

Mark Scheme January 2009

GCE

GCE O Level Accounting (7011)

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Contents

1.	7011/01 Mark Scheme	05
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Each mark is for correct figure and suitable narration on correct side. Dates do not matter. Trade discount must not be shown.

Section A

Question Number	Answer	Mark
1(a)		(27)

Freda Latte

Ledger

DR

CR

Espresso Supplies Account

		£			£
5 Oct	Purchases returns PRDB	99	/C	1 Oct	Purchases PDB 693
12 Oct	Bank Cash = 0	594	/C		
		<u>693</u>			<u>693</u>

City Traders Account

Returned cheque = 0

		£			£
4 Oct	Sales	1 287	/C	20 Oct	Bank / CB 670
29 Oct	Bank / CB	670	/C	31 Oct	Balance c/d 1 287
		<u>1 957</u>			<u>1 957</u>
1 Nov	Balance b/f	1 287			

Equipment Account

		£			£
1 Oct	Filter Ltd	2 000	/C		

If VAT £200 included give mark for £2000 anyway

Filter Ltd Account

		£			£
				1 Oct	Equipment 2 200

Purchases Account

		£				£
20 Oct	Cash	500 //				
31 Oct	PDB	630 /C				
		<u>1 130</u>				

Cash: / for £550 and // for the correct figure £500; £605 = no mark. If goods and VAT shown separately give 1 mark for total

Sales Account

		£				£
				31 Oct	SDB / City Traders	1 170 /C
				31 Oct	Bank	<u>3 000 //</u>
						<u>4 170</u>

Bank £3 000: / for 3300 and // for the correct figure. 3630 = no mark

Purchases Returns Account

		£				£
				31 Oct	PRDB / Espresso	90 /C

General Expenses Account

		£				£
15 Oct	Bank / C.B.	535 /C				

Drawings Account

		£				£
30 Oct	Cash / C.B.	150 /C				

Rent Account

		£				£
31 Oct	Bank / C.B.	720 /C				

Capital Account

		£				£
				1 Oct	Bank / C.B.	5 000 /C

VAT Account

		£				£
1 Oct	Equipment/ Filter Ltd	200 /C		31 Oct	Sales / Bank / CB	300 // 2 or 0
20 Oct 2 or 0	Purchases / Cash / CB	50 //		31 Oct	Sales DB / City	117 /C
31 Oct	Purchases DB / Espresso	63 /C		31 Oct	Purchases returns DB / Espresso	9 /C
31 Oct	Balance c/d	<u>113</u> //				—
		<u>426</u> /				<u>426</u> /

Complete reversal of all accounts - ½ marks (rounded up where necessary) but all entries must be perfect apart from the reversal.

Question Number	Answer	Mark
1(b)		(13)

Trial Balance at 31 October 2008

	Debit £	Credit £
Bank	5 651 /C	
Capital		5 000 / OF
Cash	100 / C	
City Traders / Debtors	1 287 / OF	
Drawings	150 / OF	
Equipment	2 000 / OF	
Filter Ltd / Creditors		2 200 / OF
General expenses	535 / OF	
Purchases	1 130 / OF	
Purchases returns		90 / OF
Rent	720 / OF	
Sales		4 170 / OF
VAT		<u>113</u> / OF
	<u>11 573</u> /	<u>11 573</u> /

Bank + Cash 5751 //
Bank 5751 = 0
Cash 5751 = 0

figure - side

No reversals unless headed correctly
1 / for every correct OF

No mark if Espresso included in the trial balance, even if this is an OF, as Espresso does not have a balance and no mark has been allocated for it.

Question Number	Answer	Mark
1(c)(i)	(The) suspense (account)	(1)

Question Number	Answer	Mark
1(c)(ii)	<p>One of:</p> <ul style="list-style-type: none"> • Recheck postings from Day Books to Ledgers • Recheck the posting of the source documents • Recheck the arithmetic of the totals • Recheck the arithmetic of the balances • Recheck the sides on which entries have been made • Recheck the double entry • Check all accounts correctly entered in trial balance • Bank reconciliation statement • Control account <p>1 mark for each suitable response up to a maximum of 3 marks Accept examples</p>	(3)

Question Number	Answer	Mark
1(d)(i)	<p>1 mark for description indicating wrong figure on both sides 1 mark for appropriate figures</p>	(2)

Question Number	Answer	Mark
1(d)(ii)	<p>The main types of error which do not affect the agreement of the trial balance are:</p> <ul style="list-style-type: none"> • Omission • Commission • Principle • Compensating errors • Reversal of entries / transposition <p>1 mark for each type named.</p>	(2)

(Total 48 marks)

Question Number	Answer	Mark
2(a)		(8)

Matthew and Arnold

Trading account for the year ended 31 December 2008

	£	£
<u>Spare parts</u>		
Sales		105 100 /C
Less returns inwards		<u>(470) /C</u>
		104 630 /J
Opening stock	2 570 /C	
Purchases	36 330 /C 36030 /J	
Less returns outwards	(300) /C	
Carriage inwards	975 /C	
Less closing stock	(3 415) /C	
Cost of sales		<u>(36 160)</u>
Gross profit (on spare parts) G.P.		68 470 /OFNC

Income from repairs contaminates the gross profit in the Trading A/C

Question Number	Answer	Mark
2(b)		(10)

Matthew and Arnold

Profit & loss account for the year ended 31 December 2008

Gross profit on spare parts		68 470
Income from car repairs		68 250 /C
Decrease in provision for doubtful debts		<u>75 /JC</u>
		136 795
Rent (38 000 - 600) 38600 /	37 400 /J	
Wages (30 500 + 400) 30100 /	30 900 /J	
Administration expenses	7 060 /C	
Depreciation on equipment	3 690 /C	
Depreciation on motor van	840 /C	
		<u>(79 890)</u>
Net profit		<u>56 905</u>

2 or 0
If 1720-645 ok
for /J

Question Number	Answer	Mark
2(c)		(6)

**Matthew and Arnold
Appropriation Account for the year ended 31 December 2008**

	£	£
Net profit		56 905 /OF
Interest on drawings:		
Matthew (5% of £15 700)	785 /C	
Arnold (5% of £13 200)	660 /C	
		<u>1 445 /OF</u>
		58 350 /OF
Less interest on capital:		
Matthew (10% of £30 000)	3 000 /C	
Arnold (10% of £20 000)	<u>2 000 /C</u>	
		(5 000) /OF
Less salaries:		
Matthew	15 000 /C	
Arnold	<u>8 000 /C</u>	
		<u>(23 000) /OF</u>
Profit to be shared		<u>30 350 /OF</u>
Share of profits:		
Matthew		15 175 / OFNCC
Arnold		<u>15 175 /CC</u>
		<u>30 350 /OF</u>

Both must be correct for the mark

Both must be correct for the mark

Both must be correct for the mark

The inclusion of drawings contaminates the share of profits mark.

The mark for interest on capital, for salaries and for share of profits is for both entries, which must be separate.

Question Number	Answer	Mark
2(d)		(8)

Matthew and Arnold's Current Accounts

	Matthew	Arnold		Matthew	Arnold
Balance b/f	1 700 /C		Balance b/f		3 600 /CC
Drawings	15 700 /C	13 200 /CF	Interest on capital	3 000	2 000 /OF
Interest on drawings	785 /C	660 /OF	Salary	15 000	8 000 /OF
Balances c/d	<u>14 990 /C</u>	<u>14 915 /OF</u>	Share of profit	<u>15 175</u>	<u>15 175 /OF</u>
	<u>33 175 /C</u>	<u>28 775 /C</u>		<u>33 175</u>	<u>28 775 /OF</u>

The mark for drawings, interest on drawings, balances c/d, interest on capital, salary and share of profits is for both items in each case.

Question Number	Answer	Mark
2(e)		(16)

Matthew and Arnold Balance Sheet as at 31 December 2008

	£	£	£	
Fixed assets	Asset at cost	Acc Dep	NBV	
Buildings	50 000 /C		50 000 /C	For
Equipment	26 500 /C	(17 890) /C /C	8 610 /OF	subtracting
Motor van	8 400 /C	(2 940) /C /C	<u>5 460</u> /OF	Dep from
			64 070	asset at cost
Current assets				
Stock	3 415 /C			
Debtors (£12 900 - £645) /13545 (Separately C)	12 255 /C			
Rent (prepaid)	600 /C			
Bank balance	1,860 /C			
Cash	<u>255 /C</u>			
		18 385 /OFNCSH		
Current liabilities				
Creditors	2 150 /C			
Wages (owing)	<u>400 /C</u>			
		(2 550) /OFNCSH		
Working capital			<u>15 835</u>	
			<u>79 905</u>	
Capital accounts:				
Matthew		30 000 /C		
Arnold		<u>20 000</u>		
			50 000	
Current accounts:				
Matthew		14 990 /OF		
Arnold		<u>14 915</u>		
(Must be shown separately in each case)				
			<u>29 905</u>	
If individual items from the current accounts are included, no mark is given for the current account balances			<u>79 905</u>	

(Total 48 marks)

Section B

Question Number	Answer	Mark
3(a)(i)		(6)

	2007	2008	
Return on capital employed	Profit = 40 500 - 12 400 = 28 100 ROCE = 28 100 / 2 000 = 1 405% <i>✓✓✓</i> 14.05 <i>✓✓</i>	Profit = 62 300 - 15 700 = 46 600 ROCE = 46 600 / 5 000 = 932% <i>✓✓✓</i> 9.32 <i>✓✓</i>	If % sign omitted give marks anyway

- 1st mark - correct profit
 2nd mark - dividing of profit by correct capital
 3rd mark - correct answer

Question Number	Answer	Mark
3(a)(ii)		(4)

Current ratio	6010 : 5010 (200 + 5 100 + 710) : 5 010 = 1.19 : 1 or 1.2 : 1 or 6 : 5	1960 : 760 (50 + 1 750 + 160) : 760 = 2.58 : 1 or 2.6 : 1	If ratio not stated give marks anyway
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- 2 marks for each correct figure
 Correct figure: 2 marks
 1st mark for correct current assets
 2nd mark for correct answer

Question Number	Answer	Mark
3(b)	3 marks should be allocated to profitability and 3 marks to liquidity as follows. In each case: 1 mark for stating a change in a profitability / liquidity of ratio or figure i.e. increase or decrease 1 mark for OF figure 1 mark for making a comment on this change or further analysis 1 mark for further analysis of the change or for a balancing statement 3 marks × 2 = 6 marks 2 further marks for evaluative comments as to whether the financial performance has improved or not. 1 mark for saying which year is better 1 mark for saying why or for a balancing comment A bald statement with no other references - 0 marks	(8)

3(b)
(continued)

Sample answer:

Profitability has fallen since the ROCE has decreased from 1405% to 932% $\sqrt{\sqrt{}}$. However, sales have increased by more than 50% and actual profit by 65% and the fall in ROCE is explained by the increase in the capital employed.

Liquidity has improved since the current ratio has increased from 1.2:1 to 2.58:1 $\sqrt{\sqrt{}}$ - a safer position which is more than the accepted benchmark of 2:1. Stocks, debtors and creditors have all been brought under control.

The overall position seems better in 2008 than in 2007. Although the ROCE has fallen, actual profit has increased. At the same time, liquidity has increased. But the business has a 5-year loan to pay off and the cost will have to be met out of profits.

Here are some further points which candidates might bring into their answers:

- Fixed assets have increased and so have long-term liabilities.
- Stocks are being managed more efficiently.
- Debtors are being turned into cash and creditors are being paid. The ability to pay the creditors probably relies on the ability to bring in the debtors.
- The bank balance has reduced, possibly to pay the debtors and possibly because some extra cash expenses have to be paid.
- Sales have increased by 53.8% but profit has increased by 65.8% because expenses increased by only 26.6%. The business is running more efficiently.
- The return on capital employed has fallen from 1 405% to 932%. This is because, despite the increase in net profit, the capital employed has increased from £2 000 to £5 000, an increase of 150%.
- The improvement in collecting the debtors has allowed the business to pay its creditors but both figures have fallen and the current ratio has increased from 1.2 to 2.58. It has moved from below the desired 2:1 to above this benchmark.

Question Number	Answer	Mark
3(c)	<p>The advantages to small businesses of using computerised accounting packages:</p> <ul style="list-style-type: none"> • Better control of debtors, including an Aged Debtors Analysis, enabling creditors to be paid and discounts earned. • Better control of stocks of materials because of better information. • Double-entry bookkeeping is done automatically and there is an Audit Trail of all entries made. • Easier to locate and correct errors. • Financial statements are automatically produced from the figures entered. • Quicker • Less accounts staff - lower wage cost • More accurate • Handle more data • Better data retrieved <p>The disadvantages to a business of using computerised accounting packages:</p> <ul style="list-style-type: none"> • They are expensive to buy and may necessitate raising a loan, which must be paid back with interest. • They are vulnerable to viruses and spyware. • Systems can break down and information can be lost. • Firms must spend money on training staff to use the packages. • Staff using these packages may not understand accounting concepts. <p>1 mark for each point made simply × 3 under each heading or 2 marks for each point developed. Some combination of the above to a maximum of 6 marks. 1 or 2 marks for a conclusion based on the above. Maximum of 4 marks if only one side considered, i.e. up to 4 for pros and up to 4 for cons. Evaluation marks:</p> <ul style="list-style-type: none"> • x outweighs y • Some reason why this so 	(8)

(Total 26 marks)

Question Number	Answer	Mark
4(a)		(12)

Journal

	DR	CR
	£	£
(i)		
Bank / cash book okay but not cheque or cash	95/C	
Gina Sapouni / Customer		95/C
Correction of error of total omission of payment by customer ✓		
(ii)		
Bad debts	320/C	
Joe Starch / Customer		320/C
Correction of error of transposition of entries for a bad debt ✓		
(iii)		
Equipment / Fixed assets	2 000/C	
Purchases		2 000/C
Correction of error of entering a fixed asset in the purchases account ✓		
(iv)		
Clean-Up Ltd (supplier)	832/C	
Suspense account		832/C
Correction of error of omitting the double entry for a purchases return ✓		

In each case:

1 mark for each correct narration + figure

1 mark for each reasonable final narration

Question Number	Answer	Mark
4(b)	<p>Candidates should give two ways in which it is possible for a business to make a profit but have a cash shortage. Possible explanations:</p> <ul style="list-style-type: none"> • Debtors are not paying • New fixed assets might have been purchased. • New stocks might have been purchased. • Creditors might have been paid off. • A loan might have been paid off. • Tax might have been paid. • High drawings might have been taken out by the owner. <p>Up to 2 marks for each reasonable explanation.</p>	(4)

Question Number	Answer	Mark
4(c)	<p>(i) Prudence concept. She should value stock at cost.</p> <p>(ii) Accruals or Matching concept. She should depreciate all her fixed assets each year.</p> <p>(iii) Consistency concept. She should use the same depreciation method each year.</p> <p>(iv) Money measurement concept/Prudence concept. She should include only items with a money value/she should not anticipate profit.</p> <p>(v) Materiality concept. She should not account individually for such small items.</p> <p>2 marks for each × 5 1 mark for the correct concept and 1 mark for a reasonable explanation.</p>	(10)

(Total 26 marks)

Question Number	Answer	Mark
5(a)		(7)

Subscriptions Account

	£		£
Balance b/d / Arrears	125 / C	Balance b/d / Prepaid	85 / C
Income and expenditure	2 465 / /	Receipts and payments Cash / Bank /	2 400 / C
Balance c/d / Prepaid	<u>75 /</u> C	Balance c/d / Arrears	<u>180 / C</u>
	<u>2 665 / / /</u>		<u>2 665 / /</u>

Income and expenditure figure: / OF / / C (OF as long as this is the balancing figure on either side)

Question Number	Answer	Mark
5(b)		(10)

Income and Expenditure Account for the year ended 31 December 2008

	£	£	
Subscriptions		2 465 / / OF /	Must be on credit side
Profit on refreshments (910 - 680)		<u>230 / / /</u>	
		<u>2 695 / / / / / / /</u>	
Loss on day-trip (455 - 450)	5 / / /		
Rent of room	360 / C / / /		
Depreciation on kitchen equipment	<u>80 / C</u>		
		<u>(445) / /</u>	
Surplus of income over expenditure		<u>2 250 /</u> OFNC	

Profit on refreshments and loss on day-trip: / for each component. / / / only for C. If profit / loss shown and also individual figures, this is duplication and marks are deducted.

Inclusion of laptop contaminates the surplus.

Question Number	Answer	Mark
5(c)		(9)

Balance Sheet as at 31 December 2008

	£	£
Kitchen equipment	270 <i>J</i> C	
Laptop computer	<u>290</u> <i>J</i> C	560 <i>J</i>
Subscriptions due for 2008	180 <i>J</i> C	
Cash at bank	<u>2 205</u> <i>J</i> <i>J</i>	
	2 or 0	<u>2 385</u> <i>J</i>
		<u>2 945</u> <i>J</i>
Accumulated fund	620 <i>J</i> <i>J</i>	
Surplus	<u>2 250</u> <i>J</i> <i>J</i> OF	2 870 <i>J</i>
Subscriptions received in advance		<u>75</u> <i>J</i> C
		<u>2 945</u> <i>J</i>

Accumulated fund: 1 *J* for OF and *J**J* for C (OF if balancing item)

(Total 26 marks)

Question Number	Answer	Mark
6(a)(i)-(vi)		(12)

(i)

9 July	Captain Cat paid (a cheque) to Marina Swansea Ltd (for £330) 2 marks 1 for correct names and 1 for payment
--------	---

(ii)

9 July	Captain Cat received discount (of £20) from Marina Swansea Ltd. 1 mark for correct names, 1 mark for discount received / allowed
--------	--

(iii)

10 July	Captain Cat purchased goods and services from Marina Swansea Ltd on credit (for £720). (2 marks) 1 for correct names, 1 for purchases
---------	---

(iv)

11 July	Captain Cat returned goods or was given credit for services by Marina Swansea Ltd (worth £35). (2 marks) 1 for correct names, 1 for returns
---------	---

(v)

28 July	An entry from Captain Cat's sales ledger (to the value of £160) was set-off against his debt to Marina Swansea Ltd. (2 marks) 1 for correct names, 1 for sales / set-off
---------	--

(vi)

31 July	Captain Cat owed (£525) to Marina Swansea Ltd (at the end of the month). (2 marks) 1 for names and 1 for owed
---------	---

Correct names means that the names must be the correct way round.

Each mark is for correct date, narration and figure in correct sequence

Question Number	Answer	Mark
6(b)		(12)

Date	Item	Debit £	Credit £	Balance £
1 July	Balance b/d			350 CR /CC
9 July	Bank	330 /C		20 CR /OF
9 July	Discount received (allowed x)	20 /C		00 /OF
10 July	Purchases		720 /C	720 CR /OF
11 July	Returns	35 /C		685 CR /OF
28 July	Sales / contra	160 /C		525 CR // C 2 or 0

The mark for the opening balance b/d should be given only if the £350 appears in neither the debit nor the credit column.

The mark for the zero balance should not be given if DR/CR appears.

The final balance: // for C balance and / for OF

If the final balance is rewritten in a final line, ignore.

Opening balance and final balance must specify CR but the others can score marks even if DR or CR not specified unless the figures are incorrect.

Question Number	Answer	Mark
6(c)	<ul style="list-style-type: none"> • The advantage of the running balance format is that it gives us a new balance after each transaction. • Suitable for a computerised accounting package • Easy to set out x • More accurate x • If the answer is vague x (Up to 2 marks)	(2)

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