

# Mark Scheme with Examiners' Report

## GCE AS Level Accounting (6001)

January 2005

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Mark Scheme with Examiners' Report

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## ACCOUNTING 6001, MARK SCHEME

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### Question 1

(a) (i)

Hansa Tennis Club Bar Trading Account  
for the year ending 31 December 2004.

	£	✓ £
Bar sales		42 000 ✓
less		
Opening bar stocks	1 800 ✓	
Bar purchases 26 400 ✓ - 350 ✓ + 7 400 ✓	<u>33 450</u>	
	35 250	
Closing bar stocks	<u>1 650 ✓</u>	
Cost of sales		<u>33 600</u>
		8 400
Bar stewards' wages		<u>9 500 ✓</u>
Bar loss		<u>(1 100)</u>

(4)

(ii)

Subscriptions Account

	£		£
Balance b/d	600	Balance b/d	960
Income and Expenditure A/c ✓	9 600 ✓ OF	Income and Expenditure a/c /Bad Debts ✓	240 ✓ OF
		Receipts and Payments a/c ✓ /Bank	9 480 ✓
Balance c/d	<u>1 200 ✓</u>	Balance c/d	<u>720 ✓</u>
	<u>11 400</u>		<u>11 400</u>

Income and Expenditure OF must be consistent with Income and Expenditure a/c

(4)

(iii)

Income and Expenditure Account for the year ended 31 December 2004.

	£	£
Income		
Subscriptions 80 x £120	9 600 ✓	
Profit on raffles 1 100 ✓ - 700 ✓	400	
Interest on deposit 40 ✓ + 40 ✓	80	
Rentals and lettings	<u>650</u> ✓	10 730
less		
<u>Expenditure</u>		
Loss on bar	1 100 ✓	
Bad debts 9 600 less 9 480 ✓ + 960 ✓		
-1 200 ✓ - 600 ✓ + 720 ✓	240	
Rent and rates 5 000 + 200 ✓ - 300 ✓	4 900	
Electricity 970 - 125 ✓ + 180 ✓	1 025	
Loan interest	850 ✓✓	
Repairs to courts	6 200 ✓	
Depreciation - old mower/loss on sale	250 ✓✓	
new mower	600 ✓	
fixtures	<u>350</u> ✓	
		<u>15 515</u>
Deficit	✓ OF	<u>(4 785)</u>

Raffle expenses may recorded in expenditure

(12)

(b)

Amount stolen: COS £33 600 + 33.33% = £44 800 - £42 000 actual sales  
= £2 800 stolen. ✓ OF

(2)

(c)

Where life memberships are paid, consideration must be given to the period over which the service must be provided ✓ and therefore the payment must be apportioned ✓ over that estimated period. ✓ This would therefore be an application for the accruals/matching concept ✓✓ and also the prudence concept. ✓✓

Therefore the members' proposal is invalid ✓ as it stands and only a proportion of the £1 000 ✓ could be charged to the Income and Expenditure Account as income. ✓

Maximum (4)

Total 26 marks

**Question 2**

(a) (i), (ii), (iii)

**Overhead Recovery**

	Preparation and Printing		Finishing and Packing		Administration	
	£		£		£	
Rent etc	15 000	✓	12 000	✓	3 000	✓
Heat etc	10 000	✓	8 000	✓	2 000	✓
Depreciation	24 000	✓	12 000	✓	4 000	✓
Supervision	24 000	✓	12 000	✓	-	
Salaries					81 000	✓
	<u>73 000</u>		<u>44 000</u>		<u>90 000</u>	
Re-allocation	54 000	✓ OF	36 000	✓ OF		
	<u>127 000</u>		<u>80 000</u>			
Labour Hrs	8 280	✓✓	4 140	✓✓		
Recovery Rate	£15.34	✓ OF	£19.32	✓ OF		
	per hour		per hour			

(6)+(1)+(3)

(b)

It will be appropriate to use machine hour rates when the major activity/cost driver ✓✓ of the cost centre is machine driven. ✓✓

(2)

(c)

Customer's Order

		£	£
Raw Materials			
200 packs of A4 paper	100 ✓ x £2.20 ✓	450	✓
	100 ✓ x £2.30 ✓		
Specialist materials		<u>560</u>	✓
			1 010
Labour	✓ ✓✓		
Preparation and Printing	50 hrs x £10	500	
Finishing and Packing	40 hrs x £10	<u>400</u>	
	✓ ✓✓		900
Overheads	✓ ✓		
Preparation and Printing	50 x £15.34 OF	767	
Finishing and Packing	40 x £19.32 OF	<u>773</u>	
	✓ ✓		<u>1 540</u>
			3 450
Profit Margin 25%			<u>1 150</u> ✓✓ OF
			<u>4 600</u>

Profit must be one third of total cost or one quarter of selling price.

(9)

- (d)  
(i) Labour productivity is the relationship between the labour inputs and the output of the activity. ✓ It could be described, for example, as the number of items per labour hour. ✓

(1)

- (ii) Valid points may include:  
Piecework  
Group bonus scheme  
Individual bonus scheme  
✓✓ mark for identification + ✓✓ mark for development x 2

(4)

Example:

Piecework may be used as an alternative method of remuneration ✓ paying staff by the individual output completed in a set period of time. ✓ Staff will tend to produce more output in return for greater pay reward ✓ reducing the labour cost per unit produced. ✓

**Total 26 marks**

### Question 3

(a)(i)

Appropriation Account of Angela and Belou for the six months ended 31 December 2004

	£		£
Net profit			13 600
less			
<u>Interest on Capital</u>			
Angela	200	✓	
Belou	<u>300</u>	✓	
			<u>500</u>
			13 100
Less			
<u>Share of Profit Residue</u>			
Angela	6 550	✓ OF	
Belou	<u>6 550</u>	✓ OF	
			<u>13 100</u>

OF for share of profit if equal shares and no extraneous items in account.

(2)

(ii)

		<u>Current Accounts</u>			
		Angela		Belou	
		£	£	£	£
Balance b/d	460	✓		Balance b/d	1 300
Drawings	7 000	✓	6 500	Interest on Capital	200 ✓ OF 300
				Share of profit	6 550 ✓ OF 6 550
Balance c/d	<u>7 460</u>	✓ OF	<u>1 650</u>	Balance c/d	<u>710 ✓ OF</u>
			<u>8 150</u>		<u>8 150</u>

(3)

(iii)

	<u>Capital Accounts</u>				Angela	Belou	Con'ou
	Angela	Belou	Con'ou		Angela	Belou	Con'ou
	£	£	£		£	£	£
Goodwill	✓ 7 000	✓ 14 000	✓ 14 000	Balance	10 000	✓ 15 000	✓ ✓
Withdrawal	10 000 ✓			Capital		25 000	
	✓ OF	✓ OF	✓ OF		✓	✓	
Balance c/d	10 500	18 500	11 000	Goodwill	17 500	17 500	
	<u>27 500</u>	<u>32 500</u>	<u>25 000</u>		<u>27 500</u>	<u>32 500</u>	<u>25 000</u>

(6)

(iv)

Balance Sheet of Angela, Belou and Constanou as at 1 January 2005 ✓

	£	£	£
<u>Fixed assets</u>			
Leasehold premises		60 000 ✓	
Delivery van		4 800 ✓✓	
Fixtures and fittings		<u>8 000 ✓</u>	
			72 800
<u>Current assets</u>			
Stock 12 350 ✓ + 6500 ✓	18 850		
Debtors	1 750	✓	
Prepaid	150	✓	
Bank(2 500)✓ +13 700✓ -10 000✓	1 200		
Cash	<u>970</u>	✓	
		22 920	
<u>less Current liabilities</u>			
Creditors	8 950	✓	
Accrued	<u>830</u>	✓	
		<u>9 780</u>	
Working capital			<u>13 140</u> ✓ OF
			85 940
<u>less Long Term Liabilities</u>			
Mortgage on premises			<u>45 000</u> ✓
			<u>40 940</u>
Financed by:			
Capital			
Angela	10 500	✓ OF	
Belou	18 500	✓ OF	
Constanou	<u>11 000</u>	✓ OF	
		40 000	
Current Accounts			
Angela	710 DR	✓ OF	
Belou	<u>1 650 CR</u>	✓ OF	
		940	
			<u>40 940</u>

Mortgage mark only awarded if shown as long term liability.  
Working capital OF only if Mortgage not included in current liabilities.

(11)

- (a) Constanou has joined as a 'sleeping partner' ✓ and Angela has reduced her involvement in the business to 50%. ✓ Therefore the day to day operational management ✓✓ will be reduced. ✓ However, with the increase to three partners they have a range of management skills ✓✓ and therefore the strategic long term planning ✓✓ of the business may be increased. ✓

Maximum (4)

Total 26 marks

## Question 4

- (a)(i) Liquidity is the ability of the business to meet its short term liabilities ✓✓ by ensuring that it can convert stock into cash ✓ in sufficient quantities and in sufficient time to meet its current liabilities. ✓ (2)
- (ii) When a business commences trading it will have no credit record. ✓ Therefore, business will limit the credit and credit period to that business. ✓ When goods are then resold, probably on credit, it will be essential that the debtors are encouraged to pay quickly ✓ so that cash can be obtained to pay those creditors. ✓ (2)

(b)(i) Current ratio  $\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{56\,000 + 28\,000}{45\,000 + 25\,000} = 1.2:1$  ✓✓✓✓ (2)

(ii) Liquid(acid test)  $\frac{\text{Current assets} - \text{stock}}{\text{Current liabilities}} = \frac{28\,000}{45\,000 + 25\,000} = 0.4:1$  ✓✓✓✓ (2)

(iii) Debtors payment  $\frac{\text{Debtors} \times 365}{\text{Credit sales}} = \frac{28\,000 \times 365}{180\,000} = 56.8 \text{ days}$  ✓✓✓✓ (2)

(c) Valid points may include:

- Benchmark for current ratio 1.4 - 2:1, Liquid ratio 0.7 - 1:1
  - Current ratio low but not critical.
  - Liquid ratio poor.
  - Debtors payment period too long at 56.8 days.
  - Stock may be too high, reduce and creditors will reduce.
  - No funds in the bank, payments to creditors dependent upon debtors paying.
- ✓✓ Mark per point x 4 (4)

- (d)
- (i) The current ratio will decline ✓ because current liabilities will be £32 000 higher. ✓
- (ii) The current ratio will improve ✓ because a short term debt is converted to a long term debt and the current liabilities will decrease. ✓ (2)

Total 16 marks



## Question 5

(a)

Provision for Bad and Doubtful Debts Account

		£				£	
	Bad debts ✓	✓	670	1 Jan	Balance b/d ✓	2 250	✓
	Bad debts 31 Dec ✓	✓	2 700	31 Dec	Profit and Loss ✓	2 434	✓✓
31 Dec	Balance c/d ✓	✓✓	OF1 314				
			<u>4 684</u>			<u>4 684</u>	

(6)

(b)

Prudence/conservatism ✓✓ because it can be recognised that not all debtors will meet their debts in full, resulting in the need for a provision to be made against potential future losses. ✓✓

Consistency ✓✓ because although the provision for doubtful debts will vary from year to year, the basis of its calculation should be consistent. ✓✓

For development marks, concept must be applied to problem not described.

(4)

(c) Valid points may include:

- Trade references and bank references should be sought from all credit customers for all credit customers.
  - Letters demanding payment should be sent after one month and legal action should be threatened sooner, possibly after 3 months.
  - Debt recovery is more effective if supported by personal contact. It is easier to ignore letters.
  - Legal action should be taken where debts are of sufficient size and significantly overdue. Customers may become aware that legal action is not taken.
  - There seems to be no policy of stopping supplies.
- ✓✓ Marks for recognition plus ✓✓ marks for development x 3

(6)

Total 16 marks

## Question 6

(a)(i)

Telephone Account

		£				£	
15 Feb	Bank		440	1 Jan	Balance b/d	150	
5 May	Bank ✓	✓	615	31 Dec	Profit and Loss ✓	2 075	✓
18 Aug	Bank		520				
2 Dec	Bank ✓	✓	480				
31 Dec	Balance c/d ✓	✓	<u>170</u>				
			<u>2 225</u>			<u>2 225</u>	

(3)

(ii)

Rent Receivable Account

		£				£	
				1 Jan	Balance b/d	190	
31 Dec	Profit and Loss ✓	✓	1 230	✓	3 Mar	Bank	600 ✓
31 Dec	Balance c/d ✓	✓	<u>220</u>	✓	31 Aug	Bank	<u>660</u> ✓
			<u>1 450</u>			<u>1 450</u>	

(3)

(iii)

<u>Stationery Account</u>							
			£				£
1 Jan	Balance b/d		365				
13 Mar	Bank		95	31 Dec	Profit and Loss	525	✓
26 Oct	Bank	✓	<u>295</u>	31 Dec	Balance c/d	<u>230</u>	✓
			<u>755</u>				<u>755</u>

(2)

(iv)

<u>Office Equipment - Provision for Depreciation Account</u>							
			£				£
1 Jul	Disposal	✓	320	1 Jan	Balance b/d	1 500	✓
31 Dec	Balance c/d	✓	<u>2 180</u>	31 Dec	Profit and Loss	<u>1 000</u>	✓✓
			<u>2 500</u>				<u>2 500</u>

(4)

(b)(i) Capital expenditure, such as office equipment, will provide an asset which will last for several accounting periods. ✓ Only a proportion of that expenditure, measured as depreciation, will be charged as a revenue expenditure. ✓ Revenue expenditure, such as stationery, relates to the period in which it is incurred. ✓✓

(2)

(ii) Distinction must be drawn between payments made and payments incurred. ✓✓ Adjustment must be made to the level of expenses which have been used up ✓ during the trading period. ✓ The matching principle. The adjustments are by way of prepayments and accruals.

(2)

Total 16 marks

**Question 7**

(a)(i)

<u>Sales Ledger Control Account</u>							
			£				£
Balance b/d	✓		8 270	✓	Bank	21 250	✓✓
Sales on credit/ Receipts from debtors	✓		23 680	✓	Discount Allowed	600	✓✓
					Returns Inwards	310	✓✓
			<u>31 950</u>		Balance c/d	<u>9 790</u>	✓
						<u>31 950</u>	

(6)

(ii)

Trading Account for the month of December 2004.

	£		£	
Opening stock	6 250 ✓	Sales - credit	23 680 ✓	OF
Purchases	13 600 ✓	Returns In	<u>310 ✓</u>	
Less Returns Out	<u>450 ✓</u>		23 370	
	13 150	Sales - cash	3 700 ✓	
	19 400			
Less Closing stock	<u>5 300 ✓</u>			
	14 100			
Gross profit	<u>12 970 ✓</u> OF			
	<u>27 070</u>		<u>27 070</u>	

OF for Sales on Credit if not containing cash sales.

(4)

(b)

Valid points might include:

The variance is due to:

- Possible fraud
  - Error such as
    - (i) Incorrect posting from day books
    - (ii) Incorrect addition of eg sales or debtors accounts
    - (iii) Failure to post complete double entry due to loss of documentation
    - (iv) Transcription of information.
- ✓✓ marks per reason plus ✓✓ marks for development x 3 points

(6)

**Total 16 marks**

## ACCOUNTING 6001, CHIEF EXAMINER'S REPORT

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### General Comments

Centres are to be congratulated for their preparation of candidates for the first examination of the revised syllabus. Candidates were generally able to access the revised format of questions, preparing full responses to the topics set. All questions were attempted in roughly equal proportions with the exception of Question 5, where few candidates attempted the question and accurate answers to particularly part (a) were few in number.

Although standards were generally high, the following points were identified as general areas which, if improved, would enhance the performance of candidates.

- The conversion of profit margin to mark up on cost.
- The application, as opposed to the identification, of accounting concepts to stated scenarios.
- The calculation of provisions for doubtful debts from a schedule of debtors.

### Question 1

Candidates prepared the accounts in part (a) of the question in good format and with accuracy. Within part (b) few candidates prepared an assessment of the stock stolen and many were unable to adjust for the mark up. Within part (c) candidates could identify the accounting concepts being examined but were unable to fully apply these to the scenario set. A majority of candidates stated that life memberships could be recorded in the year of receipt to remove deficits. Common errors were:

- accounting for bar creditors in the Bar Trading Account
- calculating a full years income from the deposit account
- calculating the expenditure on bad debts
- loan interest calculation
- calculation of funds stolen by the use of projected mark up on cost
- not matching of life membership to a time period greater than one year.

### Question 2

Candidates were skilled in the apportionment of overheads and the calculation of recovery rates. A sound understanding of productivity and how this might be influenced by alternative remuneration methods was demonstrated. Common errors were:

- calculation of labour hours over which overheads would be recovered.
- preparation of quotations.
- within the quotation calculating the labour cost per hour after adjusting for non-productive time.
- converting profit margin to mark up on cost in the calculation of profit.

**Question 3**

Candidates could prepare personal accounts and the balance sheet with considerable accuracy. Answers to part (b) often concentrated upon the financial aspects of the balance sheet rather than upon the management potential of the business. Common errors were:

- interest on capital often calculated for a full year
- drawings and appropriations of profit recorded in the capital accounts
- mortgage on premises often deducted from leasehold premises under fixed assets rather than treated as a long-term liability
- concentration upon balance sheet strength as a determinate of whether management had improved.

**Question 4**

Candidates were familiar with the concept of liquidity and the calculation of liquidity ratios. The interpretation of ratios was good, with comparisons made to established benchmarks resulting in good analysis of the scenario. Candidates were, however, less informative on the need for sound liquidity in a new business. Common errors were:

- particular importance of liquidity in the short term for a new business.

**Question 5**

Candidates demonstrated fundamental difficulties in the preparation of a provision for doubtful debts account. Although candidates could identify the accounting concepts underpinning the concept of provisions for doubtful debts too many candidates restricted their answers to a description of those concepts without applying them to the scenario set. Candidates were able to evaluate the current policies in part (c) developing their answers into practical advice concerning future credit control policies. Common errors were:

- preparation of provision for doubtful debts account from opening balances, historical data and a schedule of debtors
- application of accounting concepts to the scenario.

**Question 6**

Candidates generally prepared ledger accounts accurately up to the point of making year end adjustments, although a minority of candidates did have difficulty in undertaking this task. A majority of candidates calculated the value of the balance to be carried down to the next accounting period with reasonable accuracy, but a minority of candidates adjusted the final payment or receipt and failed to carry down any balance. Candidates' answers to the rationale for making year end adjustments were not informed, particularly in relation to capital expenditure. Common errors were:

- failure to explain why year end adjustments would be made for capital and revenue expenditure, prepaid and accrued expenses.

**Question 7**

Candidates demonstrated an excellent understanding of control accounts and could evaluate how such differences may have arisen. There were no common errors.

## ACCOUNTING 6001, GRADE BOUNDARIES

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Grade	A	B	C	D	E
Lowest mark for award of grade	66	58	51	44	37

**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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