

Mark Scheme with Examiners' Report

GCE O Level Accounting (7011)

June 2006

delivered locally, recognised globally

Mark Scheme with Examiners' Report

ACCOUNTING 7011, MARK SCHEME

Question 1 (a) and (b)

Software Ltd Account						
Apr 1	Balance b/d	2 000	√	Apr 16	Bank	1950√
				Apr 16	Discount All	50√

Byte Ltd Account						
Apr 1	Balance b/d	1 500	√			
Apr 23	Sales	19 800	√			

Stock Account						
Apr 1	Balance b/d	4 500	√	Apr 30	Trading	4 500√
Apr 30	Trading	3 200	√			

Mega Ltd Account						
Apr 3	Bank	3 492	√	Apr 1	Balance b/d	3 600√
Apr 3	Discount Rec	108	√			

Video Ltd Account						
				Apr 1	Balance b/d	5 000√
				Apr 3	Purchases	11 000√

Capital Account						
				Apr 1	Balance b/d	31 500√

Supreme Fitters Account						
				Apr 12	Fixtures/VAT	4 400√

Fixtures and Fittings Account						
Apr 12	Supreme Fitters	4 000	√			

Drawings Account						
Apr 7	Bank	500	√			

Admin Exps Account						
Apr 12	Bank	80	√	Apr 30	Profit/loss	170√
Apr 30	Petty cash	90	√			

Selling Exps Account						
Apr 30	Petty cash	20	√	Apr 30	Profit/loss	20√

Purchases Account						
Apr 21	Bank	1 000	√√	Apr 30	Trading	11 000√
Apr 30	Sundry creditors	10 000	√			

Sales Account						
Apr 30	Trading	38 000	√	Apr 29	Bank	20 000√√
				Apr 30	Sundry Debtors	18 000 √

VAT Account						
Apr 12	Supreme Fitters	400	√	Apr 29	Bank (Sales)	2 000√
Apr 12	Bank (Adm exp)	8	√	Apr 30	Sundry Deb (Sales)	1 800√
Apr 21	Bank (Pchs)	100	√			
Apr 30	Sundry Creditors	1 000	√			
Apr 30	Petty Cash	11	√			

38 x √ = 19 marks

(c) Using the valuation of stock as your example, evaluate the importance of the prudence concept to the preparation of final accounts

Up to √√√ for a point in favour

Up to √√√ for a point against, or up to √√√ for a further point in favour

Up to √√√√ for conclusion

Example answer

Faisa will value stock at cost√ or net realisable value whichever is lower√ because this takes a cautious view√.

She might have taken some other measure e.g. selling price ...but this would not have been cautious√ and would have overstated profits√ and made the balance sheet inaccurate√

Overall, it is essential that prudence is applied to give an accurate profit √√ and a true and fair balance sheet √√.

10 x √ = 5 marks

Total 24 marks

Question 2

Profit and Loss Account for year ended 31 March 2006

Opening stock	2 000√				Fees received	420 000√
Materials	22 000√					
Less drawings	500√					
Less closing stock	640√	22 860				
Wages		40 000√				
Admin Exps		8 500√				
Advertising		840√				
Int on loan (Filling)		500√				

Insurance owing		900√			
Prov for dep fittings		6 000√			
			79 600		
Net Profit			340 400	√	
			<u>420 000</u>		<u>420 000</u>

12 x √ = 6 marks

Appropriation Account for year ended 31 March 2006

Interest on Capital					Net Profit	340 400√
F	5 000				Interest on Drawings	
K	2 500	7 500√			F	1 000
Salaries					K	950√
F	80 000					
K	80 000	160 000√	167 500			
Share of Profit						
F	104 910√					
K	69 940√		174 850			
			<u>342 350</u>			<u>342 350</u>

6 x √ = 3 marks

Current Accounts of Filling and Kap

	F	K		F	K
Balance b/d		15 000√	Balance b/d	5 000√	
Drawings	100 500√√	95 000√	Interest on Capital	5 000√	2 500√
Interest on drawings	1 000√	950√	Share of Profit	104 910√	69 940√
Balance c/d	93 910√	41 490√	Salary	80 000√	80 000√
			Interest on Loan	500√	
	<u>195 410</u>	<u>152 440</u>		<u>195 410</u>	<u>152 440</u>

16 x √ = 8 marks

Question 2 (cont)

Balance sheet at 31 March 2006

Fixed Assets			
Premises		255 300√	
Fixtures & Fittings	60 000√		
Less provision for depreciation	24 000	36 000√	291 300√
Current Assets			
Stock	640√		
Bank	7 500√		
Cash	275√	8 415√	

Less Current Liabilities			
Insurance owing	900✓		
Creditors	3 415✓	4 315✓	
Working Capital			4 100
			295 400
Capital Accounts			
Filling	100 000		
Kap	50 000	150 000✓	
Current Accounts			
Filling	93 910		
Kap	41 490	135 400✓	285 400
Loan from Filling			10 000✓
			295 400

14 x ✓ = 7 marks

Question 3

(a)(i) acid test ratio = $\frac{\text{current assets} - \text{stock}}{\text{current liabilities}}$ ✓✓

(ii) gross margin = $\frac{\text{Gross Profit} \times 100}{\text{Sales}}$ ✓✓

(iii) Rate of stock turnover = $\frac{\text{Cost of sales}}{\text{Average stock}}$ ✓✓

6 x ✓ = 3 marks

(b) Award ✓✓ for any acceptable strategy to improve profit
e.g. advertising campaign to boost sales
reduce costs by finding a cheaper supplier etc.

2 x ✓ = 1 mark

Less Cl Stock	200✓		600		
			<u>298 600</u>		<u>298 600</u>

If alien items included lose one sub total ✓.
 ✓✓ for sub total must be correct
 ✓ for sub total OF (NC)

18 x ✓ = 9 marks

(b)

Trading Account for year ended 31 March 2006

Finished Goods					Sales	595 000✓✓
Opening Stock	2 400✓					
Cost of F G	<u>298 600✓</u>	301 000				
Less Cl Stock		<u>3 500✓</u>				
Cost of Sales			297 500	✓		
Gross Profit			<u>297 500</u>	✓✓		
			<u><u>595 000</u></u>			<u><u>595 000</u></u>

8 x ✓ = 4 marks

Total 13 marks

Question 5

An error was identified on question 5 on the day of the examination. The correct figure under point (iv) should be £150. It was agreed at standardisation in light of the error identified that any figure provided by candidates in would be accepted and examiners marked all accounts generously to compensate for this. The answers calculated with the correct figure have been included below.

Subscriptions Account						
April 1	Balance b/d	250	✓	April 1	Balance b/d	100✓
Mar 31	Inc/Exp	50 000	✓✓	Mar 31	Bank/R & P	50 250✓
Mar 31	Balance c/d	150	✓	Mar 31	Balance c/d	<u>50✓✓</u>
		<u>50 400</u>				<u>50 400</u>
Apr 1	Balance b/d	<u>50✓</u>		Apr 1	Balance b/d	<u>150✓</u>

10 x ✓ = 5 marks

Income and Expenditure Account of Sylett Cricket Club✓ for year ended 31 March 2006✓					
Rent	1 600✓			Subscriptions	50 000✓✓
Less prepaid	120	1 480✓		Competition receipts	800✓
Wages	<u>8 500✓</u>				
Add accrued	140	8 640✓			
Repairs		320✓			
Competition fees		350✓			
Deprn on Equip		<u>2 500✓</u>			

Loss on sales equipment		360✓✓	13 650		
SURPLUS			37 150✓✓		
			<u>50 800</u>		<u>50 800</u>

16 x✓ = 8 marks

Total 13 marks

Question 6

Balance Sheet of Tsaris Ltd at 31 March 2006			
Fixed Assets			
Premises		700 000✓	
Plant and machinery	500 000		
Less provision for depreciation	100 000	400 000✓	1 100 000✓
Current Assets			
Stock (-40 000✓)	80 000✓		
Income in arrears (-150✓)	150✓		
Debtors	15 500✓		
VAT	880✓		
Cash	2 000✓	98 530✓	
Less Current Liabilities			
Bank overdraft	28 680✓		
Preference dividend proposed	25 000✓		
<i>Ordinary dividend proposed</i>	50 000✓		
<i>Debenture interest owing</i>	3 000✓		
Creditors	15 000✓	121 680✓	
Working Capital			-23 150
			<u>1 076 850</u>
Authorised Capital			
4 000 000 25p Ordinary shares	1 000 000		
500 000 50p 5% Preference shares	250 000	1 250 000✓	
Issued Capital			
2 000 000 25p Ordinary shares (fully paid)	500 000✓		
300 000 50p 5% Preference shares (fully paid)	150 000✓	650 000	
<i>Profit and loss credit balance (-3 000✓ -150✓ -</i>		376 850✓	

50 000√ -40 000√)			
Shareholders' funds			1 026 850
6% Debentures			50 000√
			<u>1 076 850</u>

Total 13 Marks

Examiners' Report

GCE O Level Accounting (7011)

June 2006

delivered locally, recognised globally

Examiners' Report

ACCOUNTING 7011, CHIEF EXAMINERS' REPORT

General Comments

This paper was the second June paper on the revised specification. Centres are taking time to reach the standard of work pre-revision. VAT, accounting concepts and the greater amount of evaluation pose development issues for candidates. Some progress is being made. If the advice in this report is turned into action by Centres and Candidates, further improvement in the standard will be the outcome. The vast majority of candidates answered all questions on the paper. Written aspects in general and evaluation in particular continued to be poor.

Question 1

As usual ledger work proved to be difficult for many candidates, showing perhaps that the bulk of their studies is given over to preparing final accounts and giving less weight to the basic bookkeeping procedures. However, most candidates made a reasonable attempt at this question. The main points of weakness were:

- **The treatment of VAT.** This is probably the main area that needs attention. VAT was often included in the nominal accounts and omitted from the personal accounts. This is a point for teachers to pick up on - stress that the customer or supplier account contains everything (goods and VAT) and that this is then split up in the nominal ledger into goods (sales or purchases account) and VAT account. After practice this would become familiar and students would have no problem with it. The VAT account itself caused severe difficulty to many - incorrect amounts on the incorrect side with incorrect narrations.
- **Narrations.** Numerous marks were lost due to incorrect narrations. The main rule is not difficult and can be easily grasped with practice. The narration for each entry should be the name of the account where the double entry is recorded. Candidates are not distinguishing between bank, cash and petty cash. Many candidates are still writing simply Bb/d or just b/d. This occurred 6 times in this question and caused the loss of 3 marks for those who could not take the time to write Balance properly.
- **Transfers to the trading and profit and loss accounts.** Some candidates did not do this at all and others transferred to the wrong account. Again this simply requires good practice.

The written part of this question was not well answered. Most candidates referred to not anticipating profits and better ones used the phrase 'true and fair value' but got no further. Very few attempted to explain net realisable value. The trigger word evaluation is asking candidates to weigh up the strengths and weaknesses and draw a conclusion. Candidates are advised to practise these techniques of evaluation.

Question 2

Most candidates scored well on this final accounts question. The main problem areas were:

- Failure to recognise that this was a service business and that fees would be shown on the credit of the profit and loss account with the corresponding expenses shown on the debit side.
- Stock drawings and interest on loan often omitted.
- Few candidates found the correct insurance figure in either the profit and loss account or the balance sheet.

Question 3

(a) (b) and (c) Most did well, showing good knowledge of formulae and selecting appropriate strategies.
(d) Candidates found the final 8 marks in this question difficult to obtain. Liquidity was particularly weak. Most suggested that current assets had increased and current liabilities had decreased and gave no further reason. Others made suggestions which would have simply caused a change in the composition of the working capital without altering its total. Liquidity can be increased by reducing other parts of working capital (stock and debtors) but working capital can be increased only by bringing in funds from another section of the balance sheet.

Question 4

This question was well done by most. The main problems were:

- classifying items in the incorrect section. For example, returns outward appeared in many places - only one of which was correct.
- candidates must appreciate that selection is an important part of some questions. Not all items are actually required.
- many candidates lost 1 mark by omitting the name of the person and of the account.
- inability to use the mark up to calculate the sales figure in the trading account.

Question 5

- (a) There was an error in the paper on this question relating to subscriptions. The subscription account was marked very generously to offer compensation.
- A significant number failed to use the word 'balance' but wrote 'accrued b/d' or 'prepaid b/d'. This is unacceptable but can easily be corrected.
 - Some candidates were confused over which side the opening balances should appear on. An asset is a debit balance b/d and a liability is a credit balance b/d.
- (b) The income and expenditure account was well done by most. The main problems related to:
- the sale of equipment
 - treatment of the loan
 - poor title.

Question 6

Most candidates scored well on this balance sheet question, showing good classification of items. Points of difficulty were:

- the income in arrears and VAT were often placed under current liabilities.
- dividends were often omitted and those who did include them often failed to write 'proposed' and so lost marks.
- the majority are still not giving the details of the share capital. Even where this was done marks were lost due to a failure to state 'fully paid'.

ACCOUNTING 7011, GRADE BOUNDARIES

Grade	A	B	C	D	E
Lowest mark for award of grade	62	52	43	38	26

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