

Mark Scheme (Results) Summer 2007

GCE O Level

GCE O Level Accounting (7011) Paper 1

Question 1

(a)(i) Purchases Day Book

up to 5 x ✓

		Goods		VAT		Total	
Apr 9	Agna Ltd	16 000	✓ C				
	Less trade discount 25%	4 000	✓ OF				
	<i>(if TDisc not shown)</i>	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

up to 4 x ✓

		Goods		VAT		Total	
Apr 16	Cinq Ltd	5 000	✓ C	475	✓ ✓ C	5 475	✓ OF

(iii) Returns Outward Day Book

up to 5 x ✓

		Goods		VAT		Total	
Apr 28	Agna Ltd	600	✓ C				
	Less trade discount 25%	150	✓ OF				
	<i>(if TDisc not shown)</i>	450	✓ OF	45	✓ OF	495	✓ OF

(iv) Cash Book

up to 12 x ✓

		Disc All	Bank			Disc Rec	Bank		
Ap 1	Balance b/d		5 000	✓ C	Ap 3	Agna	5 640	✓ C	
Ap 6	Plugo Ltd	40/C	760	✓ C	Ap 10	Light & H	650	✓ C	
Ap15	Sales (inc VAT)		22 000	✓ C	Ap 11	Washa Ltd	20/C	380	✓ C
Ap 30	Dividend		49	✓ C	Ap 26	Internet (inc VAT)		132 (120)	✓ ✓ C (✓)
					Apr 28	Plugo Ltd		760	✓ C

If discount £40 is included under discount received column on Apr 28 penalise by removing the ✓ for £760 credit bank column

(v) General Journal

up to 4 x ✓

		Debit	Credit
Apr 23	Office equipment	2 000 ✓ C	
	VAT	200 ✓ C	
	Tap Supplies & Co		2 200 ✓ C
Being purchase of office equipment on credit ✓			

30 x ✓ = 15 marks

(b) Sales Ledger
up to 2 x ✓

Cinq Ltd							
		£					
Apr 1	Balance b/d	700	✓ C				
Apr 16	Sales	5 475	✓ OF				

up to 6 x ✓

Plugo Ltd							
		£					
Apr 1	Balance b/d	800	✓ C		Apr 6	Bank	760 ✓ OF
Apr 28	Bank	760	✓ OF		Apr 6	Disc All	40 ✓ OF
Apr 28	Disc All	40	✓ ✓ C				

8 x ✓ = 4 marks

(c) (i) VAT Account
up to 8 x ✓

VAT							
		£					
Apr 26	Bank (internet)	12	✓ C		Apr 15	Bank(sales)	2 000 ✓ C
Apr 28	Tap Supplies	200	✓ OF		Apr 30	Sales/Cinq	475 ✓ OF
Apr 30	Purchases/Agna	1 200	✓ OF		Apr 30	Returns out	45 ✓ OF
Apr 30	Balance c/d	1 108	✓ OF(nc)				
		<u>2 520</u>					<u>2 520</u>
					May 1	Balance b/d	<u>1 108</u> ✓ OF

8 x ✓ = 4 marks

✓ is for figure and narration....as usual narration should indicate double entry
e.g. on debit side on Apr 30 ..accept purchases/Agna/creditors/sundry
creditors/sundries/purchases day book/PDB
on Apr 26 bank is the key word ...do not accept internet ...accept cash
on Apr 15 bank is the key word ...do not accept sales ...accept cash
on Apr 30 credit side accept sales/Cinq/debtors/sundry debtors/sundries/sales day
book/SDB
on Apr 30 accept returns outward/returns/Agna/sundry creditors/creditors/sundries

(c) (ii)
up to 2 x ✓

The closing balance on the VAT account means that Bindu Leake owes £1 108 ✓ OF to the tax authority ✓ OF.

2 x ✓ = 1 mark

Total 24 marks

Question 2

Taka and Uro

Profit and Loss account for the year ended 31 December 2006

Rent of premises		16 000 ✓		Fees received	85 000 ✓
Wages		24 000 ✓			
Admin Exps		9 900 ✓			
Opening stock of stationery	1 000 ✓				
Stationery	7 000 ✓				
Less drawings	500 ✓				
Less Cl stock of stationery	600 ✓	6 900			
Advertising		1 650 ✓			
Depreciation on F/Equip		4 200 ✓			
Interest on Loan ..Taka		300 ✓			
Insurance owing		750 ✓			
NET Profit		21 300 ✓ ✓	(✓ OFNC)		
		<u>85 000</u>			<u>85 000</u>

14 x ✓ = 7 marks

Interest on Capital			Net Profit		21 300 ✓ OF
Taka	500 ✓		Interest drawings on		
Uro	450 ✓	950	Taka	300 ✓	
Salary to Uro		27 000 ✓	Uro	800 ✓	1 100
			Share of Loss		
			Taka	4 440 ✓ OFNC	
			Uro	1 110 ✓ OFNC	5 550
		<u>27 950</u>			<u>27 950</u>

8 x ✓ = 4 marks

Current Accounts

	Taka	Uro		Taka	Uro
Jan 1 Balance b/d	6 000 ✓		Jan 1 Balance b/d		3 000 ✓
Dec 31 Drawings	15 500 ✓	25 000 ✓	Dec 31 Int on Cap	500 ✓ OF	450 ✓ OF
Dec 31 Int on Drawings	300 ✓ OF	800 ✓ OF	Dec 31 Salary		27 000 ✓ OF
Dec 31 Share of Loss	4 440 ✓ OF	1 110 ✓ OF	Dec 31 Int on Loan	300 ✓ OF	
Dec 31 Balance c/d		3 540 ✓ OFNC	Dec 31 Balance c/d	25 440 ✓ OFNC	
	<u>26 240</u>	<u>30 450</u>		<u>26 240</u>	<u>30 450</u>

14 x ✓ = 7 marks

Balance sheet at 31 December 2006

Fixed Assets			
Fittings and equipment at cost	42 000		
Less provision for depreciation	12 200		29 800 ✓ OF
Current Assets			
Stock of stationery	600 ✓		
Cash	575 ✓	1 175 ✓ OF	
Less Current Liabilities			
Bank overdraft	21 500 ✓		
Creditors	1 625 ✓		
Insurance owing	750 ✓ OF	23 875 ✓ OF	
			-22 700
			7 100
Capital Accounts			
Taka	10 000		
Uro	9 000	19 000 ✓	
Current Accounts			
Taka	-25 440 ✓ OF		
Uro	3 540 ✓ OF	-21 900	-2 900
Loan from Taka			10 000 ✓
			7 100

FA, CA and CL totals must have heading and must be NC
12 x ✓ = 6 marks

Total 24 marks

Question 3

(a)

(i)	Cash will increase by £16 000, stock will decrease by £10 000. Thus current assets will increase by £6 000 and working capital will increase by £6 000
(ii)	Stock will increase by £4 250, creditors will increase by £4 250. Thus current assets will increase by £4 250, current liabilities will increase by £4 250, so there will be no change in working capital.
(iii)	Cash will increase by £3 000, so working capital will increase by £3 000
(iv)	Bank will increase by £25 000 and current assets will increase by £25 000. Bank overdraft/creditors will increase by £9 000 and current liabilities will increase by £9 000. Thus working capital will increase by £16 000.
(v)	Stock will decrease by £1 500, cash/debtors will increase by £1 300. Thus current assets will decrease by £200 and working capital will decrease by £200.

1 mark for effect on working capital

1 mark for changes in current assets/current liabilities

10 marks

(b)

Evaluate means that candidates should be looking for strengths and weaknesses and draw a conclusion. So, award 1 mark for strengths, 1 mark for weaknesses and 1 mark 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.

Total 13 marks

Question 4

(a) (i) Current ratio = $\frac{\text{current assests}}{\text{current liabilities}}$ 1 mark

Accept if expressed as ratio or division sign, e.g.:

Current assets : current liabilities

Current assets ÷ current liabilities

Accept if described as calculation, e.g.:

Current assets divided by current liabilities

Do not accept abbreviation, e.g.:

$\frac{CA}{CL}$

(a) (ii) Rate of Stock turnover = $\frac{\text{cost of sales}^*}{\text{average stock}}$ 1 mark

* accept 'cost of goods sold'

Accept 'opening stock + closing stock divided by 2' as alternative to 'average stock'

(accept if this phrase is shown as a formula, e.g.:

$(\text{Opening Stock} + \text{Closing Stock}) / 2$)

Do not accept 'Stock' ('Average Stock' or the above alternative is required).

(a) (iii) Mark up = $\frac{\text{gross profit}}{\text{cost of sales}^*}$ 1 mark

* accept 'cost of goods sold'

Accept with or without " × 100 "

Do not accept $\frac{\text{Gross Profit}}{\text{Sales}}$

Do not accept abbreviation, e.g.: $\frac{GP}{COGS}$

(b) (i) Calculate the net profit for 2007

Net Profit to Sales	=	Net Profit		
		Sales		

8	=	Net Profit		
100		£420 000		

8 x £420 000	=	Net Profit		
100				

Net Profit	=	£33 600		
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2 marks for correct answer of £33600

1 mark for evidence of correct method (but wrong answer)

2 marks

(b) (ii) Calculate the gross profit margin for 2007

Mark up is 50% so

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

Correct answer: 3 marks

Correct method (but wrong answer): 2 marks

Selection of mark-up figure 50%: 1 mark

3 marks

(b) (c) Evaluation of performance between 2006 and 2007

Comment on profitability (1 mark) with figure (1 mark).

Comment on liquidity (1 mark) with figure (1 mark).

Decision based on evidence (1 mark).

5 marks

Example answer:

Since Monty has lowered his mark up (from 55% to 50%) it may be that he is in a competitive situation and has lowered his selling price to increase sales volume and rate of stock turnover (up for 9 to 10). Perhaps advertising was increased thus lowering the NP% (from 10% to 8%) but this boosted sales volume.

The return on capital employed is a key profitability ratio and this has decreased (from 15% to 14%). The current ratio is tighter at 1.5:1 but this is not critical. Overall I would disagree with Monty that his business performance is substantially better in 2006 in comparison to 2005.

The key here is for the candidate to find reasons (identify a strategy) to explain their contention. Reasons must have validity and must be backed up by figures.

(5 marks)

Question 5

(a) up to 6 x ✓

Pollensa Golf Club
Shop Trading Account for year ended 31 March 2007

Opening stock	2225	✓					Sales	210 560	✓
Purchases (191 500 ✓)	192125	✓✓	194 350						
Less cl stock			2567	✓	191 783				
Profit					18 777	✓ OF			
					210 560			210 560	

(Purchases 190 875 = ✓)

up to 12 x ✓

Income and expenditure account for year ended 31 March 2007

Treas salary	8690	✓	Profit on shop			18777	✓ OF
General exps	21345	✓	Subscriptions	124230	✓		
Staff wages	32450	✓	+ arrears07	260	✓		
Maint expenses	68786	✓	- in adv 06	-560	✓		
SURPLUS	14591	✓ OF	- in adv 08	-845	✓	123085	✓ OF
			Donation 10%			4000	✓
	145862					145862	

18 x ✓ = 9 marks

(b) Identify 1 difference between the final accounts of profit making and non-profit making organisations and explain its importance

Example Differences

Profit making prepare profit and loss account (1 mark) whereas non profit making prepare income and expenditure account (1 mark).

ORProfit making uses concept of capital (1 mark) in Balance sheet whereas non profit uses accumulated fund (1 mark).

Importance

Income and expenditure account calculates surplus or deficit rather than profit or loss ...indicating the nature of the organisation to provide a service (1 mark) rather than make a profit (1 mark).

Use of word capital is linked with profit making (1 mark) whereas accumulated fund implies service rather than profit (1 mark).

Award 2 marks for acceptable difference

Award 2 marks for importance of stated difference

Total 13 marks

Question 6

✓ is for figure and correct narration

Balance Sheet at 31 December 2006
up to 18 x ✓

	£000	£000	£000
Fixed Assets	Cost 460✓	Agg Dep 30✓	NBV 430✓C
Current Assets			
Stock	105✓C		
Trade debtors	15✓C		
Cash	7✓C	127✓OF(NC)	
Less current liabilities			
Creditors	12✓C		
Bank overdraft	8✓✓C		
Income received in advance	2✓✓C		
Debenture interest accrued	15✓✓C		
Proposed preference share dividend	3✓C		
Expenses outstanding	9✓C	49✓OF(NC)	
Working capital			78✓OF
			<u>508</u>

up to 8 x ✓

	£000	£000
Issued Capital		
Issued ordinary shares (£1 each, fully paid)	250✓C	
Issued 6% preference shares (50p each, fully paid)	50✓C	300✓OF
Profit and loss account (51✓)		48✓✓
Share premium		10✓C
Shareholders' funds		358✓OF (NC)
Debentures 2020 (10%)		150✓C
		<u>508</u>

26 x ✓ = 13 marks

Total 13 marks

