	/	+ in adv from 04	300	/		
Course expenses	120 000	/	+ in arrears 05	260	/		
SURPLUS	4 445*	/	- in adv 04	1 000	/		
			- in adv 06	700	/	138 860*	/
			Donation 10%			5 000	/
	<u>213 645</u>					<u>213 645</u>	

18 x / = 9 marks

(b)

Identify 2 differences and 2 similarities between the final accounts of profit-making and non profit-making organisations

Differences

Profit making prepare profit and loss account whereas non profit-making prepare income and expenditure account

Profit and loss calculates net profit or loss whereas non profit calculates surplus or deficit

Profit-making uses concept of capital in B sheet whereas non profit uses accumulated fund

Similarities

Both use a trading account for certain activities

Both use revenue account (P/L or I & E)

Both use balance sheet to show picture of business

Award // for each difference ...2 differences x // = //// = 2 marks

Award // for each similarity ...2 similarities x // = //// = 2 marks

Total 13 marks

Question 6

(a) **B Tow and J Heal**

(i) **Profit and loss Appropriation Account for 8 months' ended 31 December 2005**

<u>Interest on Capital</u>				Net Profit	60 000/
B Tow	2 880/				
J Heal	1 920/	4 800			
Salary to Heal		16 000/	20 800		
<u>Share of Profit</u>					
B Tow	19 600*/				
J Heal	19 600*/		39 200		
			<u>60 000</u>		<u>60 000</u>

6 x / = 3 marks

(ii) **Current Account of J Heal**

Dec 31	Drawings	20 000*	//	Dec31	Int on Capital	1 920*	/
Dec 31	Capital -Heal	12 520*	/	Dec31	Salary	16 000*	/
Dec 31	Balance c/d	5 000	/	Dec31	Share of Prft	19 600*	/
		<u>37 520</u>				<u>37 520</u>	
				Jan 1	Balance b/d	5 000*	/

8 x / = 4 marks

(iii) **Capital Account of J Heal**

Dec 31	Balance c/d	36 520*	/	Apr 1	Balance b/d	24 000	/
				Dec31	Current -H	12 520*	/
		<u>36 520</u>				<u>36 520</u>	
				Jan 1	Balance b/d	36 520*	/

4 x / = 2 marks

(b) Evaluate the usefulness to a partnership of preparing both capital and current accounts

One reason for /// one reason against /// and conclusion // gives 8 x / - 4 marks (maximum)

Example arguments for

The firm can be clear about the fixed capital committed by the partner to the business (Capital Account) /// and the amount a partner is earning from the business (Current Account) ///

Easier to calculate interest on capital if capital and current accounts are separate (///)

Example arguments against

Extra work to separate capital and current items ...all relate to the partner so keep all in one combined account. ///

Example Conclusion

Since each account has a separate function, the existence of each is valuable to the firm//

Or Less work to put all the entries on one account and show the net figure owed to or by each partner. (//)

Total 13 marks

ACCOUNTING 7011, CHIEF EXAMINER'S REPORT

General Comments

The overall standard was adequate, although a large number scored 40% or more. There were very few really top scoring scripts. Most candidates attempted all the questions on the paper. The written sections were poorly answered and only a very few candidates showed any real appreciation of what these questions were asking. The paper was comparable in its demands to the paper of June 2005, which was the first paper on the revised specification.

Question 1

As expected, this was the question which was best answered by almost all candidates. The question gave candidates the opportunity to prepare final accounts. However, the question was graded in difficulty and the following points caused some problems:

Trading and profit and loss accounts

- The purchases returns - most candidates deducted £250 and not £500.
- The vehicle running expenses - a minority did the correct calculation and correctly inserted £640 in the trading section. However, many did include it in the profit and loss section.
- The depreciation on vehicles - most incorrectly included the £486 in profit and loss rather than trading.
- Some candidates included wages in the trading section.
- Depreciation was often incorrectly calculated - many used the £950 and £1,900 from the trial balance rather than the amount of depreciation expense relating to the current period.

Balance sheet

- The item which gave most problems was the accumulated depreciation.
- Other items were generally completed correctly and the balance sheets were well set out, with sub-totals and sub-headings.

Question 2

This question caused a lot of problems and yet it was about basic bookkeeping and had been examined in a similar way on the two previous papers. Candidates whose preparation included practice on posting from the day books and on fundamental double entry, scored well. The main difficulties experienced were:

- The general journal was set out like a purchases journal and did not specify the debits and credits. A lot of candidates included the purchase of the fittings in the purchases journal.

- There was a wide variety of figure permutations in the purchases journal, although a reasonable number did reach the final figure. The VAT for Bovi Ltd was often given as £400 and not £380.
- The Cash Book was quite well done with items generally on the correct side. However, only the best candidates found the correct discount figure for Bovi on 26 November.
- One of the most common errors, even among good candidates, was the failure to treat VAT correctly in the nominal ledger accounts.
- A lot of marks were lost for incorrect narrations, which is a pity when the actual entries are correct. Generally the narration should be the name of the “other” account. A lot of candidates gave individual figures in the purchases and sales accounts (for example) instead of the total from the day book. And a lot are still writing ‘B b/d’ - this can easily be rectified if Centres stress that ‘balance’ should be written in full.
- Despite the above, it was pleasing to see that most candidates placed their entries on the correct sides of the accounts.

Question 3

- (a) Many candidates experienced difficulty in *explaining*. Sometimes the figure involved was correct but the candidate was unable to explain how this figure was ascertained. Practice on appropriate exercises is essential.
- (b) There were some very general answers which received little credit but a lot did manage to say why it is important to have sufficient current assets. However, only the best candidates looked at the problems of not having a current ratio of 2:1, and few of these came to an overall conclusion. The evaluation technique needs to be addressed in more detail by Centres. In this case evaluation required a point for, a point against and a conclusion.

Question 4

- (a) Many candidates showed good understanding of each entry in the Faisa Bache account. Some made their answers too brief and general. It was difficult for examiners to give credit to candidates who did not say who was doing the selling, buying or returning. Candidates are advised to use the names of those involved to clearly demonstrate their knowledge and understanding.
- (b) It seems that running balance accounts are not within the experience of many candidates (despite repeatedly appearing on past papers).

However, computer programs use this format and it is not acceptable that students in the 21st century only know 'T' accounts. It is straightforward to produce a running balance account. "Practice will make perfect".

Question 5

(a) Candidates are generally happy with income and expenditure accounts because they are like profit and loss accounts. The main problems were as follows:

- Incorrect subscription calculations - many candidates are unclear on what to add and what to take away.
- Incorrect profit on shop.
- A more or less universal insistence on including the purchase of the shop fittings in the income and expenditure account, or in the trading account.
- Some interesting and creative similarities and differences were received and a lot of candidates confined themselves to saying that one makes a profit and the other doesn't, or makes a loss. The better candidates distinguished between the various names used and pointed out some common areas. A lot of the points concerned the types of expense and income and did not discuss final accounts.

Question 6

(a) Most candidates knew how to do an appropriation account but many failed to make the adjustment for the 8 month period. It is pleasing to report that few candidates included drawings in the appropriation account. There were a number of problems in the current and capital accounts and a lot of duplication. Only the best candidates managed to insert the £5,000 balance in the current account but did make some transfer to the capital account. Some candidates set their current accounts out in statement form, in the way they would have done inside a balance sheet. Such statements were not regarded as accounts and thus did not receive full credit.

(b) A large number of candidates missed the point of this question (failing to evaluate) and simply said what each type of account contained.

ACCOUNTING 7011, GRADE BOUNDARIES

Grade	A	B	C	D	E
Lowest mark for award of grade	58	47	36	31	23

Note: Grade boundaries may vary from year to year and from subject to subject, depending on the demands of the question paper.

Further copies of this publication are available from
Edexcel International Publications, Adamsway, Mansfield, Notts, NG18 4FN, UK
Telephone: +44 (0) 1623 450 781
Fax: +44 (0) 1623 450 481
Email: intpublications@linneydirect.com

For more information on Edexcel International, please contact our
International Customer Services Unit on +44 (0) 190 884 7750
or visit www.edexcel-international.org
Edexcel Limited. Registered in England and Wales No. 4496750
Registered Office: 190 High Holborn, London WC1V 7BH, UK

edexcel 
INTERNATIONAL