

Mark Scheme with Examiners' Report GCE AS Level Accounting (6001)

January 2006

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Mark Scheme with Examiners' Report

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January 2006

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ACCOUNTING 6001, MARK SCHEME

Question 1

(a)

Bright Ideas Ltd Manufacturing Account for the year ended 31 December 2005 ✓

| | Desk £ | Chair £ | Total £ | |
|----------------------------|----------------|---------------|----------------|----------------------|
| O/S of Raw Material | | | 10 000 | ✓ |
| Purch of Raw Material | | | <u>57 000</u> | ✓ |
| | | | 67 000 | |
| C/S of Raw Material | | | <u>12 000</u> | ✓ |
| Cost of Raw Material | 34 000 | 21 000 | 55 000 | ✓✓ (0 for total) |
| Direct wages | 46 000 | 36 000 | 82 000 | ✓ |
| Royalties | | 3 000 | 3 000 | ✓✓ |
| PRIME COST ✓ | 80 000 | 60 000 | 140 000 | ✓ OF |
| <u>Factory Overheads:</u> | | | | |
| Fuel and power | 4 800 | 3 600 | 8 400 | ✓ |
| Supervision and management | 16 000 | 12 000 | 28 000 | ✓ |
| General expenses | 8 800 | 6 600 | 15 400 | ✓ |
| Depreciation - machinery | 10 800 | 8 100 | 18 900 | ✓✓ (✓ for 4:3 split) |
| | 40 400 | 30 300 | 70 700 | |
| Plus WIP at start | 19 000 | 14 700 | 33 700 | ✓✓ |
| Less WIP at end | (19 400) | (15 000) | (34 400) | ✓✓ |
| PRODUCTION COST ✓ | <u>120 000</u> | <u>90 000</u> | <u>210 000</u> | ✓ OF |

(11)

Trading and Profit and Loss Account for the year ended 31 December 2005

| | B'case £ | Desk £ | Chair £ | Total £ | |
|--|-----------------|----------------|---------------|---------------|------|
| Sales | 120 000 | 135 000 | 120 000 | 375 000 | ✓✓ |
| less | | | | | |
| O/S of Finished Goods | 8 700 | 12 000 | 11 000 | 31 700 | ✓ |
| Purchases/Trans | ✓ <u>97 100</u> | <u>120 000</u> | <u>90 000</u> | 307 100 | ✓ OF |
| | 105 800 | 132 000 | 101 000 | 338 800 | |
| C/S of Finished Goods | <u>9 800</u> | <u>24 000</u> | <u>5 000</u> | <u>38 800</u> | ✓ |
| Cost of Sales | 96 000 | 108 000 | 96 000 | 300 000 | ✓ OF |
| Gross profit | <u>24 000</u> | <u>27 000</u> | <u>24 000</u> | <u>75 000</u> | ✓ OF |
| less | | | | | |
| Fuel and power | | | | 3 200 | ✓ |
| Supervision and management | | | | 30 000 | ✓ |
| General expenses | | | | 4 600 | ✓ |
| Marketing costs | | | | 25 000 | ✓ |
| Depreciation on administration equipment | | | | 3 200 | ✓ |
| Bad debts | | | | 3 000 | ✓✓ |
| Increase in PBD | | | | <u>700</u> | ✓✓ |
| | | | | 69 700 | |
| Net profit | | | | <u>5 300</u> | ✓ OF |

(9)

(b)

Cost per unit: Desk $\frac{\pounds 120\,000}{1\,000} = \pounds 120$ per desk

Chair $\frac{\pounds 90\,000}{1\,500} = \pounds 60$ per chair

(2)

(c) Valid points may include

Evaluation in favour of the proposal:

- Potential for increased profit levels.
- Fewer risks inherent in the production process such as labour disputes.
- More management time freed to develop the business.

Evaluation against the proposal:

- Loss of control in production.
- Loss of control on quality.
- Unable to control future price increases by supplier.
- Fixed production costs will need to be absorbed by other product.
- Under utilised production capacity.
- Redundancy of staff, social and additional cost factors.

✓✓ per valid point x 3 points.

Maximum 2 points in favour or against

Decision for or against the proposal, based on analysis provided. ✓✓

(4)

(Total 26 marks)

Question 2

(a)

(i)

Liquidity is the ability of a business to meet its short term debts // to enable the continued supply of goods for resale on credit. This is normally measured by a comparison of current assets and current liabilities in a ratio format. //

Profitability is the ability to retail goods or services at a price which is a mark up on cost which after all other expenses have been met will leave a surplus // of income over expenditure called a profit. This is normally measured as a percentage of gross or net profit to sales or return on the capital employed. //

(max 3 marks)

(ii)

The statement implies that profitability is more important than liquidity when in fact they are equally important. // In the long term it is important that all businesses are profitable // but in the short term a business can still trade if unprofitable. A business requires not only short term but also long term liquidity. //

(max 2 marks)

(5)

(b)

Bad Debts Account

| | £ | | £ |
|-----------------|---------------|------------------------|--------------|
| Salamandar & Co | 2 000 // | Profit and Loss A/c // | 2 600 // |
| Vickrum | <u>600 //</u> | | |
| | <u>2 600</u> | | <u>2 600</u> |

Provision for Doubtful Debts Account

| | £ | | £ |
|----------------|--------------|------------------------|---------------|
| Balance c/d // | 1 700 // OF | Balance b/d // | 1 500 // |
| | <u>1 700</u> | Profit and Loss A/c // | <u>200 //</u> |
| | | | <u>1 700</u> |

(5)

(c)

Balance Sheet (extract)

Current Assets

| | | | |
|----------|--------------|--|----------------------|
| Stock | 55 000 | | // |
| Debtors | 34 000 | | // |
| Less PDD | <u>1 700</u> | | /// (// OF from (b)) |
| | | | // if 5% of debtors |
| | 32 300 | | |

| | | | |
|------|----------|--|--|
| Bank | <u>-</u> | | |
| | 87 300 | | |

less

Current Liabilities

| | | | |
|-----------|--------|--|---------------------|
| Creditors | 76 500 | | /// (// for 80 000) |
|-----------|--------|--|---------------------|

| | | | |
|----------------|--------------|--|----|
| Bank overdraft | <u>8 500</u> | | // |
| | 85 000 | | |

| | | | |
|-----------------|-------|--|-------|
| Working capital | 2 300 | | // OF |
|-----------------|-------|--|-------|

(6)

(d)

| | 2004 | | 2005 |
|---|------------------|-----------|-------------------------------|
| Stock turnover : $\frac{\text{COGS}}{\text{Ave Stock}}$ | $\frac{280}{35}$ | = 8 times | $\frac{570}{47.5}$ = 12 times |

| | | | |
|---|-------------------------|----|-------------------------------|
| Current ratio: $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ | $\frac{81}{45}$ = 1.8:1 | // | $\frac{87.3}{85}$ = 1:1 // OF |
|---|-------------------------|----|-------------------------------|

| | | | |
|--|-------------------------|----|---------------------------------|
| Acid test: $\frac{\text{Current Assets} - \text{Stock}}{\text{Current Liabilities}}$ | $\frac{41}{45}$ = 0.9:1 | // | $\frac{32.3}{85}$ = 0.4:1 // OF |
|--|-------------------------|----|---------------------------------|

(6)

(e) Valid points may include:

- Current ratio has fallen and is now below the accepted level for a general trader.
- Acid test has fallen and is now below the accepted level for a general trader.
- Stock levels have risen considerably (50%) in the year.
- Is the current stock level required or can this be reduced?
- Debtor levels have risen.
- Debtors as a percentage of sales have fallen.
- Stock turnover has risen. Are we over trading?

// per point (OF) x 3 points
// for a conclusion

(4)

(Total 26 marks)

Question 3

(a) and (b)

| | Machining £ | Finishing £ | Stores £ | Administration £ | |
|----------------|----------------|----------------|-------------|---------------------|------------|
| Indirect costs | 1 100 | 3 500 | 1 500 | 1 500 | / |
| Indirect wages | | | 11 000 | 20 000 | / |
| Supervision | 12 500 | 10 000 | 2 500 | 5 000 | //// |
| Rent and rates | 4 000 | | 5 000 | 1 000 | 2 000 //// |
| Insurance | 2 500 | 1 500 | 500 | 1 500 | //// |
| | 20 100 | 20 000 | 16 500 | 30 000 | |
| Stores | 10 500 | 6 000 // | (OF if 7:4) | | |
| Administration | 12 000 | 18 000 // | (OF if 4:6) | | |
| | 42 600 / OF | 44 000 / OF | | | |

Recovery hrs 7 100 / 8 000 /

Recovery rate £6 per hr /OF £5.50 per hr /OF
(7)+(5)= (12)

(c)

(i)

A sum greater than the actual overhead incurred // has been recovered by the application of a budgeted hour rate calculated before commencement of the accounting period. //

(2)

(ii)

Valid points of evaluation may include:

- A single overhead recovery rate would be simpler to calculate.
- A single overhead recovery rate would not require sometimes arbitrary allocation of overheads.
- Departmental rates would facilitate greater accuracy in the calculation of rates which relate to specific functions.
- Departmental rates help to avoid cross subsidisation of rates.

Up to /// x 2 points
 // for conclusion

(4)

(d)

(i)

Quotation - Job H190

| | £ | | £ |
|----------------------------|------------|---|-------------------|
| Raw material: | | | 520 ✓ |
| Direct labour: | | | |
| 20 hrs Machining @ £8 | 160 | ✓ | |
| 16 hrs Finishing @ £7 | <u>112</u> | ✓ | |
| | | | 272 |
| Overheads: | | | |
| 20hrs Machining @ £6 OF | 120 | ✓ | |
| 16 hrs Finishing @ £5.5 OF | <u>88</u> | ✓ | |
| | | | <u>208</u> |
| | | | 1 000 |
| Profit margin 20% | | | <u>250</u> ✓✓ OF |
| | | | <u>1 250</u> ✓ OF |

(4)

(ii) Overhead recovery:

| | £ | | £ |
|------------------------------|-----|----|-----------------|
| Projected: Machining | 120 | OF | |
| Finishing | 88 | OF | |
| | | | 208 OF ✓ |
| Actual: Machining 16 x £6 OF | | | |
| Finishing 18 x £5.50 OF | | | |
| | | | <u>195</u> OF ✓ |
| Under recovery of overhead | | | <u>13</u> OF ✓ |

Actual profit margin:

| | | | |
|----------------------------------|--|--|-----------------|
| Raw materials: | | | 401 ✓ |
| Direct labour: Machining 16 x £8 | | | |
| Finishing 18 x £7 | | | |
| | | | 254 ✓ |
| Overheads: Machining 16 x £6 OF | | | |
| Finishing 18 x £5.5 OF | | | |
| | | | <u>195</u> ✓ OF |
| | | | 850 |
| Profit margin 32% ✓OF | | | <u>400</u> ✓ OF |
| | | | <u>1 250</u> |

(4)

(Total 26 marks)

Question 4

(a)

Computer Equipment Account

| | £ | | £ |
|-------------|-----------------|-------------|------------------|
| Balance b/d | 120 000 ✓ | Disposal ✓ | 16 000 ✓ |
| Creditor ✓ | <u>10 000 ✓</u> | Balance c/d | <u>114 000 ✓</u> |
| | <u>130 000</u> | | <u>130 000</u> |

Computer Equipment Account - Provision for Depreciation Account

| | £ | | £ |
|-------------|-----------------|-------------------|-----------------|
| Disposal | 5 000 ✓ | Balance b/d | 40 000 ✓ |
| Balance c/d | <u>64 500 ✓</u> | Profit and loss ✓ | <u>29 500 ✓</u> |
| | <u>69 500</u> | | <u>69 500</u> |

Disposal Account

| | £ | | £ |
|----------------|---------------|---------------|-----------------|
| Equipment | 16 000 ✓ | Prov for Depr | 5 000 ✓ |
| Profit on sale | <u>500 ✓</u> | Debtor ✓ | <u>11 500 ✓</u> |
| | <u>16 500</u> | | <u>16 500</u> |

Profit and Loss Account (extract)

| | £ | | £ |
|--------------|-------------|----------------|----------|
| Depreciation | 29 500 ✓ OF | Profit on Sale | 500 ✓ OF |

(9)

(b)

(i)

Capital expenditure is the purchase of fixed assets ✓ which will be utilised and depreciated over a number of years ✓ and are at a level of expenditure which is capitalised by the business.

Revenue expenditure is recurrent expenditure which will be incurred and expensed ✓ in a single accounting period ✓ e.g. rent.

(2)

(ii)

The concept of materiality applies to assets which have a life of more than one accounting period ✓ but whose costs are not material in the impact that they would have on the profit calculation for the period. ✓✓ The impact would not distort ✓✓ the profit calculation and therefore the assets are not depreciated over time but expensed in a single accounting period. ✓

(3)

(iii)

Although it is permissible ✓ to capitalise training costs the case for these costs to be capitalised is less strong ✓ as staff will probably leave before the assets life has expired. ✓

✓ for conclusion

(2)

(Total 16 marks)

Question 5

- (a)(i) Cost per unit $\frac{8 \text{ workers} \times 8 \text{ hours} \times \text{£}5 \text{ per hour}}{400 \text{ items}} = \text{£}0.80 \text{ per item}$ ✓✓✓✓
(✓✓ for £320)
- (ii) Cost per unit $\frac{6 \text{ workers} \times 8 \text{ hours} \times \text{£}5 \text{ per hour}}{320 \text{ items}} = \text{£}0.75 \text{ per item}$ ✓
✓✓ for £240
Productivity will rise ✓ OF
- Cost per unit $\frac{10 \text{ workers} \times 8 \text{ hours} \times \text{£}5 \text{ per hour}}{450 \text{ items}} = \text{£}0.89$ ✓
✓✓ for £400
Productivity will fall ✓ OF
- Cost per unit $\frac{(8 \text{ workers} \times 8 \text{ hours} \times \text{£}5 \text{ per hour}) + \text{£}84}{420 \text{ items}} = \text{£}0.96 \text{ per item}$ ✓
✓✓ for £404
Productivity will fall ✓ OF
- (iii) Saving $2\,000 \times 48 \text{ weeks} \times (\text{£}0.80 - \text{£}0.75) = \text{£}4\,800 \text{ per annum}$ ✓✓ OF
✓ OF ✓ OF

(10)

(b)

(i)

Productivity is the relationship between inputs ✓ of labour and outputs ✓ of labour. This is normally measured by the output that is achieved from each hour or pound of labour input. ✓✓

(2)

(ii) Valid points may include:

- Improvements in labour productivity could be achieved by producing the same output with a smaller labour input.
- Achieving a smaller output with a proportionately lower input of labour.
- Greater efficiency through the use of capital equipment.
- Improvement in working practices.

✓✓ per point max 2 points

(2)

(iii) Bonus schemes are designed to encourage and reward labour to complete tasks in a shorter period of time ✓ therefore improving the productivity of labour. If quality is critical, this may be compromised as labour works to complete the task in a shorter period. ✓ Therefore, bonus schemes and quality may be not compatible ✓. To make them compatible stringent quality control or greater emphasis upon machine controlled production may be required. ✓ max 3 ✓
✓ for conclusion

(2)

(Total 16 marks)

Question 6

(a)

Pareet and Hitish - Profit and Loss Appropriation Account for the year ended 31 December 2005

| | £ | £ |
|------------------------------|-------------------------|----------------|
| Net profit | | 41 150 |
| plus | | |
| Interest on drawings- Pareet | 750 ✓ | |
| Hitish | <u>1 100</u> ✓ | |
| | | <u>1 850</u> |
| | | 43 000 |
| less | | |
| Interest on capital - Pareet | 2 000 ✓ | |
| Hitish | <u>2 000</u> ✓ | |
| | | <u>4 000</u> |
| | | 39 000 |
| Salary | Hitish | <u>7 500</u> ✓ |
| | | 31 500 |
| Share of profits | Pareet 21 000 ✓* | |
| | Hitish <u>10 500</u> ✓* | |
| | | <u>31 500</u> |

*OF if correct ratio and no extraneous items

Balance Sheet as at 31 December 2005

| | | |
|----------------------------|-----------------------------|--------------------|
| <u>Fixed Assets</u> | | |
| Equipment | 60 000 - 16 000 | 44 000 ✓ |
| <u>Current Assets</u> | | |
| Stock | 25 500 ✓ | |
| Debtors | 21 200 ✓ | |
| Prepaid expenses | <u>1 400</u> ✓ | |
| | 48 100 | |
| less | | |
| <u>Current Liabilities</u> | | |
| Creditors | 15 900 ✓ | |
| Accrued expenses | 300 ✓ | |
| Bank overdraft | <u>1 050</u> ✓ | |
| | 17 250 | |
| Working capital | | <u>30 850</u> ✓ OF |
| | | <u>74 850</u> |
| Financed by: | | |
| | Pareet Hitish | |
| Capital | ✓✓30 000 40 000✓✓ | 70 000 |
| <u>Current Accounts</u> | | |
| Opening balance | (500) 1 200 ✓ | |
| Interest on capital | 2 000 2 000 | |
| Salary | - 7 500 | |
| Share of profit | <u>21 000</u> <u>10 500</u> | |
| | 22 500 21 200 ✓ OF | |
| Drawings | (15 000)(22 000) | |
| Interest on Drawings | <u>(750)</u> (1 100) | |
| Closing balance | 6 750 (1 900) ✓ OF | <u>4 850</u> |
| | | <u>74 850</u> |

(b)

The Partnership Act 1890 states that in the absence of an Agreement:

- Profits and losses are shared equally. ✓
- No interest on capital. ✓
- No interest charged on drawings. ✓
- No salaries paid to partners. ✓
- Interest on loans by partners at 5%. ✓✓

(3)

(c) Valid points may include:

The inclusion may be valid for the following reasons:

- The goodwill may have been recently brought into the books for the introduction or retirement of a partner and now needs removing
- The partners may have been considering selling the business and therefore introduced goodwill.

It would be normal practice to remove goodwill from the books immediately after the above events have been accounted for the following reasons:

- It would be prudent to do so because goodwill by its very nature is intangible and difficult to value.
- Events may have a detrimental impact upon the businesses goodwill value e.g. a competitor opening.

✓ x 3 points

✓ for a conclusion

(2)

Question 7

(a)

(i)

| | Dr £ | Cr £ | |
|----------------------------|---------|---------|---|
| Purchases | 340 | | / |
| Office fixtures | | 340 | / |
| Suspense | 5 000 | | / |
| Rent receivable | | 5 000 | / |
| P Beese | 270 | | / |
| Suspense | | 270 | / |
| Profit and loss | 2 100 | | / |
| Provision for depreciation | | 2 100 | / |
| Wages | 62 | | / |
| Bank | 100 | | / |
| Suspense | | 162 | / |

(ii)

Suspense Account

| | £ | | £ | |
|-----------------|--------------|-------------|--------------|-----|
| Rent receivable | / 5 000 | Balance b/d | 4 568 | / / |
| | | P Beese | 270 | / |
| | | Wages | 162 | / |
| | <u>5 000</u> | | <u>5 000</u> | |

(b)

Revised Net Profit

| | | |
|---------------------|---------------|----------------|
| Original net profit | 23 800 | |
| plus | | |
| Rent receivable | <u>5 000</u> | / |
| | 28 800 | |
| less | | |
| Purchases | 340 | / / |
| Wages | 62 | / |
| Depreciation | <u>2 100</u> | / / |
| | <u>2 502</u> | |
| Revised net profit | <u>26 298</u> | / / (/ for OF) |

(12)

(c)

(i) Valid points will include:

- Error of commission are postings which is in the incorrect account but is in the correct sub division of the ledger e.g. the wrong debtor. ✓✓
- Error in principle are postings in the wrong class of account e.g. motor expenses in motor vehicle account. ✓✓

(2)

(ii) Valid points may include:

- In the case of both errors of commission ✓ and errors in principle there is a debit and a credit entry of equal value and therefore the balancing of the trial balance is not affected. ✓ Therefore the use of a suspense account will not aid the correction of those errors. ✓
- In situations where a debit entry has not been matched with a credit entry ✓ of equal value the error will cause the books to fail to balance. In such circumstances, the suspense account ✓ will make a valuable contribution in acting as a holding account for the errors until they are discovered and corrected. ✓

✓ x 3 points

✓ for a conclusion

(2)

ACCOUNTING 6001, CHIEF EXAMINER'S REPORT

General Comments

Again centres are to be congratulated for preparing candidates to a high standard for the January 2006 examination. Candidates were generally well prepared for the examination and displayed a wide range of accounting knowledge and application in the topics examined. Candidates found all questions accessible and their preference for individual questions was evenly spread throughout the paper.

Candidates generally demonstrated a good knowledge of all areas of accounting and the underlying concepts. The application of the data provided to the questions set was good in all areas from journal entries, ledger accounts, final accounts to costing calculations. The analysis and evaluation was improved on previous examinations but candidates can further enhance their answers by further developing their evaluation skills in considering both advantages and disadvantages from the scenarios set before reaching a decision.

Specific Comments

Candidates could have improved their performance in the examination in the following areas.

- Preparation of accounting information in columnar format. A minority of candidates were unfamiliar with this format of presentation.
- Candidates have a sound understanding of the concept of liquidity but are unsure of the concept of profitability. Many candidates were unaware of the short and long term implications of each concept.
- The bookkeeping entries for adjustments of provisions for doubtful debts were not fully understood by candidates.
- Candidates did not accurately calculate the conversion from mark up to margin.
- Candidates were generally aware of and could describe the concept of materiality. However, they did have difficulty in applying the principle to the determination of capital expenditure.
- Although candidates understanding of the concept of labour productivity was very sound. A significant number of candidates reversed the calculation of unit labour cost per item dividing the number of items by the total cost.
- Candidates were generally unaware of the provisions of the Partnership Act beyond the sharing of profits and losses equally.
- Candidates were fully aware of the concept of goodwill and how it is created. Candidates were less aware of the circumstances in which it is permissible to remain in the accounts.

ACCOUNTING 6001, GRADE BOUNDARIES

| Grade | A | B | C | D | E |
|--------------------------------|----|----|----|----|----|
| Lowest mark for award of grade | 66 | 58 | 50 | 42 | 34 |

Note: Grade boundaries may vary from year to year and from subject to subject, depending on the demands of the question paper.

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