

Mark Scheme January 2007

GCE

GCE O Level Accounting (7011)

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Question 1

a(i) Purchases Day Book

		Goods		VAT		Total	
Nov 9	McCarthy Ltd	16 000	/C				
	Less trade discount 25%	4 000	/OF				
	(if TDisc not shown)	12 000	/OF	1 200	/OF	13 200	/OF

If purchase of office equipment included in PDB ...disallow all marks in Gen Journal.

(ii) Sales Day Book

		Goods		VAT		Total	
Nov 16	Display Ltd	2 000	/C	190	/C	2 190	/OF

(iii) Returns Outward Day Book

		Goods		VAT		Total	
Nov 28	McCarthy Ltd	360	/C				
	Less trade discount 25%	90	/OF				
	(if TDisc not shown)	270	/OF	27	/OF	297	/OF

(iv) Cash Book

		Disc All	Bank			Disc Rec		Bank	
Nov 1	Balance b/d		6 000	/C	Nov 3	McCarthy		2 500	/C
Nov 6	Freezer Ltd	20/C	380	/C	Nov 10	Rates		3 600	/C
Nov 15	Sales (inc VAT)		55 000	/C	Nov 11	Appliance Ltd	40	760	/C
					Nov 26	Telephone (inc VAT)		176	/C
								(160)	(/)OF
					Nov 28	Freezer Ltd		380	/C
					Nov 30	Insurance		80	/C

If discount £20 is included under discount received column on Nov 28 penalise by removing the / for £380 credit bank column

(v) General Journal

		Debit	Credit
Nov 23	Motor Van	5 000/C	
	VAT	500/C	
	First Motors & Co		5 500/C
Being purchase of motor van on credit/			

30 x / = 15 marks

(b) Sales Ledger

Display Ltd							
		£					
Nov 1	Balance b/d	800	/C				
Nov 16	Sales	2 190	/OF				

Freezer Ltd

		£					
Nov 1	Balance b/d	400	/C	Nov 6	Bank	380	/OF
Nov 28	Bank	380	/OF	Nov 6	Disc All	20	/OF
Nov 28	Disc All	20	/C				

8 x / = 4 marks

(c) (i) VAT Account

VAT

		£					
Nov 26	Bank (telephone)	16	/C	Nov 15	Bank(sales)	5 000	/C
Nov 28	First Motors & Co	500	/OF	Nov 30	Sales/Display	190	/OF
Nov 30	Purchases/McCarthy	1 200	/OF	Nov 30	Returns out	27	/OF
Nov 30	Balance c/d	3 501	/OF(nc)				
		<u>5 217</u>				<u>5 217</u>	
				May 1	Balance b/d	<u>3 501</u>	/OF

8 x / = 4 marks

/ is for figure and narration....as usual narration should indicate double entry ...day book not acceptable

e.g. on debit side on Nov 30 ..accept purchases/McCarthy/creditors/sundry creditors/sundries

on Nov 26 bank is the key word ...do not accept telephone ...accept cash

on Nov 15 bank is the key word ...do not accept sales ...accept cash

on Nov 30 credit side accept sales/Display/debtors/sundry debtors/sundries

on Nov 30 accept returns outward/returns/McCarthy/sundry creditors/creditors/sundries

(c) (ii)

The closing balance on the VAT account means that the tax authority is owed £3 501/OFF by the business/.

2 x / = 1 mark

(Total 24 marks)

Question 2

Michael Hughes
Trading and profit and loss account for year ended 31 October 2006/WWW

Opening stock	4 500	J c					Sales	600 000/c
Purchases	400 000	J c	404 500					
Less cl stock	Any figure(J)		4 000	J/J	400 500			
Gross Profit					199 500	J c		
					<u>600 000</u>			<u>600 000</u>

Wages			11 000	J c			Gross Profit	199 500/of
Veh Exps			3 500	J C			Discount rec	640/c
Discount allowed			520	J C				
Heat & light			600	J c				
Insurance	590	J						
Less prepaid	104		486	J	C total for (J/J)			
General exps	450	J						
Less error	200		250	J	C total for (J/J)			
Prov dep equip	405	J c						
Prov dep veh	3 150	J c	3 555					
Rates	2 500	J			C total for (J/J)			
Add owing	250		2 750	J	22 661			
Net profit					177 479	J/J	Of(nc)(J)	
					<u>200 140</u>			<u>200 140</u>

24 x J = 12 marks

Balance sheet at 31 October 2006

Capital	63 250	√c				
Net profit	177 479	√of	240 729			
Less drawings (+200√)			21 200	√of	219 529	
Fixed Assets						
Premises			186 000	√c		
Equipment	5 000	√c				
Less provision for depreciation	1 355	√√c	3 645	√of		
Vehicles	15 000	√c				
Less provision for depreciation	7 650	√c	7 350	√of	196 995	√of
Current Assets						
Stock	4 000	√of				
Debtors	18 700	√c				
Insurance prepaid	104	√c				
Bank (-1200√)	11 400	√of				
Cash (-400√)	580	√of	34 784	√of		
Less Current Liabilities						
Creditors	12 000	√c				
Rates unpaid	250	√c	12 250	√of		
Working capital					22 534	
					219 529	

24 x √ = 12 marks

(Total 24 marks)

48 X √ = 24 marks

Question 3

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

(i)	Cash will increase by £6 000/£, stock will decrease by £4 000/££. Thus current assets will increase by £2 000/£ and working capital will increase by £2 000/£	6
(ii)	Bank will decrease by £2 500/£ so current assets will decrease by £2500/£. Creditors will decrease by £2 650/£ so current liabilities will decrease by £2650/£. thus working capital will increase by £150/£	5
(iii)	Stock will increase by £1 200/£, creditors will increase by £1200/£. Thus current assets will increase by £1 200/£, current liabilities will increase by £1200/£, so there will be no change in working capital/£	5
(iv)	Cash will increase by £2 000/£, so working capital will increase by £2 000/£	2
(v)	Bank will increase by £10 000/£ and current assets will increase by £10 000/£. Bank overdraft/creditors will increase by £3 000/£ and current liabilities will increase by £3 000/£. Thus working capital will increase by £7 000/£	5
(vi)	Debtors will increase by £500/£ and current assets will increase by £500/£ so working capital will increase by £500/£	3

26 x /£ = 13 marks

(Total 13 marks)

Question 4

(a) (i)

Return on Capital Employed	=	Net Profit	/	
		Capital Employed	/	

(ii)

Rate of Stock turnover	=	Cost of sales	/	
		Average stock	/	

4 x / = 2 marks

(b)

(i) Calculate the net profit for 2005

Net Profit to Sales	=	Net Profit		
		Sales		

10	=	Net Profit		
100 / for both		£180 000/		

10 x £180 000	=	Net Profit		
100				

Net Profit	=	£18 000	//	
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4 x / = 2 marks

(b) (ii) Calculate the gross margin for 2005

Mark up is 50% so

Let Cost price =	£2	Mark up 50%/
So Profit must be	£1	/
And Selling price	£3	Margin 33.3%///

4 x / = 2 marks

(c) Liquidity measures the firm's ability to pay its debts as they fall due / (words). The Current ratio in 2005 is 2:1 / (figs).

Profitability is a measure of how successful the firm is compared to sales/capital employed etc / (words). Net profit to sales figure in 2005 is 10% / (figs).

No figures = maximum ONE / for each

4 x / = 2 marks

(d) Evaluation of performance between 2005 and 2006

Conclusion

Overall comment covering profitability / and liquidity / plus decision //.

Comment on profitability / with figure / and further / for development.

Comment on liquidity / with figure / and further / for development.

Example answer

The two main indicators of improved performance in 2006 are the higher mark up (50% to 60%) and the higher net profit percentage (10% to 12%). Perhaps there is less competition in 06 enabling a higher mark up of prices. Expenses do not appear to have increased unduly enabling the 2% increase in profit on sales

However, 2006 shows much poorer liquidity (from 2:1 to 0.2:1). This is critical because in 2006 debts cannot be paid as they fall due. The firm is vulnerable to its creditors.

Overall I do not believe the firm is in a superior position because despite improved profitability creditors could force a closure.

10 x 5 = 50 marks

(Total 50 marks)

Question 5

(a)

(i) Calculation of Total Sales

Total Debtors Account

Balance b/d	660/C	Bank	9 560/C
SALES	9 780/OF	Balance c/d	880/C
	<u>10 440</u>		<u>10 440</u>

Credit sales	9 780/OF
Drawings	12 000/C
Cash sales	222 500/C
TOTAL SALES	<u><u>244 280/OF</u></u>

8 x / = 4 marks

(ii)

Rent Account

Balance b/d	400/C	Profit and loss	9 380/OF
Bank	9 900/C	Balance c/d	920/C
	<u>10 300</u>		<u>10 300</u>

4 x / = 2 marks

(iii)

Loan Interest Account

Bank	800/C	Profit and loss	1 600/OF
Balance c/d	800/C		
	<u>10 300</u>		<u>10 300</u>
		Balance b/d	<u>800/C</u>

4 x / = 2 marks

b)

Award

Up to / for effect on profit and loss

Up to / for effect on balance sheet

Up to / for use of figures to illustrate point

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

Up to / for conclusion

Example answer

The loan interest account has been adjusted so that the correct amount of interest for this accounting period (£1 600/fig) is transferred to the P/L account/ to give an accurate profit /. The (£800/fig) interest owing is shown as a current liability/ to give true balance sheet/

Without this adjustment, profit would be inaccurate /.

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

10 x / = 5 marks

(Total 13 marks)

Question 6

(a) S Salt and P Pepper
(Profit and loss) Appropriation Account for year ended 31 December 2006

Interest on Capital				Net Profit		120 000/c
Salt	3 600/c			Int on Drawings		
Pepper	5 400/c	9 000		Salt	600/c	
Salary to Pepper		36 000/c	45 000	Pepper	900/c	1 500
Share of Profit						
Salt	38 250/	Of(nc)				
Pepper	38 250/	Of(nc)	76 500			
			<u>121 500</u>			<u>121 500</u>

12 x / = 6 marks

(b) Current Account of P Pepper

Dec 31	Drawings	46 000	//	36+10	Dec31	Int on Capital	5 400	/of
Dec 31	Int on drawings	900	/	of	Dec31	Salary	36 000	/of
Dec 31	Capital -Pepper	27 750	//	c	Dec31	Share of Prof	38 250	/of
Dec 31	Balance c/d	5 000	/	c				
		<u>79 650</u>					<u>79 650</u>	
					Jan 1	Balance b/d	5 000	/of

10 x / = 5 marks

(c) Capital Account of P Pepper

Dec 31	Balance c/d	117 750	/of	Jan 1	Balance b/d	90 000	/c
				Dec31	Current -P	27 750	/of
		<u>117 750</u>				<u>117 750</u>	
				Jan 1	Balance b/d	117 750	/of

4 x / = 2 marks

(Total 13 marks)

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