Mark Scheme (Results)

June 2014

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
June 2014
MARKING SCHEME

1(a)

Commission Received from Software Sales Account

		£			£
			1 April 2013	Balance b/d	600 √
31 Mar 2014	Income Statement √	48 500 √of		Bank	45 000 √
			31 Mar 2014	Balance c/d	2 900 √
		48 500			48 500
1 April 2014	Balance b/d	2 900 √of **if on debit side**			

(6)

(b)

Marianna
Statement of Comprehensive Income for the year ended 31 March 2014

		£	£
Income			
Revenue from consultancy	295 000 √ + 7 500 √	302 500	
Commission received from software sales		48 500√√ (√ of)	
Disposal of non-current assets		6 250√	
			357 250
Less Expenses			
Wages and salaries		154 000√	
Rent and rates	36 000 + 12 000	48 000√	
Heating and electricity		6 300√	
Internet and communication		5 800√	
Marketing	55 000 – 2 800	52 200√	
Depreciation-			
Fixtures		9 000√	
Computers		9 000√	
Motor vehicles		18 000√	
Bank loan interest		3 000√	
Bad debts		1 500√	
Provision for doubtful debts		2 000√	
			308 800
Profit for the year			48 450
			357 250

(16)

(c)

Statement of Financial Position

Non-current assets			
	Cost	Aggregate depreciation	Carry over
	£	£	£
Fixtures and fittings	60 000	27 000	33 000 √of
Computers	76 000	49 000	27 000 √of
Motor vehicles	90 000	54 000	36 000 √of
	226 000	130 000	96 000 √
Current assets			
Trade receivables 34 000 √ + 7 500 √ – 1 500 √	40 000		
Less Provision for doubtful debts	2 000		
		38 000 √of	
Other receivables 2 900 √ + 2 800 √		5 700	
Cash and bank		4 450 √	
			48 150
			144 150
Capital and equity:			
Capital		55 000	
Profit for the year		48 450	
		103 450	
Drawings		(32 000)	
			71 450 √of
Non-current liabilities			
6% Bank loan			50 000 √
Current liabilities			
Trade payables		7 700 √	
Other payables 12 000 √ + 3 000 √		15 000	
			22 700
			144 150

(16)

(d)

(i) Existing loan is repayable in more than one year into the future √. Therefore the whole loan is a long term/Non-current liability √ payable by a single sum at the end of the term. √

(ii) Proposed loan is repayable in equal instalments over the life of the loan √ not at the end of the loan period. Therefore, the capital sum repayable within the next year will be a current liability √ the remaining capital of the outstanding loan will be a long term/non-current liability √.

(6)

(e)

Valid points may include:

Positive

- Provides a framework for preparing financial statements
- Readers can rely upon the accuracy of the financial statements
- Can be relied upon globally
- Provides a true and fair view
- Meets legal requirements
- Enables comparisons to be made.

Negative

- Many concepts are open to interpretation
- Concepts can contradict each other
- Many non-financial aspects of a business are not considered by accounting concepts
- Need for specialist knowledge to implement which has cost implications

NOT Time consuming, easy/difficult to understand, aid to decision making, examples of accounting concepts, not accuracy/mathematical accuracy without qualification

√√ per point x 4 - MAX 2 points positive and 2 points negative

(8)

(Total 52 marks)

2 (a)

i) Gross profit as a percentage of revenue (sales)

	30 April 2013	30 April 2014
	<u>280 000 √ x 100</u>= 40% 700 000 √	<u>250 000 √ x 100</u> = 33.3% 750 000 √

ii) Percentage return on capital employed

<u>28 000 + 12 000</u> √ = 20% √of 50 00 + 150 000 √	<u>8 000 + 12 000</u> √= 10% √of 50 000 + 150 000 √

iii) Trade receivables collection period (in days)

<u>135 000</u> √ =88 days √of (700 0 x 80%)/365 √	<u>55 000</u> √ =33.5 days √of (750 000 x 80%)/365 √

iv) Current ratio

<u>240 000</u> √ = 2.0:1 1200 √	<u>200 000</u> √ = 3.33:1 60 000 √

v) Liquid (acid test) ratio.

<u>135 000</u> √ = 1.13:1 120 000 √	<u>120 000</u> √ = 2:1 60 000 √

(24)

(b) Change in sales mix
Reduction in sales prices due to economic conditions
Increased cost of goods which cannot be passed on to customers
Increased competition

NOT increase/decrease in sales

2 Points x √√ **(4)**

(c)(i) Return on capital employed is calculated as the percentage return on the long term capital employed within the business. The capital employed is calculated by adding capital √ to long term liabilities. √ This is compared with the profit for the year √ plus any interest due on the long term liabilities.√ It is a profitability ratio √.

If in a formula award marks for elements above. Profit/capital employed √ only **(Max 4)**

(ii) The percentage return on capital employed is good/high in the year ending 30 April 2013 at 20%.√ In the year ended 30 April 2014 the percentage has fallen significantly √ but is still at an acceptable level of 10%.√ **OF RULE APPLIES** **MAX (2)** (d)(i) Idle funds relate to current assets/ circulating assets √ which are not being effectively used in the business to generate profits. √ A high current ratio/ liquid acid test ratio √ in excess of the accepted norms will indicate idle funds. √

Poor management of funds √√ Business not using funds efficiently √√

Current assets not being used efficiently √√ MAX **(3)**

(ii) At a current ratio of 3.33:1 and a liquid acid test ratio of 2:1 both ratios are above the benchmarks of 2:1 √ and 1:1√. The degree of idle funds has increased over the year. √

(3)

e) Profit for the year has generated cash
Sale of non-current assets
Reduced inventory
Reduced trade receivables
Reduced drawings

NOT introduced extra capital/loans
√ x 4 points **(4)**

f) Valid points **(OF RULE APPLIES)** may include:
Positive
- The cash and bank balance has improved during the year
- Inventory is reduced and trade receivables collection improved
- Return on capital employed is still at an acceptable level
- Leung has reduced his drawings to not act as a reduction on capital
- Good liquidity above the benchmarks.

Negative
- Gross profit margin has fallen
- Costs are rising
- Idle funds exist in the liquidity of the business
- All of the profit for the year has been taken as drawings
- The profit has declined.

√√ per point x 4 - MAX 2 points positive and 2 points negative

(8)

(Total 52 marks)

3 (a)(i) An error of commission applies where the error has been posted to the wrong account **within the same class of account**. e.g an entry in Debtor A instead of Debtor B. √√

An error of principle applies where the error has been posted to the wrong account in a **different class of account**. e.g an entry in a non-current asset account instead of an expenses account. √√

(4)

(ii)Error of commission – Item (3) √
Error of principle – Item (4) √

(2)

(b)

Journal

	Dr £	Cr £	
Purchases (NOT purchase day book)	3 800		√
Titan Supplies		3 800	√
Revenue (Sales)	2 400		√
Suspense/Sales ledger control		2 400	√
Patil	900		√
Batik		900	√
Other expenses	300		√
Equipment		300	√
Suspense	940		√
Discount Received		940	√
Rent	1 430		√
Suspense		1 430	√
Bank	4 000		√
Provision for depreciation/depreciation	11 200		√√
Motor vehicle		14 000	√
Disposal/Income statement		1 200	√√

(18)

(c) Trial Balance at 30 April 2014

		Dr	Cr	
		£	£	
Purchases	70 550 + 3 800	74 350		√
Revenue (Sales)	150 000 – 2 400		147 600	√
Trade receivables		9 980		√
Trade payables	6 750 + 3 800		10 550	√√
Rent	4 500 +1 430	5 930		√
Bank	-1 500 + 4 000	2 500		√√
Other expenses	8 390 + 300	8 690		√
Wages		50 000		√
Discount allowed		900		√
Discount received	1 570 + 940		2 510	√
Non-current assets:				
Equipment	16 000 - 300	15 700		√
Motor vehicles	26 000 - 14000	12 000		√
Provisions for depreciation:				
Equipment			8 000	√
Motor vehicles	20 000 – 11 200		8 800	√
Disposal			1 200	√√
Inventory 1 May 2013		8 610		√
Capital			10 000	√
		188 660	188 660	

(20)

d) Valid points may include:

Positive

- Is 'prima facie' evidence of correct double entry/ a checking device
- Enables the existence of arithmetical errors to be identified
- Enables draft financial statements to be prepared
- Shows all accounts for information.

Negative

- Errors which do not affect the balancing of the trial balance will not be revealed
- The number of errors is not revealed just the balancing figure
- Draft financial statements will be prepared inaccurately.
- Difficult to locate error

NOT Time consuming, requires expertise, costly, it cannot correct an error,

√√ per point x 4 – MAX 2 points positive and 2 points negative

(8)

(Total 52 marks)

SECTION B

4 (a)(i)

Hasibul and Iffath
Appropriation Account for the year ended 31 March 2014

	£		£
Profit for the year			39 500
Less			
Interest on capital:			
Hasibul	2 500	√	
Iffath	4 000	√	
	6 500		
Salaries:			
Hasibul	7 000		
Iffath	5 000	√ both	
	12 000		
Share of profit:			
Hasibul	14 000	√ of	if in correct ratio and no aliens
Iffath	7 000	√ of	
	21 000		
			39 500

(5)

(ii)

Current accounts

	Hasibul £	Iffath £		Hasibul £	Iffath £
Balance b/d	500		Balance b/d		6 500 √
Drawings	25 000	16 000 √	Int on cap	2 500	4 000 √of
			Salaries	7 000	5 000 √
			Share of pro't	14 000	7 000 √of
Balance c/d		6 500	Balance c/d	2 000	
	25 500	22 500		25 500	22 500
Balance b/d	2 000		Balance b/d		6 500 √of

(6)

(b)

Goodwill Account

	£		£
Capita – Hasibul	80 000√	Capital- Hassibul	48 000 √
Iffath	40 000 √	Iffath	48 000 √
		Jila	24 000 √
	120 000		120 000

(5)

(c)

Hasibul , Iffath and Jila
Statement of Financial Position at 1 April 2014

		Cost	Aggregate depreciation	Carry over
		£	£	£
Non-current assets		90 000 √	11 000 √	79 000
Current assets				
Inventory	31 500 √ + 20 000 √		51 500	
Trade receivables	27 000 √ + 10 500 √		37 500	
Cash and bank	10 000 – 15 000 √ + 10 500 √ + 20 000 √		25 500 (20 500√, 30 000√, 5 000Cr√ 40 500√√, 5 500√√, 15 000√√)	
				114 500
				193 500
Equity and capital:			£	£
Capital accounts:				
Hasibul	50 000 +80 000 - 48 000		82 000 √of if not 50 000	
Iffath	80 000 + 40 000- 48 000		72 000	
Jila	40 000 – 24 000		16 000	
				170 000
Current accounts:				
Hasibul			(2 000) √of	
Iffath			6 500	
Jila			-	
				4 500
Current liabilities				
Trade payables				19 000 √
				193 500

(12)

d) Valid points from Jila's point of view may include:

Positive
- Greater capital/resources available
- Specialist skills available from the other partners
- Share losses/reduce risks

Negative
- Shared, not sole, decision making/conflicts
- Joint and several liability
- Share profits

√√ per point x 2 – MAX 1 points positive and 1 points negative

(4)

(Total 32 marks)

5 (a)Fixed costs – Costs which are constant over a period of time/ not varying with the level of output √√ e.g rent, advertising. √

Semi-fixed cost – Costs which are fixed until a certain level of output is achieved, √ then those costs rise and remain fixed until the next level of output is achieved when they rise again √ . (Stepped costs) e.g supervision costs √

Variable costs rise in proportion to the level of output √√ e.g raw materials, direct labour. (accept electricity/power, motor vehicle running expenses) √

(9)

(b)

	Aminath	
	£	£
Income:		
Labour 1 500 hours @ £30 per hour	45 000 √√	
Raw material mark up	18 000 √√	
		63 000
Less:		
Expenses:		
Advertising	8 500 √	
Rent of premises	10 000 √	
Motor vehicle running costs	11 300 √	
		29 800 √of
Profit for the year (NOTE correct figure earns 9√)		33 200 √of
		63 000

If raw materials income 90 000 expenses 72 000 award √ √

(9)

(c)

	Quotation
	£
Raw materials 1 200 + 20%	1 440 √√
Labour and overheads 20 x £30	600 √
Quotation price	2 040 √of If figure for raw materials and labour

(4)

(d)

Activities not directly chargeable may include:

- Preparing the accounts
- Preparing quotations for work
- Meeting contacting suppliers
- Dealing with the government/tax authorities
- Holiday
- Sickness

3 points x √√

(6)

(e) Valid points may include:

Positive

- As labour is a variable cost and overheads mainly fixed cost, quotations can be more accurate and competitive.

Negative

- As no multiple departments the recovery basis will be the same; Aminath's hours worked.
- Time consuming/complicated to calculate

√√ per point x 2 – MAX 1 points positive and 1 points negative

(4)

(Total 32 marks)

6(a)

(i)

Bank Account

	£		£
Opening balance	1 000	Trade payables	43 000 √
Cash sales	18 500 √	Fixtures and fittings	6 000 √
Trade receivables	55 600 √	Rent	5 000 √
		Wages	17 450 √
		Sundry expenses	4 600 √
Balance c/d	8 450	Drawings	7 500 √
	83 550		83 550
		Balance b/d	8 450 √of

(9)

(ii)

Statement of Comprehensive Income for the year ended 30 April 2014

		£	£	£
Revenue (sales)	18 500 + 65 000			83 500 √
Less				
Opening inventory			5 000	
Purchases		49 000		
Less Returns		(1 900)		
			47 100 √	
			52 100	
Less Closing inventory			(15 000)	
Cost of sales				(37 100) √
Gross profit				46 400
Less				
Bad debt			1 700 √	
Depreciation Fixtures and fittings			800 √	
Rent	5 000 – 1 000		4 000 √	
Wages			17 450 √	
Sundry expenses	4 600 + 650		5 250 √	
				(29 200)
Profit for the year				17 200

(8)

(iii)

Statement of Financial Position at 30 April 2014

		Cost	Aggregate depreciation	Carry over
		£	£	£
Non-current assets				
Fixtures and fittings		6 000	800	5 200 √
Current Assets				
Inventory			15 000 √	
Trade receivables	65 000 – 55 600 √ – 1 700 √		7 700 (√ 9 400, 63 300)	
Other receivables			1 000 √	
				23 700
				28 900
Equity and capital:			£	£
Capital	5 000 + 1 000 – 4 500		1 500	
Profit for the year			17 200	
			18 700	
Drawings			(7 500)	
				11 200 √of
Current Liabilities				
Trade payables	4 500 + 49 000 √ – 1 900√ – 43 000 √			8 600 (√ 53 500, 2 600 √√ 51 600, 10,500)
Other payables				650 √
Bank				8 450 √of (from part a)
				17 700
				28 900

(11)

(c) Valid points may include:

Positive
- Complies with prudence concept
- Complies with the accruals concept
- History of bad debts in the year
- Profit/trade receivables not over stated/ true and fair view.

Negative
- Only an estimate of future loss
- Easier just to write off bad debts when they occur

√√ per point x 2 – MAX 1 points positive and 1 points negative

(4)

(Total 32 marks)

7 (a)

Year ended	Delivery vehicle A £	Delivery vehicle B £	Delivery vehicle C £	Delivery vehicle D £	Total £
31 March 2013	4 000 √	2 700 √	-	-	6 700
31 March 2014	1 000 √	3 600 √	5 000 √	4 200 √	13 800

(6)

(b)(i)

Delivery Vehicles Account

		£			£
1 April 2012	Balance b/d	20 000 √	31 Mar 2013	Balance c/d	38 000 √
1 July 2012	Bank (B) √	18 000 √			
		38 000			38 000
1 April 2013	Balance b/d	38 000	30 June 2013	Disposal (A)	20 000 √
	Bank (C)	25 000 √			
30 June 2013	Bank (D)	8 000			
	Part exchange	20 000 √	31 Mar 2014	Balance c/d	71 000
		91 000			91 000
1 April 2014	Balance b/d	71 000 √			

(8)

(ii)

Delivery Vehicles – Provision for Depreciation Account

		£			£
			1 April 2012	Balance b/d	4 000 √
31 March 2013	Balance c/d	10 700	31 March 2013	Income Stat'nt	√ 6 700 √
		10 700			10 700
30 June 2014	Disposal √	9 000 √	1 April 2013	Balance b/d	10 700 √of
31 March 2014	Balance c/d	15 500	31 March 2014	Income Stat'nt	13 800 √of
		24 500			24 500
			1 April 2014	Balance b/d	15 500 √of

(8)

(c)

(1) Capital expenditure √√ – the advertising generated will be maintained over the life of the vehicle.

(2) Revenue expenditure √√ -the tyres will only last for a short period and will not enhance the value of the vehicle.

(3) Capital expenditure √√ - satellite navigation will last for many years and will enhance the capital value of the vehicle.

(6)

(d)) Valid points may include:

Positive

- Equal benefit will be received each year from the vehicle therefore equal depreciation should be charged
- Profit will not be distorted in the early years due to high depreciation.

Negative

- Costs of depreciation plus repairs will increase over the years
- Higher depreciation on vehicles in the early years meaning that the net book value and market value will be at variance.

√√ per point x 2 – MAX 1 points positive and 1 points negative

(4)

(Total 32 marks)

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