



Mark Scheme (Results)

January 2015

International A Level Accounting

WACO1

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## 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.

**WAC01/01 - Mark Scheme**  
**January 2015**

1 (a)

Capital:

<b>Assets</b>	£	
Inventory	9 800	
Warehouse fixtures	15 000	
Office computers	24 000	
Trade receivables	12 400	
Prepaid	1 100	
Bank	<u>2 600</u>	
	64 900 ✓	
<b>Less liabilities</b>		
Trade payables	8 750	
8% Bank loan	20 000	
Accrual	<u>750</u>	
	29 500 ✓	
Capital	35 400 ✓✓(1of)	(4)

An answer of 35 400 is correct and worth four ticks

(b)

## Statement of Comprehensive Income for the year ended 31 December 2014

	£	£	
Revenue $84\,000\text{v} + (95\,250\text{v} - 12\,400\text{v} + 13\,500\text{v})$		180 350	
Less			
Opening inventory	9 800		
Purchases $85\,700\text{v} + 11\,150\text{v} - 8\,750\text{v}$	<u>88 100</u>		
	97 900		
Less Closing inventory $8\,200 - 300$	<u>( 7 900)</u>	vV(8050 vof)	
Cost of sales		<u>(90 000)</u>	
Gross profit		90 350	
Plus Commission receivable $3\,400 + 800$		<u>4 200</u>	v
		94 550	
Less expenses:			
Wages $14\,250 - 750\text{v} + 500\text{v}$	14 000		
Rent	6 000		v
Sundry expenses $6\,950 + 10\,500$	17 450		v
Loan interest	1 300		v
Rates and insurance $5\,300 + 1\,100\text{v} - 1\,700\text{v}$	4 700		
Delivery expenses	15 670		v
Depreciation – Warehouse fixtures	1 200		v
Office computers	3 000		v
Creation of provision for doubtful debts	<u>780</u>		vV(vof)
		<u>(64 100)</u>	
Profit for the year		<u>30 450</u>	(22)

## Statement of Financial Position at 31 December 2014

Non-current Assets

	£	£	Book value £
Warehouse fixtures			13 800 ✓
Office computers			<u>25 000</u> ✓
			38 800

Current Assets

Inventory		7 900	✓ of
Trade receivables	13 500		
Less PDD	<u>780</u> of	12 720	✓ V (✓ of)
Other receivables: Rates and insurance	1 700		✓
Commission receivable	<u>800</u>		✓
		2 500	
Bank		<u>19 080</u>	✓
			<u>42 200</u>
			<u>81 000</u>

Capital and equity:

Capital 1 January 2014		35 400	
Profit for the year		<u>30 450</u>	✓ of
		65 850	
Less Drawings		<u>(11 500)</u>	✓
Capital 31 December 2014			54 350

Non-current Liabilities ✓ (correct heading label)

8% Bank loan			15 000 ✓
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Current Liabilities

Trade payables		11 150	✓
Other payables: wages		<u>500</u>	✓
			<u>11 650</u>
			<u>81 000</u>

(c)

Valid answers may include:

- Easier to prepare financial statements / trial balance / establish profit
- Detailed record of each debtor / creditor accounts
- Checking of records is possible / less time consuming to check
- Can monitor business progress
- Can control costs more effectively
- Can manage business more effectively
- Can detect errors but NOT in correct errors
- Useful for authorities / tax authorities / bank
- Enables comparisons

✓ x 4 points

(4)

Not:

- More accurate
- True and fair view
- Organised

(d)

Valid answers may include:

For the use of revaluation

- Book value will be the same as market value
- Market value of asset may be significantly different from book value if you use straight line depreciation / not show a realistic book value
- Maintains consistency concept

Against the use of revaluation

- Equal depreciation each year for equal usage of asset
- Total costs of owning the asset will increase as repairs become significant
- Probably high depreciation in early years although usage in each year will be constant
- May be time consuming and difficult to value the assets each year
- Will distort profit from year to year with different depreciation values

✓✓ x 4 points (MAX two points for revaluation and two points against revaluation)

(8)

**(Total 52 marks)**

2 (a)

Chai			
Departmental Statement of Comprehensive Income for the year ended 31 December 2014			
	Retail sales £	On-line sales £	Total £
Revenue	240 000v	150 000v	390 000
Less			
Inventory 1 January 2014			76 000
Purchases			244 000
Carriage inwards			<u>22 000</u>
			342 000
Less Inventory 31 December 2014			<u>(60 000)</u>
Cost of sales	192 000vv	90 000	282 000 vvof
Gross profit	48 000	60 000	108 000 vvof
Less expenses:			
Postage of on-line sales	-v	6 000v	6 000
Maintaining website for on-line sales	-v	1 700v	1 700
Salaries	12 000v	9 500v	21 500
Premises rent	6 000v	4 000v	10 000
Premises running costs	3 300v	2 200v	5 500
Depreciation on computers and fixtures	4 800v	3 600v	8 400
Selling expenses	4 800v	3 000v	7 800
Bad debts on wholesale sales	<u>5 100v</u>	<u>-v</u>	5 100
	(36 000)	(30 000)	(66 000)
Departmental profit for the year	<u>12 000</u>	<u>30 000</u>	42 000

(24)

(b)

	Retail sales	On-line sales
<u>Gross profit</u> x 100 =	<u>48 000</u> x 100 = 20% vv(vof)	<u>60 000</u> x 100 = 40% vv(vof)
Revenue	240 000v	150 000v

(6)

(c)

Valid answers may include:

- Sales to retailers must offer a discount on list price to enable the retailer to make a profit
  - On-line sales has a different product mix of higher mark up products
- 1 point x 2 marks

Not:

- Incurs higher / lower cost of sales or sales revenue
- Easier to buy online

(2)



(d)

	Retail sales	On-line sales
Profit for the year x 100 =	$\frac{12\,000}{240\,000} \times 100 = 5\% \text{ vV(vof)}$	$\frac{30\,000}{150\,000} \times 100 = 20\% \text{ vV(vof)}$
Revenue	240 000v	150 000v

(6)

(e)

Retail sales debtors collection period  $\frac{32\,000}{240\,000} \times 365 = 49 \text{ days v}$

Current ratio  $\frac{60\,000 + 32\,000 + 48\,000}{56\,000} = 2.5:1 \text{ v}$

(6)

(f)

Valid answers may include:

In favour of expansion of on-line sales

- The gross profit and net profit margins are higher
- Existing liquidity is good so can support an expansion
- All online sales are cash sales further increasing liquidity
- No bad debts as all cash sales
- Less costs of debt collection
- Attracts new customers / market share
- Easier to create an international business
- Generally needs less capital to expand
- Can increase the business reputation leading to higher profit

Against expansion of on-line sales

- More resources required to expand such as additional staff and premises
- Business vulnerable to transport/postal strikes /IT breakdowns
- On-line not used by some people e.g older people
- May lose existing retail customers
- Potentially entering a crowded market place
- May result in overtrading unless supported by long term borrowing

**Not:**

- Just more profit / increase in sales
- Will lead to overtrading without explanation

vV x 4 points (MAX two points in favour and two points against)

(8)

**(Total 52 marks)**

3 (a)

Miguel

## Statement of Comprehensive Income for the year ended 31 December 2014

	£	£	
Hire of equipment		573 000	✓
Profit on disposal		<u>4 500</u>	✓
		577 500	
Less expenses:			
Wages and salaries      185 000 – 1 300	183 700		✓
Rent and rates	30 000		✓
Administration expenses	17 500		✓
Marketing expenses	42 750		✓
Delivery expenses	61 200		✓
Servicing and repairs      89 750 + 3 200	92 950		✓
Bad debts	11 000		✓
Depreciation:    Fixtures and fittings	16 500		✓
Equipment	<u>40 000</u>		✓
		<u>(495 600)</u>	
Profit for the year		<u><u>81 900</u></u>	

(11)

(b)(i)

Capital expenditure- Money spent on purchasing a non-current asset and improving or extending existing non-current assets / provide long term benefits✓✓

Revenue expenditure- Money spent running the business on a day to day basis / provide benefits for less than one year ✓✓

(4)

(ii)

- Repair of equipment- Revenue expenditure ✓ day to day expenditure ✓
- Purchase of new equipment- Capital expenditure ✓ purchase of non-current asset✓
- Purchase of second hand equipment- Capital expenditure ✓ purchase of non-current asset✓

(6)

(c)

Equipment – Mobile Crane Account					
£			£		
2012			2012		
1 Jan	Bank	<u>64 000</u> ✓	31 Dec	Balance c/d	<u>64 000</u> ✓
		<u>64 000</u>			<u>64 000</u>
2013			2013		
1 Jan	Balance b/d	<u>64 000</u>	31 Dec	Balance c/d	<u>64 000</u> ✓ of
		<u>64 000</u>			<u>64 000</u>
2014			2014		
1 Jan	Balance b/d	<u>64 000</u>	30 June	Disposal	<u>64 000</u> ✓ of
		<u>64 000</u>			<u>64 000</u>

Equipment- Mobile Crane provision for depreciation account					
£			£		
2012			2012		
31 Dec	Balance c/d	<u>16 000</u>	31 Dec	Income statement / depreciation	<u>16 000</u> ✓
		<u>16 000</u>			<u>16 000</u>
2013			2013		
			1 Jan	Balance b/d	16 000 ✓ of
31 Dec	Balance c/d	<u>28 000</u>	31 Dec	Income statement/ depreciation	<u>12 000</u> ✓ of
		<u>28 000</u>			<u>28 000</u>
2014			2014		
			1 Jan	Balance b/d	28 000 ✓ of
30 June	Disposal ✓	<u>32 500</u> ✓ of	31 Dec	Income statement / depreciation	<u>4 500</u> ✓ of
		<u>32 500</u>			<u>32 500</u>

(11)

(d)(i)

£	
Depreciation	21 000 ✓
Operator's wages	20 000 ✓✓
Transport	16 000 ✓✓
Servicing and repairs	3 000 ✓
Overheads	<u>15 000</u> ✓
Total cost for year	75 000

(ii)

Total cost	<u>75 000 + 15 000</u> ✓ of = £450 ✓✓ (✓ of)
Days of hire	200 ✓✓

(12)

(e)

Valid answers may include:

In favour

- Cash will be generated from general trading profit
- The business may set aside cash for the replacement of a non-current asset

Against

- Depreciation is non-cash
- Depreciating a non-current asset does not enable a replacement to be purchased
- Depreciation is an estimate of the loss in value of an existing non-current asset
- Depreciating a non-current asset does not directly generate cash

✓✓ x 4 points (MAX two points in favour and two points against)

(8)

**(Total 52 marks)**

**SECTION B**

4 (a)

Journal		Dr	Cr	
		£	£	
Discount allowed		300		✓
Petrus			300	✓
Sales		450		✓
Petrus			450	✓
Petrus		180		✓
Suspense			180	✓
Potter & Co		2 400		✓
Petrus			2 400	✓
Petrus		50		✓
Bank			50	✓

(10)

(b)

Petrus Account							
2014		£		2014		£	
1 Nov	Balance b/d	6 000		5 Nov	Bank	5 850	
5 Nov	Discount allowed	150		19 Nov	Sales returns	530	
18 Nov	Sales	3 000		30 Nov	Discount allowed	✓ 300	✓
23 Nov	Sales	2 400			Sales (trade discount)	✓ 450	✓
30 Nov	Suspense	✓ 180	✓		Potter & Co	2 400	✓
	Bank (refund)	✓ 50	✓		Balance c/d	<u>2 250</u>	
		<u>11 780</u>				<u>11 780</u>	
1 Dec	Balance b/d	2 250	✓ of				

(10)

(c)

Commission	Posted to wrong account of same class
Reversal	Accounts correct but double entry reversed
Omission	No double entry made in the books
Principle	Posted to wrong account in a different class
Compensating	Two different errors cancelling each other out
Original entry	Incorrect original figure used

✓ for naming an error plus ✓ for a brief description x 4

**Not:** Transposition

(8)

(d)

Valid answers may include:

In favour

- Enables trial balance to balance
- Identifies the net value of errors to be found.

Against

- Errors remain in the accounts until found
- Financial statements prepared will be inaccurate
- Some errors will not be revealed by the suspense account
- Does not help to actually find the error.

**Not:** Time consuming / correct errors / detects arithmetic errors.

✓✓ x 2 points (MAX one point in favour and one point against)

(4)

**(Total 32 marks)**

5 (a)

Ryman			
Manufacturing Account for the month of November 2014			
	£	£	
Inventory of raw materials 1 November	20 000		v
Purchases of raw materials	<u>44 200</u>		vV
	64 200		
Less Inventory of raw materials 30 November	<u>(19 200)</u>		vV
<b>Cost of raw materials</b>		45 000	vof + w
Add:			
Factory wages	36 480		vV
Direct general expenses	<u>3 600</u>		v
<b>Prime cost</b>		85 080	vof + w
Plus overheads:			(no aliens)
Indirect general expenses	8 400		v
Manager's salary	3 500		v
Supervisors' salary	5 000		v
Rent	2 000		v
Depreciation of machinery	4 500		v
Machinery repairs	<u>3 000</u>		v
		<u>26 400</u>	
		111 480	
Work in progress		<u>(1 000)</u>	v
<b>Production cost</b>		110 480	vof + w
Profit on manufacture		<u>39 520</u>	vof
<b>Transfer to trading</b>		<u>150 000</u>	v + w
			(20)

(b)

- Transfers from Manufacturing Account to Trading Account are at a mark-up. vV
- At year end the manufacturing profit is removed from the inventory of finished goods vV
- A decrease in the provision will be added and a increase in the provision deducted from the gross profit in the income statement vV
- The provision balance is deducted from the inventory valuation in the Statement of financial position vV
- Application of the realisation concept vV

MAX vV x 2

(4)

(c)

Day-work	Workers are paid by the hour	Hours worked v x Rate per hour v
Piecework	Workers are paid by the number of items produced	Number produced v x Rate per item v

(4)

(d)

Valid answers may include:

In favour

- Greater production
- Cost reduced per unit
- Greater motivation for workers.

Against

- Quality can be reduced if work is rushed
- Greater supervision levels required.

**Not:** Increased profit

✓✓ x 2 points (MAX one point for and one point against)

(4)

**(Total 32 marks)**



6 (a)(i)

Capital Accounts							
	Chok	Tamar	Lai		Chok	Tamar	Lai
	£	£	£		£	£	£
Bank ✓		20 000 ✓		Balance	40 000	40 000	✓
Goodwill	60 000 ✓	30 000 ✓	30 000 ✓	Goodwill	60 000 ✓	60 000 ✓	
Balance c/d	<u>40 000</u>	<u>50 000</u>	<u>26 000 ✓</u>	Introduced /			<u>56 000 ✓✓</u>
	<u>100 000</u>	<u>100 000</u>	<u>56 000</u>	Assets	<u>100 000</u>	<u>100 000</u>	<u>56 000</u>
				Balance b/d	40 000	50 000	26 000 ✓ of
							(12)

(12)

(ii)

Chok, Tamar and Lai			
Statement of Financial Position at 1 December 2014			
	£	£	✓ Names + title
Non-current Assets			
Premises		60 000 ✓	
Fixtures and fittings		26 000 ✓	
Delivery vehicle		<u>15 000 ✓</u>	
		101 000	
Current Assets			
Inventory 28 500 + 16 000	44 500		✓✓
Trade receivables	<u>32 400</u>		✓
		<u>76 900</u>	
		<u>177 900</u>	
Capital:			
Chok	40 000		✓ of if unadjusted
Tamar	50 000		✓ of if unadjusted
Lai	<u>26 000</u>		✓ of if unadjusted
		116 000	
Current Liabilities			
Trade payables		42 500 ✓	
Bank 5 600 ✓ + 25 000 ✓ – 15 000 ✓ – 20 000 ✓		4 400	
Non-current Liabilities			
Bank loan		<u>15 000 ✓</u>	
		<u>177 900</u>	

(16)

(b)

Valid answers may include:

In favour

- More capital available
- More skill and knowledge.

Against

- Profits shared between three
- Greater chance of disagreement.

**Not:** More profit

✓✓ x 2 points (MAX one point for and one point against)

(4)

**(Total 32 marks)**

7(a)

1. Realisation / Accrual
2. Accrual / matching
3. Consistency
4. Money measurement
5. Historic cost / cost
6. Prudence

√√ x each correct name

(12)

(b)

## Biman

## Statement of Comprehensive Income for the year ended 30 November 2014.

	£	
Revenue	115 000 – 6 000	109 000
Less Cost of sales	63 000 – 4 000	<u>(59 000)</u>
Gross profit		50 000
Less		
General expenses	15 000 + 3 200 – 450	17 750
Depreciation	- 9 000 + 3 000	12 000
Provision for doubtful debts		<u>1 500</u>
		<u>(31 250)</u>
Profit for the year		<u>18 750</u>

## Statement of Financial Position at 30 November 2014

	£	
Non-current Assets		
Premises	80 000	√
Equipment	30 000 – 6 000	24 000
Staff skill	15 000 – 15 000	<u>0</u>
	104 000	√
Current Assets		
Inventory	20 000 + 4 000	24 000
Trade receivables	18 000 – 6 000 √ – 1 500 √	10 500
Other incomes		450
Bank		<u>11 000</u>
		<u>149 950</u>
Equity and capital:		
Capital	95 000 – 15 000 – 10 000	70 000
Profit for the year		<u>18 750</u>
		88 750
Current liabilities		
Trade payables		58 000
Other payables		<u>3 200</u>
		<u>149 950</u>

(16)

(c)

Valid answers may include:

In favour

- Standardises approach / allows comparisons
- Reader can rely upon the information e.g. investors
- True and fair view of profit and valuing assets and liabilities
- Provides a framework to prepare financial statements.

Against

- Requires professional input
- Concepts can contradict each other
- Does not consider non-financial factors e.g. quality of management.

vV x 2 points (MAX one point for and one point against)

(4)

**(Total 32 marks)**

