

Edexcel IGCSE

Accounting 4305

November 2006

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Mark Scheme

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Question 1

- | | |
|---------|---------|
| (a) B✓✓ | (f) D✓✓ |
| (b) A✓✓ | (g) D✓✓ |
| (c) A✓✓ | (h) A✓✓ |
| (d) C✓✓ | (i) D✓✓ |
| (e) B✓✓ | (j) A✓✓ |

20 x ✓ = 10 marks

Question 2

Throughout this question assume that the rate of VAT is 10%
D Davies's business sells computer equipment. During August 2006, D Davis received the following invoices from suppliers.

Aug 10. Cameron Ltd, goods at list price £700 less 20% trade discount plus VAT (no cash discount was offered on this transaction)

Aug 24. Fox Ltd., goods value £1500 plus VAT. The invoice offered a cash discount of 2.5% for payment within 10 days.

- (a) Enter the above items into the purchases journal for August 2006. Total the purchases journal at the end of the month.

Purchases Journal

Date	Narration	Goods	VAT	Total
Aug 10	Cameron Ltd	700/		
	Less Trade Discount 20%	140/		
		560/	56/	616/
Aug 24	Fox Ltd	1500/	146.25/	1646.25/
Aug 31	Totals	2060/	202.25/	2262.25/

12 x / = 6 marks

During August Davies returned some goods to his suppliers and the following credit notes were received.

Aug 17. Cameron Ltd, goods list price £60 (these were some of the goods supplied on August 10)

Aug 29. Howard Computing, goods at list price £650 less a trade discount of 25% plus VAT (no cash discount had been offered on the invoice for these goods)

- (b) Prepare the returns outwards journal and total it at the end of the month

Returns Outwards Journal

Date	Narration	Goods	VAT	Total
Aug 17	Cameron Ltd	60/		
	Less Trade Discount 20%	12/		
		48/	4.80/	52.80/
Aug 29	Howard Computing	650/		
	Less Trade Discount 25%	162.50/		
		487.50	48.75/	536.25/
Aug 31	Totals	535.50/	53.55/	589.05/

12 x / = 6 marks

As well as the information recorded in the purchases and returns outwards journals, the following details are available regarding Cameron Ltd.

Aug 1	Balance of account: £5000
Aug 4	Cheque sent in full settlement of the balance on 1 August less a cash discount of 10%

(c) Prepare the account of Cameron Ltd in D Davies's purchases ledger. Balance the account on 31 August and bring the balance down.

Cameron Ltd Account

Date	Narration	£	Date	Narration	£
Aug 4	Bank	4500/	Aug 1	Balance b/d	5000/
Aug 4	Discount Rec	500/	Aug 10	Purchases	616/
Aug 17	Returns	52.80/			
Aug 31	Balance c/d	563.20/			
		<u>5616</u>			<u>5616</u>
			Sept 1	Balance b/d	563.20/

10 x / = 5 marks

In addition to the VAT arising from credit purchases and returns out, the following transactions included VAT.

Aug 8	Purchase of new cash register from Major Ltd on credit £2000 + VAT.
Aug 13	Purchase of stationery by cheque £440 including VAT.
Aug 31	Cash sales for the month totalled £10450 including VAT.

- (d) Starting with the opening credit balance b/d of £1650 at 1 August, prepare the VAT account in D Davies's nominal (general) ledger. Balance the account on 31 August and bring down the balance.

VAT Account

Date	Narration	£	Date	Narration	£
Aug 8	Major Ltd	200/	Aug 1	Balance b/d	1650/
Aug 13	Bank (Stat)	40/	Aug 31	Sundry Creditors	53.55/
Aug 31	Sundry Creditors	202.25//	Aug 31	Cash (Sales)	950//
Aug 31	Balance c/d	2211.30/			
		<u>2653.55/</u>			<u>2653.55/</u>
			Sept 1	Balance b/d	2211.30/

12 x/ = 6 marks

(e) State where the closing balance of the VAT account would be shown in the balance sheet and why it appears there?

- (i) The VAT balance would be shown as a **current liability//** as the
 (ii) **business owes/** this amount to the **tax authorities/**

4 x/ = 2 marks

Total for Question 2: 25 marks

Question 3

Gobi D Ltd is a medium sized retail business. At the end of the company's financial year on 30 June 2006, the following balance sheet was drafted by a new trainee accountant:

**Gobi D Ltd
Balance Sheet
as at 30 June 2006**

	£000		£000
Plant and Machinery	300	Ordinary Share Capital (Issued)	5000
Ordinary Share Capital (Authorised)	8000	Freehold Premises	5000
Trade Creditors	10	Stock 30 June 2006	400
Profit and Loss Account Balance	960	Stock 1 July 2005	350
Cash at Bank (Cr)	50	Motor Vehicles	350
Provision for Depreciation (Motor Vehicles)	75	Provision for Depreciation (Plant and Machinery)	180
Cash In Hand	50	Bank Loan (Repayment 2010)	75
'Balancing Figure'	2160	Debtors	250
	11605		11605

Having reviewed the balance sheet and consulted your line manager you establish that the figures were obtained from a correct trial balance.

- (a) Prepare a correct balance sheet, in good form, for Gobi D Ltd as at 30 June 2006 showing clearly fixed assets, current assets, current liabilities, long term liabilities, working capital and shareholders funds.

Gobi D Ltd
Balance Sheet
As at 30 June 2006

	£000	£000	£000
Fixed Assets	Cost/Valuation	Agg Depreciation	Net Value
Freehold Premises	5000/		5000/
Plant & Machinery	300/	180/	120/
Motor Vehicles	350/	75/	275/
	5650	255	5395
Current Assets			
Stock	400/		
Debtors	250/		
Cash in Hand	50/		
		700/	
Current Liabilities			
Trade Creditors	10/		
Bank Overdraft	50/		
		60/	
Working Capital			640/
			6035
Long Term Liabilities			
Bank Loan			75/
			<u>5960/</u>
Represented by:			
Ordinary Share Capital (Authorised)		<u>8000/</u>	
Ordinary Share Capital (Issued)		5000/	
Profit and Loss Account		960/	
Shareholders Funds			<u>5960/</u>

22 x / = 11 marks

(b) Distinguish between authorised share capital and issued share capital.

The authorised share is the maximum number of shares that a company may issue to its shareholders

The issued share capital is the amount of share capital that has actually been sold/distributed/given out by the company to its shareholders

The difference is that the authorised share capital is shown on the balance sheet for information only and is not included in the balance sheet total, whereas the issued share capital forms a part of the 'financed by' / shareholders' funds / ownership section of the balance sheet

12 x = 6 marks

(c) Using examples, evaluate the importance of the consistency concept and the accruals concept to the preparation of final accounts.

Consistency Concept

This concept requires that when a business adopts particular accounting methods, it should normally continue to use such methods in a similar manner. This allows comparison between the financial statements of different years to be made. For example the method of depreciation and the basis of valuation of stock should be applied consistently. (Only one example required)

Any relevant example each

Accruals Concept

This concept requires that revenue, other income and expenses are recognised in the financial period in which they are incurred. This is essential so that the profit and loss account shows a true profit or loss for a given period, and that the balance sheet indicates the true value of the businesses worth at the period end.

Any relevant example each

16 x = 8 marks

Total for Question 3: 25 marks

Section B

Answer all Questions

Question 4

On 30 September 2006, the totals of the trial balance drawn up for Indira's business did not agree. The difference was entered in a suspense account. An investigation of the difference revealed the following errors relating to the period for which the trial balance had been prepared.

- The sales day book had been overcast by £240.
- No entries had been made for stock £750 taken by Indira for her own use.
- Goods purchased for £1250 from the Pointer brothers had been posted to their account in error as £1520.
- £85 discount allowed to Farmer & Co debited in their account.
- A credit purchase from A Patel for £500 was credited to the account of L Patel

(a) Set out the journal entries for the items that do **not** involve the suspense account. Narratives are required and must state the **type** of error involved

General Journal

	Debit	Credit
Drawings	750/	
Purchases		750/
Being Correction of error of omission/		
L Patel	500/	
A Patel		500/
Being Correction of error of commission/		

6 x / = 3 marks

- (b) Write up the suspense account, including the opening balance. Assume that the trial balance totals agree after the errors have been corrected.

Suspense Account

Date	Narration	£	Date	Narration	£
Sept 30	Balance b/d	340	Sept 30	Sales	240
Sept 30	Farmer & Co	170	Sept 30	Pointer Brothers	270
		510			510

8 x £ = 4 marks

- (c) Before discovery of the errors, which side of the trial balance was deficient (lighter) and by how much?

The debit side ££ was deficient by £340££

4 x £ = 2 marks

- (d) State why a trial balance which agrees may **not** produce a true check of accuracy. Use an example to support your answer.

The trial balance may not reveal certain errors££ which may be present in the ledgers££.

££ for any name and example of a type of error not revealed

6 x £ = 3 marks

Total for Question 4: 12marks

Question 5

On 1 April 2004, Charles Simpson purchased new vehicles for his business at a cost of £35 000. He intends keeping the vehicles for 4 years and estimates that they will have a scrap value of £11 000 at that time.

Charles is aware of the need to depreciate the new vehicles but is unsure whether to write off the depreciation by the straight line or the diminishing (reducing) balance method.

- (a) Calculate depreciation for the years ended 31 March 2005 and 31 March 2006, using the straight line method.

$$\frac{35\,000\text{£} - 11\,000\text{£}}{4} = \text{£}6\,000 \text{ pa}$$

4 x 1 = 2 marks

- (b) Write up the provision for depreciation of vehicles account as it should appear for the years ended 31 March 2005 and 31 March 2006 under the reducing balance method, using a rate of 20% per annum.

Provision for Depreciation -Vehicles Account

Date	Narration	£	Date	Narration	£
Mar31 2005	Balance c/d	<u>7000</u>	Mar 31 2005	Profit & Loss	<u>7000</u> 1111
Mar 31 2006	Balance c/d	12600	Apr 1 2005	Balance b/d	7000
			Mar 31 2006	Profit & Loss	<u>5600</u> 1111
		<u>12600</u>			<u>12600</u>
			Apr 1 2006	Balance b/d	12600

12 x 1 = 6 marks

- (c) State two reasons why vehicles depreciate.

Any two from Wear and Tear, Obsolescence, Erosion, Inadequacy, Depletion or other relevant reason

4 x 1 = 2 marks

- (d) (i) Using examples explain the meaning of capital expenditure and revenue expenditure.

Capital expenditure

Capital expenditure is spending by the business on fixed assets $\mathcal{L}\mathcal{L}$ + $\mathcal{L}\mathcal{L}$ for any correct example.

Revenue expenditure

Revenue expenditure is spending by the business on 'everyday' running costs $\mathcal{L}\mathcal{L}$ + $\mathcal{L}\mathcal{L}$ for any correct example.

8 x \mathcal{L} = 4 marks

- (ii) Why is it important to distinguish between capital expenditure and revenue expenditure?

Incorrect treatment of expenditure could result in profits being incorrect $\mathcal{L}\mathcal{L}$ and a distorted view of the position of the business being shown in the balance sheet $\mathcal{L}\mathcal{L}$
(or $\mathcal{L}\mathcal{L}$ for any valid reason)

4 x \mathcal{L} = 2 marks

Total mark for Question 5: 16 marks

Question 6

(a) Using an example in each case, explain the meaning of profitability and liquidity.

Profitability

Profitability is the relationship between profit and sales turnover $\checkmark\checkmark$, and can be measured by the gross profit percentage or net profit percentage ratios (either ratio for $\checkmark\checkmark$)

Liquidity

Liquidity is an indicator to the business of its ability to meet its short term debt $\checkmark\checkmark$ and can be measured by the current ratio or liquid ratio (either ratio for $\checkmark\checkmark$)

8 x \checkmark = 4 marks

One business use of computerised accounting software is in stock control.

(b) Explain **one other** business use of computerised accounting software.

$\checkmark\checkmark\checkmark\checkmark$ for any of the following: Payroll, Book-keeping, Budgeting/Cash Management or other relevant application

4 x \checkmark = 2 marks

(c) Explain how the use of a computerised accounting program can improve the speed and accuracy of the accounting process.

Speed

Automatic updating of second entry \checkmark when original entry is made \checkmark

Generation of final accounts (or other reports) \checkmark from data already entered \checkmark

Easier to correct errors $\checkmark\checkmark$

Other acceptable reason $\checkmark\checkmark$

Accuracy

Less opportunity for errors \checkmark as only one entry is required \checkmark

The program can calculate totals \checkmark with improved accuracy \checkmark

The system allows for easier detection of errors $\checkmark\checkmark$

Other acceptable reason $\checkmark\checkmark$

Maximum 3 marks for Speed and 3 marks for Accuracy

12 x \checkmark = 6 marks

Total marks for Question 6: 12 marks

November 2006

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