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**London Examinations**  
**GCE Advanced Level**

**Mark Scheme with Examiners' Report**

# **London Examinations Advanced Level GCE in Accounting (9011)**

June 2003



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**Mark Scheme and Chief Examiner's Report**  
**June 2003**

**ACCOUNTING 9011**

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**Mark Scheme**

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# ACCOUNTING 9011, MARK SCHEME

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## PAPER 1

### Section A

#### Question 1

(a)

#### Revaluation Account

|                        |        |          |         |
|------------------------|--------|----------|---------|
|                        | £      |          | £       |
| Tools and Equipment    | 5000 ½ | Premises | 18000 ½ |
| Stock of materials     | 1000 ½ |          |         |
| Profit on Revaluation: |        |          |         |
| Urn                    | 4000 ½ |          |         |
| Pot                    | 4000 ½ |          |         |
| Pail                   | 4000 ½ |          |         |
|                        | <hr/>  |          | <hr/>   |
|                        | 18000  |          | 18000   |
|                        | <hr/>  |          | <hr/>   |

**(3 marks)**

#### Alternative answer:

|                        |         |          |         |
|------------------------|---------|----------|---------|
|                        | £       |          | £       |
| Tools and Equipment    | 5000 ½  | Premises | 18000 ½ |
| Stock of materials     | 1000 ½  | Goodwill | 21000 3 |
| Profit on Revaluation: |         |          |         |
| Urn                    | 11000 ½ |          |         |
| Pot                    | 11000 ½ |          |         |
| Pail                   | 11000 ½ |          |         |
|                        | <hr/>   |          | <hr/>   |
|                        | 39000   |          | 39000   |
|                        | <hr/>   |          | <hr/>   |

**(6 marks)**



(c)

**BALANCE SHEET AS AT 1 APRIL 2003**

**FIXED ASSETS**

|                     |                    | £            |   |
|---------------------|--------------------|--------------|---|
| Premises            | (£140000 + £18000) | 158000       | ✓ |
| Vehicles            | (£28000 - £9000)   | 19000        | ✓ |
| Tools and Equipment | (£23550 - £5000)   | <u>18550</u> | ✓ |
|                     |                    | 195550       |   |

**CURRENT ASSETS**

|                                 | £          |   |
|---------------------------------|------------|---|
| Stock of materials              | 7960       | ✓ |
| Debtors                         | 12480      | ✓ |
| Bank (£16000 + £35000 - £40000) | 11000      |   |
| ✓✓                              |            |   |
| Insurance Prepaid               | <u>700</u> | ✓ |
|                                 | 32140      |   |

**LESS: CURRENT LIABILITIES**

|                |             |         |
|----------------|-------------|---------|
| Creditors      | 10300       |         |
| Expenses owing | <u>1040</u> | 11340 ✓ |

**NET CURRENT ASSETS**

20800  
216350

**LESS: LONG TERM LIABILITY**

|             |               |    |
|-------------|---------------|----|
| Loan – Pail | <u>33200</u>  | OF |
|             | <u>183150</u> |    |

**FINANCED BY:**

|           |     |              |       |        |
|-----------|-----|--------------|-------|--------|
| CAPITAL – | Urn | 103400       | ✓✓ OF |        |
|           | Pot | <u>72600</u> |       | 176000 |
|           |     |              | ✓✓ OF |        |

**CURRENT ACCOUNTS**

|  |     |             |   |               |
|--|-----|-------------|---|---------------|
|  | Urn | 4100        | ✓ |               |
|  | Pot | <u>3050</u> | ✓ | <u>7150</u>   |
|  |     |             |   | <u>183150</u> |

16 x ✓ = (8 marks)

(25 marks)

## Question 2

(a) Profit and Loss Account for the year ending 30 April 2003

|                                       |       | £      |         |
|---------------------------------------|-------|--------|---------|
| Turnover (WN1)                        |       | 517700 | (1)     |
| Cost of Sales (WN2)                   |       | 267910 | (2 1/2) |
| Gross Profit                          |       | 249790 | 1/2 OF  |
| Distribution Costs (WN3)              | 59440 | (6)    |         |
| Administration Expenses (WN 4)        | 27034 | (6)    | 86474   |
|                                       |       | 1/2)   |         |
|                                       |       | 163316 |         |
| Interest Payable (WN5)                |       | (2000) | (1)     |
|                                       |       | 161316 |         |
| Retained Profits from last year       |       | 18200  | 1/2     |
|                                       |       | 179516 |         |
| Transfer to General Reserve           | 70000 |        | 1/2     |
| Transfer to Asset Replacement Reserve | 40000 |        | 1/2     |
| Proposed Dividend                     | 20000 |        | 1       |
| Retained Profit carried forward       |       | 49516  | 1 or    |

1/2 OF

**(21 marks)**

### WORKINGS:

$$1. \quad \text{Turnover} - \overset{1/2}{£528000} - \overset{1/2}{£10300} = £517700.$$

$$2. \quad \text{C.G.S.} - \overset{1/2}{£20250} + \overset{1/2}{(£268000 - £1380)} - \overset{1/2}{£18960} = \overset{1/2}{£267910}. \quad 1/2 \text{ OF}$$

$$3. \quad \text{Dist / Costs} - \overset{1/2}{£13240} + \overset{1}{£2700} + \overset{1}{£3240} + \overset{1}{£11620} +$$

$$\overset{1}{£11840} + \overset{1}{£16800} = \overset{1/2}{£59440}. \quad 1/2 \text{ OF}$$

$$4. \quad \text{Admin / Exps} - \overset{1/2}{£9140} + \overset{1}{£360} + \overset{1}{£4980} + \overset{1/2}{£840} + \overset{1/2}{£784} + \overset{1}{£2960} +$$

$$\overset{1}{£8400} - \overset{1/2}{£430} = \overset{1/2}{£27034}. \quad 1/2 \text{ OF}$$

$$5. \quad \text{Interest} - \overset{1/2}{£1000} + \overset{1/2}{£1000} = £2000.$$



(b) Revenue Reserves are those amounts, which have been voluntarily transferred from profit and loss appropriation account, thus reducing the amount of profits left available for dividend payments.

(0 – 2)

Capital Reserves are created in accordance with the Companies Act and cannot be utilised for cash dividend payments. Non-cash dividends by the issue of bonus shares are permissible.

(0 – 2)

(4 marks)

(Total 25 marks)

### Question 3

Working 1. - Goodwill

Net Asset Worth Acquired:

$$(\overset{1}{£45000} + \overset{1}{£15000} + \overset{1}{£8000} + \overset{1}{£12000}) - (\overset{1}{£6450} + \overset{1}{£3220}) = £70330. \quad 1 \text{ OF}$$

|                        |              |          |
|------------------------|--------------|----------|
|                        | £            |          |
| Purchase Consideration | 97000        | 1        |
| Less: Net Asset worth  | <u>70330</u> | 1 OF     |
| Goodwill =             | 26670        | 2 (1 OF) |

(a) JOURNAL

|                        | DR    |      | CR     |      |
|------------------------|-------|------|--------|------|
|                        | £     |      | £      |      |
| Premises               | 45000 | 1    |        |      |
| Fixtures               | 15000 | 1    |        |      |
| Debtors                | 8000  | 1    |        |      |
| Stock                  | 12000 | 1    |        |      |
| Goodwill (WN1)         | 26670 | (11) |        |      |
| Business Purchase      |       |      | 106670 | 1 OF |
| <hr/>                  |       |      |        |      |
| Business Purchase      | 9670  | 1    |        |      |
| Creditors              |       |      | 6450   | 1    |
| Bank                   |       |      | 3220   | 1    |
| <hr/>                  |       |      |        |      |
| Business Purchase      | 97000 | 1    |        |      |
| B. Eastern             |       |      | 97000  | 1    |
| <hr/>                  |       |      |        |      |
| Bank                   | 70000 | 1    |        |      |
| 6% Debentures          |       |      | 70000  | 1    |
| <hr/>                  |       |      |        |      |
| Eastern                | 97000 | 1    |        |      |
| Bank                   |       |      | 67000  | 1    |
| Ordinary Share Capital |       |      | 30000  | 1    |
| <hr/>                  |       |      |        |      |

( 26 = 13 marks)

2

**(b) BALANCE SHEET as at 1 June 2003**

| <u>FIXED ASSETS</u>                             |             | £                     |      |
|---|-------------|-----------------------|------|
| Goodwill  |             | 26670                 | 1 OF |
| Premises (£150000 + £45000)                     |             | 195000                | 1    |
| Fixtures & Fittings (£38500 + £15000)           |             | 53500                 | 1    |
| Vehicles  |             | <u>27250</u>          |      |
|   |             | 302420                | 1 OF |
| <br><u>CURRENT ASSETS</u>                       |             | <br>£                 |      |
| Stock (£31000 + £12000)                         | 43000       | 1                     |      |
| Debtors (£20600 + £8000)                        | 28600       | 1                     |      |
| Bank  |             |                       |      |
| (£3200 + £70000 - £67000 - £3220)               | <u>2980</u> | (4)                   |      |
|   | 74580       |                       |      |
| <br><u>Less: Creditors: Due within One Year</u> |             |                       |      |
| Creditors (£15700 + £6450)                      | 22150       | 1                     |      |
| <br>NET CURRENT ASSETS                          |             | <br><u>52430 1 OF</u> |      |
|   |             | 354850                |      |
| <br><u>Less: Creditors: Due after One Year</u>  |             |                       |      |
| 6% Debentures (£30000 + £70000)                 |             | <u>100000 1</u>       |      |
|   |             | <u>254850</u>         |      |
| <br>FINANCED BY:                                |             |                       |      |
| Ordinary Share Capital (£220000 + £30000)       |             | 250000                | 1    |
| Retained Earnings                               |             | <u>4850</u>           |      |
|   |             | <u>254850</u>         |      |

**(14 = 7 marks)**  
**2**

**(c) GOODWILL BOUGHT:**

- To increase customer base.
- To obtain business location.
- To restrict competition.
- To reduce costs via economies of scale, in the long-run.
- To diversify business activity.

**(First point 0 - 3 marks)**  
**(Second point 0 – 2 marks)**

**(Total 25 marks)**

## Section B

### Question 4

(a) Trading Profit and Loss Account for year ending 31 January 2003

|                           | £            |       | £                 |
|---------------------------|--------------|-------|-------------------|
| SALES                     |              |       | 69000             |
| Less: Cost of Goods Sold: |              |       |                   |
| Stock at 1/2/02           | 9200         |       |                   |
| Add: Purchases (WN3)      | <u>45100</u> | 3     |                   |
|                           | 54300        |       |                   |
| Less: Stock at 31/1/03    | <u>8300</u>  | (WN2) | 46000 1           |
| GROSS PROFIT (WN 1)       |              |       | 23000 2 (1 OF)    |
| Depreciation (WN 4)       | 2100         | 1     |                   |
| Other expenses (WN 5)     | <u>10350</u> | 1     | 12450             |
| NET PROFIT                |              |       | <u>10550</u> 1 OF |

#### WORKINGS:

1. Mark Up 50%, thus margin  $33\frac{1}{3}\%$   
 $£69000 \times 33\frac{1}{3}\% = £23000$

2.  $£69000 - £23000 = £46000$

OF  
3.  $£46000 + £8300 - £9200 = £45100$

4.  $\frac{£16800}{8} = £2100$

5.  $£69000 \times 15\% = £10350$

**(9 marks)**

(b) (i) RATE OF TURNOVER:

$$\frac{\frac{£46000}{1} \text{ 1 OF}}{(\frac{£9200 + £8300}{2}) \text{ 1}} = 5.26 \text{ Times 1 OF}$$

(ii) PERIOD OF STOCKHOLDING

$$\frac{\frac{1}{£8750} \times 12}{£46000 \text{ 1 OF}} = 2.28 \text{ months 1 OF}$$

(OR: 69.43 DAYS)

**(6 marks)**

**(Total 15 marks)**

**Question 5**

(a)

DEBT

SHAREHOLDERS FUNDS + DEBT

$$\frac{\pounds 90000}{\pounds 50000 + \pounds 8000 + \pounds 2000 + \pounds 90000} \times 100 = 60\%$$

1 OF

**= 3 marks**

OR:

DEBT

SHAREHOLDER FUNDS

$$\frac{\pounds 90000}{\pounds 50000 + \pounds 8000 + \pounds 2000} \times 100 = 150\%$$

OR:

DEBT

EQUITY + DEBT

$$\frac{\pounds 90000}{\pounds 50000 + \pounds 90000} \times 100 = 64.29\%$$

**(3 marks)**

- (b) (i) Reduces gearing to medium geared position. 1  
(per first formula in (a))

$$\frac{\pounds 90000}{\pounds 110000 + \pounds 14000 + \pounds 2000 + \pounds 90000} \times 100 = 41.67 \%$$

2 (1 OF)

(Statement = 1 )  
(Calculation = 2 )

- (ii) Nil Effect 1

(Statement = 1 )

- (iii) Reduces gearing to a medium geared position. 1  
(per first formula in (a))

$$\frac{\pounds 62000}{\pounds 50000 + \pounds 8000 + \pounds 2000 + \pounds 62000} \times 100 = 50.82 \%$$

2 (1 OF)

(Statement = 1 )  
(Calculation = 2 )

Accept variants of formula as per (a) **(7 marks)**

- (c) - Increased earnings via the use of fixed return capital.  
- Potential of increased dividends for ordinary shareholders.  
- If increased earnings are retained, internal financing for expansion is facilitated without the need to raise capital externally, etc.

First Statement - 2 marks  
Second Statement - 2 marks  
Third Statement - 1 mark

**(5 marks)**

**(15 marks)**

**Question 6 (a) & (b)**

|       | +    | -          |            |
|-------|------|------------|------------|
|       | £    | £          |            |
| May 2 |      | Nil Effect | 1          |
| “ 4   |      | 8000       | 1          |
| “ 5   | 5000 |            | 1          |
| “ 10  |      | Nil Effect | 1          |
| “ 12  | 860  |            | 1          |
| “ 18  |      | 500        | 1          |
| “ 21  |      | -190       | 1          |
| “ 29  |      | 220        | 1          |
|       |      |            | 12100 1 OF |

(All transactions must be attempted for OF marks)

**(9 marks)**

(b) REVENUE - Expenditure for running the business on a day to day basis, e.g. expenses and stock purchased.

0-2 explanation  
0-1 example

CAPITAL - expenditure on acquiring fixed assets or adding to the value of fixed assets, eg motor vehicle

0-2 explanation  
0-1 example

**(6 marks)**

**(Total 15 marks)**

**7.**

(a) F R S 3 (1)

Material items which derive from events, or transactions that fall within the ordinary activities of the reporting entity and which individually or, if of a similar type, in aggregate need to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view.

**(Standard 0 – 1)**  
**(Development 0 – 4)**

(b) S S A P 17 (1)

Those events both favourable and unfavourable, which occur between the Balance Sheet date and the date on which the financial statements are approved by the Board of Directors.

**(Standard 0 – 1)**  
**(Development 0 – 4)**