GradeMax



Mark Scheme (Results)

January 2016

Pearson Edexcel IAL in Accounting (WAC01) Paper 01

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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.

SECTION A

1(a)(i)

Kiddy Kit
Manufacturing Account for the year ended 31 December 2015

	£	£
Opening inventory of raw materials		32 600 √
Purchases of materials		164 800 √
		197 400
Less Closing inventory of raw materials		(31 400) √
Cost of Raw materials		166 000 √ w+f
Manufacturing wages		147 000 √
Direct production expenses		19 000 √
Prime cost √		332 000 √of if no aliens
Plus overheads:		
Indirect production expenses	16 200 √	must be added
Production management salaries	67 000 √	
Depreciation – Manufacturing equipment	13 000 √	
Rent and rates	42 000 √	
		138 200
Work in progress – 1 January 2015	51 500	
31 December 2015	(48 700)	
		2 800 √
Production/manufacturing/factory cost		473 000 √of +w no aliens
Profit on manufacture		17 000 √of +w
Transferred to Income Statement		490 000 √ +w

(16)

(ii)

Statement of Comprehensive Income for the year ended 31 December 2015

	£	£
Revenue		700 000√
Less Opening inventory	17 500 √	
Transfers from Manufacturing Account	490 000 √of +w	
	507 500	
Closing inventory	(15 500) √	
Cost of sales		492 000 √of +w
Gross profit		208 000
Profit on manufacture		17 000 √of
		225 000
Less		
Administrative salaries	96 100 √	
General expenses 27 400 + 1 100	28 500 √	
Marketing	44 500 √	
Rent and rates	18 000 √	
Depreciation – Office fixtures	12 000 √	
Increase in PDD	900 √√ (√of)	
		(200 000)
Profit for the year		25 000 √ if no aliens
		225 000

(14)

(iii)

Statement of Financial Position at 31 December 2015

Non-current Assets				
	Cost		Accumulated depreciation	Carry over
	£		£	£
Manufacturing equipment	206 000		167 000	39 000 √of
Office fixtures	80 000		44 000	36 000 √of
	286 000		211 000	75 000 √of
Current Assets				
Inventory: Raw materials	31 400			
W.I.P	48 700			
Finished Goods	15 500			
			95 600 √	
Trade receivables	72 000			
Less Provision for doubtful debts	(3 600) √			
			68 400√of	
				164 000
				239 000
Capital:			£	£
Capital 1 January 2015			160 000	
Net profit			25 000 √of	
			185 000	
Less Drawings	27 800 √+ 1500√		(29 300)	
				155 700 √of
Current Liabilities				
Trade payables			64 200 √	
Other payables: General expenses			1 100 √	
Bank	16 500 √+ 1 500√		18 000	
				83 300
				239 000

(14)

(b) Valid answers may include:

Arguments for

- Fewer manufacturing problems
- Management can concentrate on trading
- Manufacturing assets can be sold to release cash
- Manufacturing space can be used to expand the business
- Manufacturing and admin costs may be reduced
- Might be able to develop other products to extend range.

Arguments against

- Security of supply from overseas
- Exchange rate fluctuations
- Supplier may increase prices in the future
- Social accounting aspects: impact on employment and local community
- Quality issues
- Cost of redundancies.

Profit and cost considerations (of)

- The factory is currently making a profit/loss
- Buying costs will be higher/lower
- Buying on credit could improve cash flow

√√ per valid point. Maximum **two** valid points for and **two** valid points against.

(8)

(Total: 52 marks)

2(a)

	2014	2015
(i) Gross profit to revenue percentage	100 √x 100 = 33.33% √ 300√	160 √x 100 = 40% √ 400√
(ii) Rate of inventory turnover	200 √ = 16 times √ (10 + 15)/2√	240 √ = 12 times √ (15 + 25)/2√
(iii) Profit for the year to revenue percentage	30 √x 100 = 10% √ 300√	32√ x 100 = 8% √ 400√
(iv) Return on capital employed	30 √x 100 = 15% √ 200√	32 + 2 √x 100= 11.3% √ 200 + 100√

(24)

(b)

Based on OFs	2014 to 2015
(i) Gross profit to revenue percentage	• Higher selling prices • Cheaper suppliers NOT • Higher sales • Higher profit • Less purchases
(ii) Rate of inventory turnover	• Higher COS but even higher levels of inventory • Inventory is rising throughout the period
(iii) Return on capital employed	• Loan adds to capital employed • Interest deducted from profit • Higher expenses

One point per ratio x √√ = MAX 6

(6)

(c)

- Bank loan √
- Profit/non-cash depreciation √
- Lower trade receivables √
- Higher trade payables √
- More sales √

Max 4

Not

- Sale of non current assets
- New capital introduced
- Lower inventory
- Decreased expenses

(4)

(d)

	2014	2015
Current ratio	15 + 110 √= 1.25:1 √ 30 + 70 √	25 + 80 + 55 √= 2.5:1 √ 64 √

(6)

(e)In 2014 the current ratio was **low / poor** √ at 1.25:1 compared to the **accepted 'yardstick' of 1.4-2:1** √
In 2015 the current ratio was **high / better** √ at 2.5:1 with some **idle funds.** √

(4)

(f)
Valid answers may include:

Based on OF's	**Points for**	**Points against**
Increase revenue	• Revenue has risen by one third (£100 000)	
Improve profitability	• The gross profit has increased by £60 000 • The gross profit percentage has increased • The profit for the year has increased by £2 000	• Only a marginal increase in profit for the year • The profit for the year percentage has fallen • Much higher expenses particularly wages and advertising • ROCE has fallen due to higher capital employed
Improve liquidity	• In 2015 liquidity is well above the 1.4-2:1 recommendation • Baako now has a bank balance rather than an overdraft • Trade receivables have decreased and trade payables have increased improving cash flow	• Inventory levels have increased significantly

√√ per valid point. Maximum **two** valid points for and **two** valid points against.

(8)

(Total: 52 marks)

3(a)(i)

Capital expenditure – Deriving a benefit for more than one year/long term √ generally purchasing **non-current** assets. √
Revenue expenditure – Deriving a benefit for less than one year/short term √ generally day to day expenses. √

(4)

(ii) The purchase of the fixtures and equipment will add to the value of the non-current assets/will be debited to the fixtures and fittings account. √ This will be shown in the SOFP√

The redecoration of the restaurant will be debited to an expense account √ and will be shown in the Income Statement. √

(4)

(b)

Taavi and Garcia Appropriation Account for the year ended 31 December 2015

	£	£	£
Revenue			70 000
Opening inventory		1 500	
Purchases	22 750		
Returns	(2 100)		
		20 650	
		22 150	
Less Closing inventory		(1 750)	
Cost of sales			(20 400) √√ (√of)+w
Gross profit			49 600 √of+w
Less			
Wages		7 400 √	
Rent		4 000 √	
Heat and light		3 650 √	
General expenses		4 250 √	
Redecoration		3 500 √	
Depreciation		6 000 √	
Loan interest		800 √	
			(29 600)
Profit for the year			20 000√ (of)
Less			
Interest on capital: Taavi		(2 000)√	
Garcia		(1 500)√	
Salary: Garcia		(7 500)√	
			(11 000)
			9 000
Share of profit:	Taavi	6 000√of if correct split	
	Garcia	3 000√of	
			9 000

(16)

(c) The Purchases Ledger contains all the individual accounts √ of credit suppliers.√

(2)

(d) (i)

Purchases Ledger Control Account

	£		£
Balance b/d	150√	Balance b/d	2 900
Bank: payments	15 680√	Credit purchases	19 500√
Discount received	1 320√	Bank: Refund	270 √
Returns outwards	2 100 √		
Sales Ledger Control	1 400 √		
Balance c/d	2 320√	Balance c/d	300
	22 970		22 970
Balance b/d	300 √	Balance b/d	2 320√

(ii)

Sales Ledger Control Account

	£		£
Balance b/d	3 300√	Bank: receipts	27 930 √
Credit sales	32 000 √	Discount allowed	630 √
Bank: dis'd cheque	580 √	Purchases Ledger C'l	1 400√
		Balance c/d	5 920 √
	35 880		35 880
Balance b/d	5 920 √		

(18)

(e) Valid answers may include:
Arguments for

- More skill and expertise available
- Greater capital
- Cover for holidays and sickness
- Partners can specialise
- Share risks.

Arguments against

- Profits shared
- Discussion before all decisions made
- Responsibility for the decisions of another person/joint liability.
- There may be conflicts.

√√ per valid point. Maximum **two** valid points for and **two** valid points against.

(8)

(Total: 52 marks)

SECTION B

4(a)

Carlos

Statement of Financial Position at 1 January 2015

Assets	£	£
Non-current assets		20 000✓
Current assets		
Inventory	32 000	
Trade receivables	15 400	
Other income	500	
Bank	1 700	
		49 600 ✓
Total Assets		69 600

Liabilities	£	£
Capital		38 600 ✓
Current liabilities		
Trade payables	29 800	
Other payables	1 200	
		31 000✓
Total Liabilities		69 600

(4)

(b)(i)

Revenue 45 300 + 9000 **(1)** – 900 **(1)** + 27 900 **(1)** – 15 400 **(1)** + 29 200 **(1)** = 95 100 **(1)**

(6)

(ii)

Purchases 42 500 **(1)** + 21 000 **(1)** – 29 800 **(1)** + 5 300 **(1)** = 39 000 **(1)**

(5)

(c)

Carlos

Statement of Comprehensive Income for the year ended 31 December 2015

	£	£
Revenue		95 100 of
Less		
Opening inventory	32 000 √	
Purchases	39 000 of	
	71 000	
Less Closing inventory	(25 700) √	
Cost of sales		45 300
Gross profit		49 800
Other receivables:		
Commission received		2 700 √
		52 500
Less expenses:		
Rent (500 +2 500 √ -1 000 √)	2 000	
Advertising	4 800 √	
General expenses	6 700 √	
Premises maintenance	7 200 √	
Wages (- 1 200 + 8 900 √ +1 600 √)	9 300	
Depreciation -		
20 000 – 2 500 + 4000 – 18 000	3 500 √√(√of)	
		33 500
Profit for the year		19 000 √of + w if no aliens

(13)

(d) Valid answers may include:

Arguments for maintaining a set of books

- Financial statements can be easily prepared
- Records of individual accounts will make referencing easier
- Management decisions can be made with the support of information
- Preparing tax returns.

Arguments against maintaining a set of books

- Time consuming using time which could be used on trading
- More costly to prepare
- Requires expertise
- Training and updating software
- Security issues.

√√ per valid point. Maximum **one** valid points for and **one** valid points against.

(4)

(Total: 32 marks)

5(a) (i) Fixed cost – one which is constant over a period of time or range of production √√

Variable cost- one which varies directly/proportionately√ with the level of output √

(4)

(ii)Fixed cost – licence/insurance/ depreciation/maintenance √

Variable cost – Diesel √

(2)

(b) (i)

	£	
Depreciation	3 600	√√ (√of)
Licence	700	√
Insurance	4 000	√
Maintenance and servicing	500	√
Diesel	4 800	√√ (√of)
Total annual running cost	13 600	√of if all 5 elements included

(8)

(ii)

Annual running cost	13 600	√of= £0.34 per kilometre √of
Annual kilometres	40 000	√

(3)

(iii)

	£		
Income 40 000 x £0.55	22 000 √	OR	0.55 √
Less Total running costs	13 600 √of		0.34 √of
Profit for the year	8 400√of		0.21x40000 =8400 √of

(3)

(c) Revaluation – Each year value the taxi at market value √√ Deduct the current years' market taxi value from the previous years' √√ market taxi value to arrive at the depreciation to be charged for the year.

(4)

Reducing balance – Deduct the accumulated depreciation to date from the cost of the taxi √√ Apply an agreed percentage √√ to the result to obtain the depreciation to be charged for the year.

(4)

(d) Valid answers may include:

Arguments for

- Depreciation each year matching equal usage
- Consistent with previous calculations
- Takes into account expected residual values.

Arguments against

- Cost of depreciation and maintenance will rise as asset becomes older
- Book value does not reflect market value in the early years

NOT

- Simple to calculate
- Same depreciation each year

√√ per valid point. Maximum **one** valid points for and **one** valid points against.

(4)

(Total: 32 marks)

6(a)(1) Accrual/Matching √√
(2) Consistency √√
(3) Prudence √√
(4) Money measurement √√
(5) Historic cost √√
(6) Business entity √√

(12)

(b)		£	£	
	Draft profit for the year	37 000		
	Plus Expenses	1360		√√
	PDD Decrease	400		√√
	Drawings	3 200		√√
			41 960	
Less	Expenses	2 100		√√
	Depreciation (2 000 – 6 000)	4 000		√√√ (√√ if added)
	Skill value	5 000		√√
	Inventory valuation	8 000		√√
			19 100	
Revised profit for the year			22 860	√of

Note: Expenses (2 100) – 1 360 = (740) √√√√

(16)

(c) Valid answers may include:

Arguments for

- Provides a framework for the preparation of accounts
- Prepared accounts can be relied upon
- Can compare financial statements.

Arguments against

- Concepts can be contradictory
- Require professional skill to apply.

√√ per valid point. Maximum **one** valid points for and **one** valid points against.

(4)

(Total: 32 marks)

7 (a)

Some errors are not revealed by the trial balance because there has been a debit and a credit entry of equal value. √ These errors will not require a suspense account. √

Other errors will be the result of either no debit or credit entry, or a debit and credit entry of different values. √ These errors will require the use of a suspense account. √

NOT
To balance the trial balance

(4)

(b)

	Journal Dr £	Cr £	
Bad debts/ Income statement	3 270		√
Walford Manufacturing		3 270	√
Bank charges/ Income statement	76		√
Bank		76	√
Rent	350		√
Income statement		350	√
Motor vehicle **repairs**/Income State't	2 500		√
Motor vehicles		2500	√
Provision for depreciation	500		√
Income statement		500	√
Drawings	265		√
Bank		265	√

(12)

(c)

Statement of Financial Position (Extract) at 31 December 2015

Non-current Assets	Cost	Accumulated Depreciation	Carry over
	£	£	£
Motor vehicles	32 100 √	– 13 200 √	= 18 900
Fixtures and fittings	11 500	- 6 800	= 4 700 √
			23 600 √of
Current Assets			
Inventory		16 000 √	
Trade receivable (18 900 – 3 270)		15 630 √	
Other receivables: Rent (250 √+ 350 √)		600	
Bank (700 -76 √ -265 √)		359	
			32 589
			56 189 √√(√of)

(12)

Valid answers may include:

Arguments for

- Enables a draft profit to be calculated to give an idea of the profit that may have been generated during the year
- Timing may require that financial statements are prepared before all errors are located.

Arguments against

- The work in preparing the draft financial statements will have to be repeated
- The draft profit is inaccurate and could be misleading.

√√ per valid point. Maximum **one** valid point for and **one** valid point against.

(4)

(Total: 32 marks)

ASSESSMENT GRID

Question	Topic	Syllabus Ref	A01	A02	A03	A04	Total
1(a)	Final accounts	3	18	16	10		44
(b)	Final accounts	3				8	8
2(a)	Ratios	5	4	12	8		24
(b)	Ratios	5			6		6
(c)	Ratios	5	4				4
(d)	Ratios	5	2	2	2		6
(e)	Ratios	5			4		4
(f)	Ratios	5				8	8
3(a)	Capital/Rev	1	4	4			8
(b)	Partnership	3	6	8	2		16
(c)	Purchase led	1	2				2
(d)	Control A/c	2	7	9	2		18
(e)	Partnership	3				8	8
4(a)	Incomplete	3	2	2			4
(b)	Incomplete	3	3	6	2		11
(c)	Incomplete	3	6	7			13
(d)	Incomplete	3				4	4
5(a)	Costing	4	6				6
(b)	Costing	4	3	7	4		14
(c)	Costing	4	8				8
(d)	Costing	4				4	4
6(a)	Concepts	1	4	4			8
(b)	Profit Adj	2	4	10	6		10
(d)	Standards	1				4	4
7(a)	Correction	2	4				4
(b)	Correction	2	4	6	2		12
(c)	Correction	2	3	6	3		12
(d)	Correction	2				4	4
Marks			94	99	51	40	284
Marks (%)			33	35	18	14	100
Syllabus (%)			32	34	20	14	

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