

# Mark Scheme (Results) January 2010

GCE

## GCE O level Accounting (7011/01)

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Section A

Question Number	Answer	Mark																																																																																																									
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1(d)(i)	Refers to the names of two or more of the different ledgers ✓ Gives examples of the accounts which are included in two or more of these ledgers ✓	(2)

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1(d)(ii)	Gives one reason for the sub-division of the ledger eg to group similar accounts together ✓ Develops this reason eg makes it easier to control the ledger / to check for errors ✓	(2)

(Total 48 marks)

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2(a)	<p style="text-align: center;"><b>Ruby Biro</b> <b>Trading &amp; Profit &amp; Loss Account for the year ended 31 December 2009</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> </tr> </thead> <tbody> <tr> <td>Sales</td> <td></td> <td style="text-align: right;">144 710 ✓C</td> </tr> <tr> <td>Less returns inwards</td> <td></td> <td style="text-align: right;"><u>(900) ✓C</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">143 810</td> </tr> <tr> <td>Stock at 1.1.09</td> <td style="text-align: right;">36 250 ✓C</td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">120 600 ✓C</td> <td></td> </tr> <tr> <td>Less returns outwards</td> <td style="text-align: right;">(1 686) ✓C</td> <td></td> </tr> <tr> <td>Carriage inwards</td> <td style="text-align: right;">717 ✓C</td> <td></td> </tr> <tr> <td>Less closing stock</td> <td style="text-align: right;">(35 700) ✓C</td> <td></td> </tr> <tr> <td>Cost of sales</td> <td></td> <td style="text-align: right;"><u>(120 181)</u></td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right;">23 629 ✓OFNC</td> </tr> <tr> <td>Advertising</td> <td style="text-align: right;">60 ✓C</td> <td></td> </tr> <tr> <td>Carriage outwards</td> <td style="text-align: right;">2 746 ✓C</td> <td></td> </tr> <tr> <td>Insurances</td> <td style="text-align: right;">1 200 ✓C</td> <td></td> </tr> <tr> <td>Motor expenses</td> <td style="text-align: right;">3 925 ✓C</td> <td></td> </tr> <tr> <td>Rent and rates (13 800 ✓C - 650 ✓C)</td> <td style="text-align: right;">13 150</td> <td></td> </tr> <tr> <td>Driver's wages (7 000 ✓C + 200 ✓C)</td> <td style="text-align: right;">7 200</td> <td></td> </tr> <tr> <td>Administration expenses</td> <td style="text-align: right;">5 273 ✓C</td> <td></td> </tr> <tr> <td>Depreciation on shop fixtures</td> <td style="text-align: right;">528 ✓C</td> <td></td> </tr> <tr> <td>Depreciation on delivery van</td> <td style="text-align: right;">1 000 ✓C</td> <td></td> </tr> <tr> <td>Interest on loan</td> <td style="text-align: right;">250 ✓C</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>(35 332)</u></td> </tr> <tr> <td>Net loss</td> <td></td> <td style="text-align: right;"><u>(11 703)</u></td> </tr> </tbody> </table>		£	£	Sales		144 710 ✓C	Less returns inwards		<u>(900) ✓C</u>			143 810	Stock at 1.1.09	36 250 ✓C		Purchases	120 600 ✓C		Less returns outwards	(1 686) ✓C		Carriage inwards	717 ✓C		Less closing stock	(35 700) ✓C		Cost of sales		<u>(120 181)</u>	Gross profit		23 629 ✓OFNC	Advertising	60 ✓C		Carriage outwards	2 746 ✓C		Insurances	1 200 ✓C		Motor expenses	3 925 ✓C		Rent and rates (13 800 ✓C - 650 ✓C)	13 150		Driver's wages (7 000 ✓C + 200 ✓C)	7 200		Administration expenses	5 273 ✓C		Depreciation on shop fixtures	528 ✓C		Depreciation on delivery van	1 000 ✓C		Interest on loan	250 ✓C				<u>(35 332)</u>	Net loss		<u>(11 703)</u>	(20)
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Question Number	Answer	Mark
2(c)(i)	<p>The business has made a loss of £11 703 /OF on a capital of £60 000 and a bank loan of £5 000 /C. This is a negative 18% ROCE. /OF  (Accept 19.5% if the loan is omitted from the calculation) or  The business has made a loss of £11 703 /OF on sales of £144 710 /C.  This is a negative net profit ratio of 8%. /OF</p>	(4)

Question Number	Answer	Mark
2(c)(ii)	<p>Possible ways of improving the profit and loss situation:</p> <ul style="list-style-type: none"> <li>• Increase sales by reducing prices / spending more on advertising</li> <li>• Increase sales by spending more on advertising</li> <li>• Decrease purchases by finding new cheaper suppliers</li> <li>• Reduce wages by driving the van herself</li> <li>• Reduce motor costs by buying a smaller or more efficient van</li> <li>• Reduce administration expenses by increasing efficiency</li> <li>• Repay the loan to save the interest</li> <li>• Any other suitable suggestion</li> </ul> <p>✓ for relevant suggestion with a further ✓ for development - max ✓✓✓✓. For example "Reduce wages" is a relevant suggestion; (1 mark) "Reduce wages by driving the van herself" is a relevant suggestion developed (2 marks).</p>	(4)

(Total 48 marks)

### Section B

Question Number	Answer	Mark																																																																								
3(a)	<p style="text-align: center;"><b>Phidippides' Journal</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;">Date</th> <th style="width: 55%;">Narration</th> <th style="width: 15%;">Dr</th> <th style="width: 15%;">Cr</th> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">£</td> <td style="text-align: center;">£</td> </tr> </thead> <tbody> <tr> <td>3 Dec</td> <td>Office Equipment</td> <td style="text-align: right;">100 ✓C</td> <td></td> </tr> <tr> <td></td> <td>VAT</td> <td style="text-align: right;">10 ✓C</td> <td></td> </tr> <tr> <td></td> <td>Dodgy Dossiers Ltd</td> <td></td> <td style="text-align: right;">110 ✓C</td> </tr> <tr> <td></td> <td>Purchase of shredding machine on credit ✓</td> <td></td> <td></td> </tr> <tr> <td>10 Dec</td> <td>Stock Loss/Insurance Co</td> <td style="text-align: right;">2 500 ✓C</td> <td></td> </tr> <tr> <td></td> <td>Purchases / trading account</td> <td></td> <td style="text-align: right;">2 500 ✓C</td> </tr> <tr> <td></td> <td>Writing off of stock lost in burglary ✓</td> <td></td> <td></td> </tr> <tr> <td>15 Dec</td> <td>Discount received</td> <td style="text-align: right;">20 ✓C</td> <td></td> </tr> <tr> <td></td> <td>Marathon Supplies Ltd</td> <td></td> <td style="text-align: right;">20 ✓C</td> </tr> <tr> <td></td> <td>Cancellation of cash discount taken from supplier in error ✓</td> <td></td> <td></td> </tr> <tr> <td>22 Dec</td> <td>V Williams</td> <td style="text-align: right;">500 ✓C</td> <td></td> </tr> <tr> <td></td> <td>S Williams</td> <td></td> <td style="text-align: right;">500 ✓C</td> </tr> <tr> <td></td> <td>Correction of error of commission / posting sale to wrong customer ✓</td> <td></td> <td></td> </tr> <tr> <td>31 Dec</td> <td>Profit &amp; Loss</td> <td style="text-align: right;">120 ✓C</td> <td></td> </tr> <tr> <td></td> <td>Provision for doubtful debts</td> <td></td> <td style="text-align: right;">120 ✓C</td> </tr> <tr> <td></td> <td>Increase in provision for doubtful debts ✓</td> <td></td> <td></td> </tr> </tbody> </table>	Date	Narration	Dr	Cr			£	£	3 Dec	Office Equipment	100 ✓C			VAT	10 ✓C			Dodgy Dossiers Ltd		110 ✓C		Purchase of shredding machine on credit ✓			10 Dec	Stock Loss/Insurance Co	2 500 ✓C			Purchases / trading account		2 500 ✓C		Writing off of stock lost in burglary ✓			15 Dec	Discount received	20 ✓C			Marathon Supplies Ltd		20 ✓C		Cancellation of cash discount taken from supplier in error ✓			22 Dec	V Williams	500 ✓C			S Williams		500 ✓C		Correction of error of commission / posting sale to wrong customer ✓			31 Dec	Profit & Loss	120 ✓C			Provision for doubtful debts		120 ✓C		Increase in provision for doubtful debts ✓			(16)
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Question Number	Answer	Mark
3(b)	<p>The advantages and disadvantages of switching from a manual bookkeeping system to customised accounting software:</p> <p>Advantages:</p> <ul style="list-style-type: none"> <li>• Less time-consuming as all accounts are entered up for every transaction</li> <li>• More accurate as it does not make arithmetical errors</li> <li>• Everything is stored in one place and can easily be accessed</li> <li>• An audit trail is kept and past transactions can easily be traced</li> <li>• Can be used by non-specialist staff after a short period of training</li> <li>• Any other relevant advantage</li> </ul> <p>✓ for stating an advantage and a further ✓ for development - max ✓✓✓✓.</p> <p>Disadvantages</p> <ul style="list-style-type: none"> <li>• The system might break down and data might be lost</li> <li>• The business must pay to train staff to use the system</li> <li>• The system might be too complex for a small business</li> <li>• Data might not be secure</li> <li>• High capital cost of installation</li> <li>• Any other relevant disadvantage</li> </ul> <p>✓ for stating a disadvantage and a further ✓ for development - max 4 marks.</p> <p>Up to ✓✓ for a balanced conclusion or opinion stated</p>	(10)

(Total 26 marks)

Question Number	Answer	Mark				
4(a)(i)	<b>Insurance Account</b>	(5)				
	£		£			
1 Sept	Balance b/f		65 /C	31 Aug	Profit & loss	955 /OF
31 Aug	Bank		820 /C			
31 Aug	Balance c/f		<u>70 /C</u>			<u>955</u>
			955	1 Sept	Balance b/f	70 /OF

Question Number	Answer	Mark				
4(a)(ii)	<b>Wages Account</b>	(5)				
	£		£			
31 Aug	Bank		36 000 /C	1 Sept	Balance b/f	7 250 /C
31 Aug	Balance c/f		<u>5 100 /C</u>	31 Aug	Profit & loss	<u>33 850 /OF</u>
			41 100			<u>41 100</u>
				1 Sept	Balance b/f	5 100 /OF

Question Number	Answer	Mark				
4(a)(iii)	<b>Provision for Doubtful Debts Account</b>	(4)				
	£		£			
31 Aug	Profit & loss		370 /OF	1 Sept	Balance b/f	1 870 /C
31 Aug	Balance c/f		<u>1 500 /C</u>			
			1 870			<u>1 870</u>
				1 Sept	Balance b/f	1 500 /OF

Question Number	Answer	Mark			
4(a)(iv)	<b>Bad Debts Account</b>	(2)			
	£		£		
31 Aug	Norman Rock		<u>300 /C</u>	31 Aug	Profit & loss

Question Number	Answer	Mark			
4(a)(v)	<b>Provision for Depreciation (Office Furniture) Account</b>				
	£		£		
31 Aug	Balance c/f		<u>160</u>	31 Aug	Profit & loss

					1 Sept	Balance b/f	160 ✓OF	(2)
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Question Number	Answer	Mark
4(b)	✓✓ for stating a reason and a further ✓✓ for development	(4)

Question Number	Answer	Mark
4(c)(i)	A provision for doubtful debts is made to enable a business to apportion some of this years profits in anticipation of future bad debts. ✓ or ✓✓ according to the way this is explained.	(2)

Question Number	Answer	Mark
4(c)(ii)	A reduction in the provision for doubtful debts is made when the business expects bad debts to be less.  ✓ or ✓✓ according to the way this is explained.	(2)

(Total 26 marks)

Question Number	Answer	Mark																																								
5(a)	<p style="text-align: center;"><b>Receipts and Payments Account</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;"></th> <th style="width: 10%; text-align: center;">£</th> <th style="width: 5%;"></th> <th style="width: 50%;"></th> <th style="width: 10%; text-align: center;">£</th> </tr> </thead> <tbody> <tr> <td>Subscriptions received</td> <td style="text-align: right;">15 000 ✓ C</td> <td></td> <td>General expenses</td> <td style="text-align: right;">8 150 ✓ C</td> </tr> <tr> <td>Sale of tickets for trip</td> <td style="text-align: right;">1 630 ✓ C</td> <td></td> <td>Purchase of equipment</td> <td style="text-align: right;">5 000 ✓ C</td> </tr> <tr> <td>Loan</td> <td style="text-align: right;">1 000 ✓ C</td> <td></td> <td>Training course</td> <td style="text-align: right;">200 ✓ C</td> </tr> <tr> <td></td> <td></td> <td></td> <td>Purchase of block of tickets</td> <td style="text-align: right;">800 ✓ C</td> </tr> <tr> <td></td> <td></td> <td></td> <td>Coach hire</td> <td style="text-align: right;">585 ✓ C</td> </tr> <tr> <td></td> <td style="text-align: center;">_____</td> <td></td> <td>Balance c/f</td> <td style="text-align: right;">2 895 ✓OFNC</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>17 630</u></td> <td></td> <td></td> <td style="text-align: right;"><u>17 630</u></td> </tr> </tbody> </table>		£			£	Subscriptions received	15 000 ✓ C		General expenses	8 150 ✓ C	Sale of tickets for trip	1 630 ✓ C		Purchase of equipment	5 000 ✓ C	Loan	1 000 ✓ C		Training course	200 ✓ C				Purchase of block of tickets	800 ✓ C				Coach hire	585 ✓ C		_____		Balance c/f	2 895 ✓OFNC		<u>17 630</u>			<u>17 630</u>	(9)
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Question Number	Answer	Mark														
5(b)	<p style="text-align: center;">Income and Expenditure Account for the year ending 31 December 2009</p> <p style="text-align: right;">£</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Subscriptions (15 000 - 1 300 + 175)</td> <td style="text-align: right;">13 875 <i>///</i> OF</td> </tr> <tr> <td>Profit on trip (1 630 - 800 - 585)</td> <td style="text-align: right;"><u>245 <i>///</i> OF</u></td> </tr> <tr> <td></td> <td style="text-align: right;">14 120</td> </tr> <tr> <td>General expenses</td> <td style="text-align: right;">8 150 <i>/</i> C</td> </tr> <tr> <td>Training course</td> <td style="text-align: right;">200 <i>/</i> C</td> </tr> <tr> <td>Depreciation on equipment</td> <td style="text-align: right;"><u>500 <i>/</i> C</u></td> </tr> <tr> <td>Surplus of income over expenditure</td> <td style="text-align: right;">5 270 <i>/</i> OFNC</td> </tr> </table> <p>Subscriptions and profit on trip: <i>/</i> for each component. <i>///</i> only for C</p>	Subscriptions (15 000 - 1 300 + 175)	13 875 <i>///</i> OF	Profit on trip (1 630 - 800 - 585)	<u>245 <i>///</i> OF</u>		14 120	General expenses	8 150 <i>/</i> C	Training course	200 <i>/</i> C	Depreciation on equipment	<u>500 <i>/</i> C</u>	Surplus of income over expenditure	5 270 <i>/</i> OFNC	(10)
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Depreciation on equipment	<u>500 <i>/</i> C</u>															
Surplus of income over expenditure	5 270 <i>/</i> OFNC															

Question Number	Answer	Mark																
5(c)	<p style="text-align: center;">Balance Sheet as at 31 December 2009</p> <p style="text-align: right;">£</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Equipment (5 000 - 500 OF)</td> <td style="text-align: right;">4 500 <i>//</i></td> </tr> <tr> <td>Subscriptions owing</td> <td style="text-align: right;">175 <i>/</i> C</td> </tr> <tr> <td>Cash</td> <td style="text-align: right;"><u>2 895 <i>/</i> OF</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>7 570</u></td> </tr> <tr> <td>Surplus</td> <td style="text-align: right;">5 270 <i>/</i> OF</td> </tr> <tr> <td>Loan</td> <td style="text-align: right;">1 000 <i>/</i> C</td> </tr> <tr> <td>Subscriptions received in advance</td> <td style="text-align: right;"><u>1 300 <i>/</i> C</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>7 570</u></td> </tr> </table>	Equipment (5 000 - 500 OF)	4 500 <i>//</i>	Subscriptions owing	175 <i>/</i> C	Cash	<u>2 895 <i>/</i> OF</u>		<u>7 570</u>	Surplus	5 270 <i>/</i> OF	Loan	1 000 <i>/</i> C	Subscriptions received in advance	<u>1 300 <i>/</i> C</u>		<u>7 570</u>	(7)
Equipment (5 000 - 500 OF)	4 500 <i>//</i>																	
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(Total 26 marks)

Question Number	Answer	Mark						
6(a)(i)	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">2008</th> <th style="text-align: center;">2009</th> </tr> </thead> <tbody> <tr> <td>Return on capital employed</td> <td style="text-align: center;">(15 000 / 55 000) × 100 = 27.27% C</td> <td style="text-align: center;">(35 000 / 75 000) × 100 = 46.67% C</td> </tr> </tbody> </table> <p>1 mark for each correct figure must be rounded to 2 decimal places</p>		2008	2009	Return on capital employed	(15 000 / 55 000) × 100 = 27.27% C	(35 000 / 75 000) × 100 = 46.67% C	(2)
	2008	2009						
Return on capital employed	(15 000 / 55 000) × 100 = 27.27% C	(35 000 / 75 000) × 100 = 46.67% C						

Question Number	Answer	Mark						
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	2008	2009						
Net profit ratio	(15 000 / 82 500) × 100 = 18.18% C	(35 000 / 153 800) × 100 = 22.76% C						

Question Number	Answer	Mark			
6(a)(iii)	<table border="1"> <tr> <td>Current ratio</td> <td>(20 750 + 8 475) : (10 900 + 5 600) = 1.77 : 1 C</td> <td>(12 300 + 4 320) : (9 065 + 1 580) = 1.56 : 1 C</td> </tr> </table> <p>1 mark for each correct figure - must be rounded to 2 decimal places</p>	Current ratio	(20 750 + 8 475) : (10 900 + 5 600) = 1.77 : 1 C	(12 300 + 4 320) : (9 065 + 1 580) = 1.56 : 1 C	(2)
Current ratio	(20 750 + 8 475) : (10 900 + 5 600) = 1.77 : 1 C	(12 300 + 4 320) : (9 065 + 1 580) = 1.56 : 1 C			

Question Number	Answer	Mark			
6(a)(iv)	<table border="1"> <tr> <td>Rate of stock turnover</td> <td>Cost of sales = (82 500 - 32 000) = 50 500 50 500 / 20 750 = 2.43 times C</td> <td>Cost of sales = 153 800 - 68 000 = 85 800 85 800 / 12 300 = 6.98 times C</td> </tr> </table> <p>2 marks for each correct figure - must be rounded to 2 decimal places</p>	Rate of stock turnover	Cost of sales = (82 500 - 32 000) = 50 500 50 500 / 20 750 = 2.43 times C	Cost of sales = 153 800 - 68 000 = 85 800 85 800 / 12 300 = 6.98 times C	(4)
Rate of stock turnover	Cost of sales = (82 500 - 32 000) = 50 500 50 500 / 20 750 = 2.43 times C	Cost of sales = 153 800 - 68 000 = 85 800 85 800 / 12 300 = 6.98 times C			

Question Number	Answer	Mark
6(b)	<p>Points in support of an improvement in the performance:</p> <ul style="list-style-type: none"> <li>• Return on capital employed has increased from 27.27% to 46.67%.</li> <li>• Net profit ratio has increased from 18.18% to 22.76%</li> <li>• Sales have increased from £82 500 to £153 800 - an increase of 86.42%</li> <li>• Rate of stock turnover has increased from 2.43 times to 6.98 times</li> <li>• Taking on the new partner has probably helped the sales, as he is an expert salesman and manager</li> <li>• The new partner has brought in capital and part of this has been used to buy a computer, which should make the business more efficient.</li> <li>• The additional capital has allowed the bank overdraft to decrease, thus exposing the business to less risk</li> </ul> <p>Points against:</p> <ul style="list-style-type: none"> <li>• The current ratio has fallen from 1.77 : 1 to 1.56 : 1</li> <li>• Liquidity was less than 2 : 1 previously and is now even lower</li> <li>• A large percentage of the current assets is accounted for by stock in both years</li> <li>• Creditors are much larger than debtors in both years</li> </ul> <p>/ or // for each point explained up to a maximum of 4 marks for each section</p> <p>// for a conclusion eg the partner has improved the performance of the business.</p>	(10)

Question Number	Answer	Mark
6(c)(i)	Under the existing partnership agreement, Iroko will receive $\text{£}35\,000 / 2 = \text{£}17\,500$ ✓✓	(2)

Question Number	Answer	Mark
6(c)(i)	<p>Under the scheme proposed by the bank manager:</p> <p>Iroko will receive interest on capital of 5% of <math>\text{£}55\,000 = \text{£}2\,750</math> ✓</p> <p>Sapele will receive interest on capital of 5% of <math>\text{£}20\,000 = \text{£}1\,000</math> ✓</p> <p>The amount to be shared equally will be <math>\text{£}35\,000 - (\text{£}2\,750 + \text{£}1\,000)</math> ✓✓OF</p> <p><math>\text{£}31\,250 / 2 = \text{£}15\,625</math> ✓OF</p> <p>So Iroko will receive <math>\text{£}15\,625 + \text{£}2\,750 = \text{£}18\,375</math> ✓OF</p>	(4)

(Total 26 marks)

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