Mark Scheme (Results)

January 2015

International A Level Accounting

WAC01

Edexcel and BTEC Qualifications

Edexcel and BTEC qualifications are awarded by Pearson, the UK's largest awarding body. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information visit our qualifications websites at www.edexcel.com or www.btec.co.uk. Alternatively, you can get in touch with us using the details on our contact us page at www.edexcel.com/contactus.

Pearson: helping people progress, everywhere

Pearson aspires to be the world's leading learning company. Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: www.pearson.com/uk

January 2015
Publications Code IA040349

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:

Assets	£	
Inventory	9 800	
Warehouse fixtures	15 000	
Office computers	24 000	
Trade receivables	12 400	
Prepaid	1 100	
Bank	2 600	
	64 900 √	
Less liabilities		
Trade payables	8 750	
8% Bank loan	20 000	
Accrual	750	
	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√ + (95 250√ – 12 400√ +13 500√)		180 350		
Less				
Opening inventory	9 800			
Purchases 85 700√ +11 150√ – 8 750√	88 100			
	97 900			
Less Closing inventory 8 200 – 300	(7 900) √√(8050 √of)			
Cost of sales		(90 000)		
Gross profit		90 350		
Plus Commission receivable 3 400 + 800		4 200	√	
		94 550		
Less expenses:				
Wages 14 250 – 750√ + 500√	14 000			
Rent	6 000		√	
Sundry expenses 6 950 + 10 500	17 450		√	
Loan interest	1 300		√	
Rates and insurance 5 300 + 1 100√ – 1 700√	4 700			
Delivery expenses	15 670		√	
Depreciation – Warehouse fixtures	1 200		√	
Office computers	3 000		√	
Creation of provision for doubtful debts	780		√√(√of)	
		(64 100)		
Profit for the year		30 450		(22)

Statement of Financial Position at 31 December 2014

<u>Non-current Assets</u>				
			Book value	
	£	£	£	
Warehouse fixtures			13 800	√
Office computers			<u>25 000</u>	√
			38 800	
<u>Current Assets</u>				
Inventory		7 900		√of
Trade receivables	13 500			
Less PDD	<u>780of</u>	12 720	√√(√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>	
<u>Capital and equity:</u>				
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	
<u>Non-current Liabilities</u> √(correct heading label)				
8% Bank loan			15 000	√
<u>Current Liabilities</u>				
Trade payables		11 150		√
Other payables: wages		<u>500</u>		√
			<u>11 650</u>	
			<u>81 000</u>	

(14)

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

(24)

(b)

	Retail sales	On-line sales
Gross profit x 100 = / Revenue	48 000 / 240 000√ x 100 = 20% √√(√of)	60 000 / 150 000√ x 100 = 40% √√(√of)

(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 = / Revenue	12 000 x 100 = 5% √√(√of) / 240 000√	30 000 x 100 = 20% √√(√of) / 150 000√

(6)

(e)

Retail sales debtors collection period   32 000 x 365√ = 49 days √ / 240 000√

Current ratio   60 000 + 32 000 + 48 000√ = 2.5:1 √ / 56 000√

(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 loose 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

√√ 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			4 500	√
			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	40 000		√
			(495 600)	
Profit for the year			81 900	

(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	64 000 √	31 Dec	Balance c/d	64 000 √
		64 000			64 000
2013			2013		
1 Jan	Balance b/d	64 000	31 Dec	Balance c/d	64 000 √of
		64 000			64 000
2014			2014		
1 Jan	Balance b/d	64 000	30 June	Disposal	64 000 √of
		64 000			64 000

Equipment- Mobile Crane provision for depreciation account

		£			£
2012			2012		
31 Dec	Balance c/d	16 000	31 Dec	Income statement / depreciation	16 000 √
		16 000			16 000
2013			2013		
			1 Jan	Balance b/d	16 000 √of
31 Dec	Balance c/d	28 000	31 Dec	Income statement/ depreciation	12 000 √of
		28 000			28 000
2014			2014		
			1 Jan	Balance b/d	28 000 √ of
30 June	Disposal √	32 500 √of	31 Dec	Income statement / depreciation	4 500 √of
		32 500			32 500

(11)

(d)(i)

	£
Depreciation	21 000 √
Operator's wages	20 000 √√
Transport	16 000 √√
Servicing and repairs	3 000 √
Overheads	15 000 √
Total cost for year	75 000

(ii)

Total cost / Days of hire = (75 000 + 15 000)√of / 200 √√ = £450 √√(√of)

(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	2 250	
		11 780				11 780	
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		√
Purchases of raw materials	44 200		√√
	64 200		
Less Inventory of raw materials 30 November	(19 200)		√√
Cost of raw materials		45 000	√of + w
Add:			
Factory wages	36 480		√√
Direct general expenses	3 600		√
Prime cost		85 080	√of + w
Plus overheads:			(no aliens)
Indirect general expenses	8 400		√
Manager's salary	3 500		√
Supervisors' salary	5 000		√
Rent	2 000		√
Depreciation of machinery	4 500		√
Machinery repairs	3 000		√
		26 400	
		111 480	
Work in progress		(1 000)	√
Production cost		110 480	√of + w
Profit on manufacture		39 520	√of
Transfer to trading		150 000	√ + w

(20)

(b)

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

MAX √√ x 2

(4)

(c)

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

(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	40 000	50 000	26 000 √	Introduced /			56 000 √√
	100 000	100 000	56 000	Assets	100 000	100 000	56 000
				Balance b/d	40 000	50 000	26 000 √of

(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		15 000	√
		101 000	
Current Assets			
Inventory 28 500 + 16 000	44 500		√√
Trade receivables	32 400		√
		76 900	
		177 900	
Capital:			
Chok	40 000		√of if unadjusted
Tamar	50 000		√of if unadjusted
Lai	26 000		√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		15 000 √	
		177 900	

(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	(59 000)	√√
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		1 500	√
		(31 250)	
Profit for the year		18 750	

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	0	√
		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		11 000	
		149 950	
Equity and capital:			
Capital	95 000 – 15 000 – 10 000	70 000	√
Profit for the year		18 750	
		88 750	
Current liabilities			
Trade payables		58 000	
Other payables		3 200	√
		149 950	

(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.

√√ x 2 points (MAX one point for and one point against) (4)

(Total 32 marks)

Pearson Education Limited. Registered company number 872828
with its registered office at 80 Strand, London WC2R 0RL