

# Mark Scheme Summer 2007

IGCSE

## IGCSE Accounting (4305)

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Question 1

- (a) B ✓ ✓ (b) D ✓ ✓ (c) D ✓ ✓ (d) A ✓ ✓ (e) D ✓ ✓  
 (f) B ✓ ✓ (g) B ✓ ✓ (h) C ✓ ✓ (i) B ✓ ✓ (j) B ✓ ✓ 20 x ✓ = 10 marks

Question 2

(a) Enter the above items into the sales Day Book for March 2007. Total at month end.

Sales Day Book

Date	Narration	Goods	VAT	Total
Mar 7	<u>Arca Ltd</u>			
	(Goods) Arca Ltd	800-00 ✓		
	Less 25% trade discount	200-00 ✓		
		600-00 ✓	60-00 ✓ of	660-00 ✓ of
Mar 21	<u>McCartney Ltd</u>			
	(Goods) McCartney Ltd	5 000-00 ✓	475-00 ✓ ✓ c	5 475-00 ✓ of
		5 600-00 ✓ of	535-00 ✓ of	6 135-00 ✓ of

12 x ✓ = 6 marks

(b) Prepare the returns inward Day Book and total it at the end of the month.

Returns Inward Day Book

Date	Narration	Goods	VAT	Total
Mar 16	<u>Arca Ltd</u>			
	(Goods) Arca Ltd	120-00 ✓		
	Less 25% trade discount	30-00 ✓		
		90-00 ✓ of	9-00	99-00 ✓ of
Mar 28	<u>Clark Supplies</u>			
	(Goods) Clark Supplies	200-00 ✓		
	Less 20% trade discount	40-00		
		160-00 ✓ of	16-00	176-00 ✓ of
		250-00 ✓ of	25-00 ✓ of	275-00 ✓ of

10 x ✓ = 5 marks

(c) Prepare the account of Arca Ltd in N Quinn's sales ledger. Balance the account on 31 March and bring the balance down.

Arca Ltd Account

Date	Narration	£	Date	Narration	£
Mar 1	Balance b/d	3 000 ✓	Mar 9	Bank	2 850 ✓
Mar 7	Sales ✓	660 ✓ of	Mar 9	Discount allowed ✓	150 ✓
			Mar 16	Returns inward ✓	99 ✓ of
			Mar 31	Balance c/d	561 ✓ c
		3 660			3 660
Apr 1	Balance b/d	561 ✓ of			

10 x ✓ = 5 marks

(d) Starting with the opening debit balance b/d of £1500 at 1 March, prepare the VAT account in N Quinn's nominal ledger. Balance the account on 31 March and bring down the balance.

VAT Account

Date	Narration	£		Date	Narration	£
Mar 1	Balance b/d	1 500 ✓		Mar 31	Cash ✓	4 000 ✓
Mar 6	Lawrence ✓	520 ✓		Mar 31	Sundry debtors ✓	535 ✓ of
Mar 12	Bank	40 ✓				
Mar 31	Sundry debtors ✓	25 ✓ of				
Mar 31	Balance c/d	2 450 ✓ c				
		4 535				4 535
				Apr 1	Balance b/d	2 450 ✓ of

12 x ✓ = 6 marks

(e) Explain fully what the balance of the VAT account represents.

N Quinn OWES ✓ ✓ £2 450 OF ✓ ✓ to the tax authority ✓ ✓

6 x ✓ = 3 marks  
Total 25 marks

Question 3

Kevin Phillips

Trading and profit and loss account for year ended 31 October 2006 ✓ ✓ ✓

Opening stock	3500 ✓					Sales (+4580) ✓	544580 ✓
Purchases	313000 ✓	316500					
Less cl stock		1500 ✓ ✓ ✓	315000				
Gross Profit			229580 ✓ OF				
			544580				544580

Wages		14500 ✓			Gross Profit	229580 ✓ OF
Veh Exps		5671 ✓			Discount rec	540 ✓
Discount allowed		420 ✓				
Heat & light		900 ✓				
Insurance	890 ✓					
Less prepaid	170	720 ✓				
General exps		7250 ✓				
Prov dep equip	240 ✓					
Prov dep veh	1800 ✓	2040				
Rates	4400 ✓					
Add owing	150	4550 ✓	36051			
Net profit			194069 ✓ ✓ OF			
			230120			230120

Question 3 (cont)

Balance sheet at 31 October 2006

Capital	54677	✓				
Net profit	194069	✓ OF	248746			
Less drawings			23000	✓	225746	✓ OF
<b>Fixed Assets</b>						
Premises			200000	✓		
Equipment	3000	✓				
Less provision for depreciation	840	✓ ✓	2160	✓ OF		
Vehicles	15000	✓				
Less provision for depreciation	10800	✓ ✓	4200	✓ OF	206360	
<b>Current Assets</b>						
Stock	1500	✓ OF				
Debtors (-420)✓	12480	✓				
Insurance prepaid	170	✓				
Bank	14000	✓				
Cash	56	✓	28206	✓ OF		
<b>Less Current Liabilities</b>						
Creditors	8670	✓				
Rates unpaid	150	✓	8820	✓ OF		
<b>Working capital</b>					19386	✓ OF
					225746	
24 x ✓ = 12 marks						

Total for Question 3: 25 marks

Question 4

(a) (i) Calculation of Total Sales

Trade Debtors Account

Balance b/d	450 ✓ C	Bank	7 500 ✓ C
SALES	7 628 ✓ OF	Balance c/d	578 ✓ C
	<u>8 078</u>		<u>8 078</u>

Credit sales	7 628 ✓ OF
Drawings	18 000 ✓ ✓ C
Cash sales	200 552 ✓ C
<b>TOTAL SALES</b>	<u><u>226 180 ✓ ✓ OF</u></u>

10 x ✓ = 5 marks

(ii) Rent Account

Balance b/d	350 ✓ C	Profit and loss	8 760 ✓ OF
Bank	8 900 ✓ C	Balance c/d	490 ✓ C
	<u>9 250</u>		<u>9 250</u>

4 x ✓ = 2 marks

(iii) Loan Interest Account

Bank	600 ✓ C	Profit and loss	700 ✓ OF
Balance c/d	100 ✓ C		
	<u>700</u>		<u>700</u>
		Balance b/d	<u>100/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 (£700 ✓ fig) is transferred to the P/L account ✓ to give an accurate profit ✓ .

The (£100 ✓ 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 14 marks)

Question 5

(a) S Laurel and O Hardy

Profit and loss Appropriation Account for year ended 31 December 2007

Interest on Capital				Net Profit		140 000 ✓
Laurel	2500 ✓ ✓ c			Int on Drawings		
Hardy	4000 ✓ ✓ c	6 500		Laurel	350 ✓	
Salary to Hardy		40 000 ✓	46 500	Hardy	420 ✓	770
Share of Profit						
Laurel	47135 ✓ OF					
Hardy	47135 ✓ OF		94 270			
			<u>140 770</u>			<u>140 770</u>

10 x ✓ = 5 marks

(b) Current Account of O Hardy

Dec 31	Drawings	42 000	✓ ✓	Dec31	Int on Capital	4 000	✓
Dec 31	Int on drawings	420	✓	Dec31	Salary	40 000	✓
Dec 31	Capital -Hardy	43 715	✓ ✓	Dec31	Share of Prof	47 135	✓ OF
Dec 31	Balance c/d	5 000	✓				
		<u>91 135</u>				<u>91 135</u>	
				Jan 1	Balance b/d	5 000	✓ OF

10 x ✓ = 5 marks

(c) Capital Account of O Hardy

Dec 31	Balance c/d	123 715	✓ OF	Jan 1	Balance b/d	80 000	✓
				Dec31	Current - Hardy	43 715	✓ OF
		<u>121 215</u>				<u>123 715</u>	
				Jan 1	Balance b/d	<u>123 715</u>	✓ OF

4 x ✓ = 2 marks

(Total 12 marks)

Question 6

(a) (i)

Acid test	=	Current assets less Stock	✓	
		Current Liabilities	✓	

(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		£500 000/		

10 x £500 000	=	Net Profit		
100				

Net Profit	=	£50 000	✓	✓
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4 x ✓ = 2 marks

(b) (ii) Calculate the mark up for 2005

Margin is 50% so

and Cost price =	£2	Mark up 100% ✓ ✓
So Profit must be	£2	✓
Let Selling price be	£4	Margin 50% ✓

4 x ✓ = 2 marks

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

Profitability is a measure of how successful the firm is comparing (for example) sales/capital employed etc ✓ ✓. Net profit to sales figure in 2005 is 10% ✓.

*No figures = maximum TWO ✓ for each point gives total 4 ✓'s*

6 x ✓ = 3 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 margin ✓ (50% to 60%) ✓ and the higher net profit percentage (10% to 12%). Perhaps there is less competition in 06 enabling a higher margin on 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 marks

Total 14 marks









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