

Mark Scheme (Results) January 2008

GCE Level

GCE Accounting (6001) Paper 1

Edexcel is one of the leading examining and awarding bodies in the UK and throughout the world. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers.

Through a network of UK and overseas offices, Edexcel's centres receive the support they need to help them deliver their education and training programmes to learners.

For further information please call our Customer Services on + 44 1204 770 696, or visit our website at www.edexcel-international.org.uk.

January 2008

All the material in this publication is copyright
© Edexcel Ltd 2008

General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

6001/01 Mark Scheme January 2008

Question Number	Answer	Mark
1(a)		(15)

<u>Capital Accounts</u>															
Meera			Nigel			Pauline			Meera			Nigel			
Pauline															
	£	£	£		£	£	£		£	£	£		£	£	£
Goodwill	££	32 000	32 000	16 000	Balance b/d	9 000	2 000					£££	£££		
Balance c/d	££	17 000	10 000	4 000	Introduced										20 000
					Goodwill	40 000	40 000								
		<u>49 000</u>	<u>42 000</u>	<u>20 000</u>		<u>49 000</u>	<u>42 000</u>								<u>20 000</u>

Profit and loss account for the year ending 31 December 2007.

	£	£	
Gross profit		150 000	£
Rent receivable	3 500 + 1 300	<u>4 800</u>	££
		154 800	
less			
Wages		42 000	£
Management salaries		30 700	£
Light and power	9 750 + 650	10 400	£
Marketing	15 000 - 3 000	12 000	£
Administration		7 950	£
Increase in PDD		200	££
Depreciation on equipment		<u>4 000</u>	££
		<u>107 250</u>	
Net profit		47 550	
less			
Interest on capital			
Meera		850	
Nigel		500	
Pauline		<u>200</u>	
		1 550	£££
Salaries			
Nigel		8 000	
Pauline		<u>8 000</u>	
		16 000	£
Share of profit			
Meera		12 000	£££
Nigel		12 000	£££
Pauline		<u>6 000</u>	£££
		<u>30 000</u>	
		<u>47 550</u>	

Current Accounts

	Meera	Nigel	Pauline		Meera	Nigel	Pauline
	£	£	£		£	£	£
Balance b/d		3 500		Balance b/d	6 500		✓
Drawings ✓	7 000	8 000	6 000	Int on Capital	850	500	200 ✓
				Salaries		8 000	8 000 ✓
Balance c/d ✓	12 350	7 850	8 200	Share of profit	12 000	12 000	6 000 ✓
	<u>19 350</u>	<u>20 500</u>	<u>14 200</u>		<u>19 350</u>	<u>20 500</u>	<u>14 200</u>

Question Number	Answer	Mark
1(b)		(7)

	Receipts	Issues	Balance	
			700 @ £18	
Jan- March	500 @ £20	500 @ £20 100 @ £18	600 @ £18	✓✓
April - June	400 @ £24	300 @ £24	600 @ £18 100 @ £24	✓✓
July - Sept	400 @ £27	400 @ £27 100 @ £24	600 @ £18	✓✓
Oct - Dec	600 @ £30	600 @ £30	600 @ £18	✓✓

Where LIFO is used the value of closing stock is lower than where FIFO is used. ✓✓ In the case of the partnership, the closing stock would be lower (£18 000 for FIFO and £10 800 for LIFO) ✓✓. Cost of sales would therefore be higher and the gross and net profit £7 200 lower. ✓✓

Question Number	Answer	Mark
1(c)	<p>Valid points may include:</p> <p>Supporting the statement</p> <ul style="list-style-type: none"> • Depreciation accrues a previous years capital expenditure over the life of the asset. • Profit will be reduced by the depreciation which should relate to a retention of profit, although this may not be in cash. <p>Against the statement</p> <ul style="list-style-type: none"> • Although the accrual convention applies, this relates to the expenditure and cashflow of a previous year • The depreciation for a year is not generally matched by a cash retention to pay for a new asset. <p>✓✓ Decision plus ✓✓ per point x 3</p>	(4)

Question Number	Answer	Mark
2(a)		(18)

Manufacturing, trading and profit and loss account for the year ended 31 December 2007

	Sports bag £	Golf bag £		
Cost of raw materials	100 000	120 000	✓✓	
Production wages	<u>100 000</u>	<u>80 000</u>	✓✓✓	
PRIME COST ✓	200 000	200 000	✓✓	
<u>Factory overheads:</u>				
Management salaries	35 000	35 000	✓✓	
Rent, insurance	42 000	28 000	✓✓	
Light, power	12 000	20 000	✓✓	
Plant - depreciation	<u>45 000</u>	<u>30 000</u>	✓✓	
	134 000	113 000		
Work in progress;				
1 January	9 500	33 000	✓	
31 December	<u>(43 500)</u>	<u>(26 000)</u>	✓	
	<u>(34 000)</u>	<u>7 000</u>		
PRODUCTION COST ✓	<u>300 000</u>	<u>320 000</u>	✓✓	
Sales	480 000	350 000	✓	
Less				
Opening stock	15 000	9 600	✓	
Production transfer	<u>300 000</u>	<u>320 000</u>	✓OF	
	315 000	329 600		
Closing stock	<u>26 500</u>	<u>18 200</u>	✓	
	288 500	311 400		
Gross profit	191 500	38 600	230,100	✓✓OF
less				
Marketing costs			50 000	✓
Rent, insurance			35 000	✓✓
Light, power			24 000	✓✓
Management salaries			28 000	✓
Administration salaries			76 500	✓
Depreciation - office equipment			<u>11 700</u>	✓✓
			<u>225 200</u>	
Net profit			<u>4 900</u>	

Question Number	Answer	Mark
2(b)		(2)

Cost per sports bag $\frac{\pounds 300\,000}{20\,000 \text{ bags}}$ = £15 per bag ✓✓OF

Cost per golf bag $\frac{\pounds 320\,000}{8\,000 \text{ bags}}$ = £40 per bag ✓✓OF

Question Number	Answer	Mark
2(c)		(2)

Effect on Net profit

Net profit	£	4 900	✓OF
plus			
Golf bags £40 OF -£30 x 7 000		<u>70 000</u>	✓✓OF
Potential net profit		<u>74 900</u>	✓OF

Question Number	Answer	Mark
2(d)	<p>Valid points may include:</p> <p>In favour of ceasing production and purchasing from overseas.</p> <ul style="list-style-type: none"> • Increased profit. • Removal of production difficulties - easy to manage • Positive cashflow from sale of plant and equipment • Premises released for a business with better long term prospects. <p>Against purchasing from overseas.</p> <ul style="list-style-type: none"> • Continuity of supply • Continuity of price and exchange rate change difficulties • Implications for employment and the community • Loss of skills. <p>✓✓ per point x 3 ✓✓ For decision based on at least one point in favour and one against</p>	(4)

Question Number	Answer	Mark
3(a)	<p>Profitability is a comparison of the surplus of income over expenditure related to a yardstick such as the sales or capital used to generate that surplus.// It is usually shown as a percentage and can be compared with other businesses or investments.//</p> <p>Liquidity is the ability of the business to pay its short term debts. // It is a comparison of the current assets, with or without stock, against the current liabilities.//</p>	(4)

Question Number	Answer	Mark
3(b)		(8)

	Wavepower		Solargain	
Net profit to sales %	$\frac{10\,000}{400\,000} \times 100 = 2.5\%$	//	$\frac{80\,000}{400\,000} \times 100 = 20\%$	//
Return on capital %	$\frac{10\,000}{250\,000} \times 100 = 4\%$	//	$\frac{80\,000}{260\,000} \times 100 = 30.8\%$	//
Current ratio	$\frac{130\,000}{50\,000} = 2.6:1$	//	$\frac{110\,000}{60\,000} = 1.83:1$	//
Liquid (acid test)	$\frac{55\,000}{50\,000} = 1.1:1$	//	$\frac{20\,000}{60\,000} = 0.33:1$	//

Question Number	Answer	Mark
3(c)	<p>Valid points may include:</p> <ul style="list-style-type: none"> • Net profit of Wave power is very low due to much higher labour costs. • Return on capital employed of Wavepower is very low compared to much safer investments such as deposit accounts without the same level of risk. • Return on capital employed of Solargain is good at 30.8% • Current ratio of Wavepower is slightly high at 2.6:1 showing some idle funds. • Current ratio of Solargain is at appropriate level • Liquid ratio of Wavepower is at appropriate level • Liquid ratio of Solargain is dangerously low showing high stock levels. <p>// per point x 5 OF</p>	(5)

Question Number	Answer	Mark
3(d)		(5)

	Wavepower		Solargain	
Return on capital %	$\frac{50\,000}{250\,000} \times 100 = 20\%$	✓✓✓	$\frac{80\,000}{210\,000} \times 100 = 38\%$	✓✓✓
Liquid (acid test)	Unchanged at 1.1:1	✓	$\frac{20\,000}{40\,000} \times 100 = 0.5:1$	✓✓✓

Question Number	Answer	Mark
3(e)	<p>Valid point may include:</p> <ul style="list-style-type: none"> • Both businesses are compatible with existing business • If piecework system is successful at Wavepower, net profit to sales of both businesses will be good. • Need to consider impact of piecework on quality in Wavepower • Return on capital employed of both businesses will be good after introduction of piecework scheme at Wavepower • Return on capital employed very good at Solargain • Current ratio of both businesses good • Solargain has long term loans which if repaid impact on the liquidity • Solargain needs to reconsider extending long term loans. <p>✓✓ per point x 3 + ✓✓ for a decision</p>	(4)

Question Number	Answer	Mark
4(a)		(6)

	Purchases £		Sales £
Cash	12 000 ✓	Credit	14 000 ✓
Credit	21 000 ✓	Cash sales	13 000 ✓
Creditors 31 Dec	<u>900</u> ✓		920 ✓
	33 900		2 400 ✓
Creditors 1 Jan	<u>810</u> ✓		9 000 ✓
PURCHASES	33 090		12 000 ✓
		Debtors 31 Dec	<u>1 200</u> ✓
			52 520
		Debtors 1 Jan	<u>1 520</u> ✓
		SALES	51 000

Question Number	Answer	Mark
4(b)		(6)

Trading and profit and loss account for the year ended 31 December 2007

Sales	51 000	✓OF
less		
Opening stock	18 600	✓
Purchases	<u>33 090</u>	✓OF
	51 690	
Closing stock	<u>12 240</u>	✓
Cost of sales	39 450	
Gross profit	11 550	
plus		
Insurance claim	<u>5 450</u>	✓
	17 000	
less		
Rent of lock up	3 600	✓
Petrol	920	✓
Wages	2 400	✓
Depreciation	<u>1 100</u>	✓
	8 020	
Net profit	8 980	

$$\text{Gross profit} = \text{sales } £51\,000 \times \frac{2}{3} = \text{COS } £34\,000 - \text{Actual COS } £39\,450 =$$

Stock stolen £5 450 ✓✓✓

Question Number	Answer	Mark
4(c)	Business entity concept is breached - ✓✓ The concept draws a distinction between the business and the individual. Both the business and the individual should have a separate bank account to enable the transactions to be separated. ✓✓	(2)

Question Number	Answer	Mark
4(d)	Valid points may include: In favour of formal accounts: <ul style="list-style-type: none"> • An organised record showing details of each transaction • Easy reference for balances • Ease of preparing final accounts Against formal accounts: <ul style="list-style-type: none"> • Cost of accounting staff • Requires training to interpret or read ✓ For a decision plus ✓per point x 3	(2)

Question Number	Answer	Mark
5(a)		(6)

<u>Cost per annum</u>	£	
Rent	9 000	✓
Heat, light, power	2 000	✓
Licensing	3 100	✓
Depreciation	1 500	✓
Bookkeeper	2 400	✓✓
Ahmed	<u>18 000</u>	✓✓
Total cost	36 000	
Divided by		
50 x 48 x 75%	<u>1 800</u> hours per annum	✓✓
Cost per hour	£20 per hour	✓✓OF

Question Number	Answer	Mark
5(b)		(4)

<u>Quotation</u>	£	
Parts	70	✓✓
Hourly charge 7 x £20	<u>140</u>	✓✓OF
	210	
Profit margin 25%	<u>70</u>	✓✓OF
	<u>280</u>	✓✓OF

Question Number	Answer	Mark
5(c)		(4)

<u>Cost per annum</u>	£	
Total cost from (a)	36 000	✓✓OF
Additional deprec	<u>12 000</u>	✓✓
Revised cost	48 000	
Divided by	<u>1 600</u>	✓✓
Cost per hour	£30 per hour	✓✓OF

Question Number	Answer	Mark
5(d)	<p>Valid points may include:</p> <p>Benefits</p> <ul style="list-style-type: none"> • Increases the market that Ahmed can sell his services to. • Increases range of services. • Keeps the business up to date with technological changes. <p>Disadvantages</p> <ul style="list-style-type: none"> • Cost of purchase. • Availability of cashflow for purchase. • Short life of asset. <p>✓ for identification of a point x 3 points.</p> <p>✓ for a decision or recommendation.</p>	(2)

Question Number	Answer	Mark
6(a)	<p>(i) Realisation - the sale should only be recorded in the books when it is contractually complete i.e when an order has actually been received.//</p> <p>(ii) Accrual - The expenditure should be adjusted to the sum which was actually incurred.//</p> <p>(iii) Consistency - although the condition of the asset may vary from year to year we must consistently apply a method of depreciation.//</p> <p>(iv) Money measurement - we cannot accurately measure the increased skill level of the employee in monies worth.//</p> <p>(v) Business entity - the business records must record the profit generated by the business. The drawings are a sum, which may be more or less than the profit which are taken out of the business.//</p>	(5)

Question Number	Answer	Mark
6(b)		(5)

Profit and loss account for the year ended 31 December 2007

	£
Sales	38 200 //
Cost of sales	<u>23 300 //</u>
Gross profit	14 900
Rent of shop	2 000 /
Telephone and internet	740 /
Depreciation of fixtures	1 600 /
Staff wages and costs	<u>7 500 /</u>
	11 840
Net profit	3 060 /OF

Omission of drawings /

Question Number	Answer	Mark
6(c)	<p>Valid points may include:</p> <ul style="list-style-type: none"> • Gives structure to accounting • Gives assurance to those reading different accounts that they have been prepared applying the same principles. • Can be extended and revised to reflect current developments in accounting and business. <p>Identification of benefit <i>✓✓</i> + discussion why this is a benefit <i>✓✓</i> x 2 or comment on any detrimental effect <i>✓✓</i></p>	(4)

Question Number	Answer	Mark
6(d)	<p>Candidates will be required to consider two sides of the argument and reach a conclusion:</p> <p>Valid examples may include:</p> <p>(i) When goodwill is purchased with a business - This may be recorded in the books and include a sum which relates to the skill of the workforce. The argument for would be that the skill (goodwill) has been purchased for a sum which can be measured. The argument against would be that staff are free to leave and therefore the purchase would be lost.</p> <p>(ii) Staff training - This can be capitalised over a number of years especially if it relates to the purchase of a new fixed asset. The argument would be that the capital equipment could not be brought into use without the training, therefore, it is part of the fixed asset purchase. The argument against is that the staff are free to leave at any time and almost certainly will not be retained in the business over the whole life of the depreciation of the fixed asset.</p> <p>Consideration of one point <i>✓✓✓</i> decision about appropriateness <i>✓</i></p>	(2)

Question Number	Answer	Mark
7(a)		(8)

	Debit £	Credit £	
Bad debts	270		//
Bank	180		//
J. Williams		450	/
Rent	1 000		/
Suspense		1 000	/
Drawings	1 600		/
Wages		1 600	/
Suspense	16 500		/
Commission receivable		16 500	/
Commission receivable	630		/
Bank		630	

Suspense account			
	£		£
Commission received	16 500	//OF	Balance b/d
			Rent
	<u>16 500</u>		15 500 //OF
			<u>1 000 //OF</u>
			<u>16 500</u>

Question Number	Answer	Mark
7(b)		(6)

Rent account			
	£		£
Bank	500	/	Bank
Bank	500	/	500 //
Bank	500	/	
Suspense	<u>1 000</u>	//	Balance c/d
	<u>2 500</u>		<u>2 000 /</u>
			<u>2 500</u>

Commission receivable account			
	£		£
Bank	630	/	Balance b/d
Balance c/d	<u>30 830</u>	//OF	14 960 /
	<u>31 460</u>		Suspense
			<u>16 500 //OF</u>
			<u>31 460</u>

Question Number	Answer	Mark
7(c)	<p>Valid points may include:</p> <ul style="list-style-type: none"> • The trial balance will reveal errors where there has not been a debit and a credit of equal value • The trial balance will not reveal errors where the debit and credit in the ledger has not been completed due to some fundamental error e.g the wrong account used as in an error in principle or of commission <p>// for discussion of one point</p> <p>// Decision that the trial balance does play an important role in evaluating accuracy, but cannot be relied upon as the sole check on the accuracy of the double entry.</p>	(2)

Further copies of this publication are available from
Edexcel UK Regional Offices at www.edexcel.org.uk/sfc/feschools/regional/
or International Regional Offices at www.edexcel-international.org/sfc/academic/regional/

For more information on Edexcel qualifications, please visit www.edexcel-international.org/quals
Alternatively, you can contact Customer Services at www.edexcel.org.uk/ask or on + 44 1204 770 696

Edexcel Limited. Registered in England and Wales no.4496750
Registered Office: One90 High Holborn, London, WC1V 7BH