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**Edexcel**

## Mark Scheme (Results)

Summer 2022

Pearson Edexcel International Advanced Level  
In Accounting (WAC11)  
Paper 01 The Accounting System and Costing

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Summer 2022

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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.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

1(a) **AO1 (4)**

**AO1: Four marks for explaining the difference**

<b>Revenue Expenditure</b>	<b>Capital expenditure</b>
<b>Day to day running</b> expenses	Purchasing <b>non-current assets</b>
Costs appear in the <b>income statement</b>	Cost appears in the <b>financial position statement</b>
Cost charged against income for <b>one year</b>	Cost spread over <b>several years</b> by charging depreciation

Note: do not accept examples only.

2 x 2 x (1) **AO1**

(4)

(b) **AO1 (3)**

**AO1: Three marks for stating whether expense is revenue expenditure or capital expenditure**

Redecoration	Revenue (1) <b>AO1</b>
Additional computer equipment	Capital (1) <b>AO1</b>
Advertising refurbished premises	Revenue (1) <b>AO1</b>

(3)

(c) **AO2 (4)**

**AO2: Four marks for preparing journal entries**

Journal

	<b>Dr</b>	<b>Cr</b>
	<b>£</b>	<b>£</b>
Statement of Profit or Loss and Other Comprehensive Income /Redecoration /Refurbishment	12 600	(1) <b>AO2</b> Both
Bank		12 600
Computer equipment	6 000	
JK Computers		6 000 (1) <b>AO2</b> Both
Statement of Profit or Loss and Other Comprehensive Income /Advertising	2 400	
Bank		1 800 (1) <b>AO2</b>
Northtown newspapers		600 (1) <b>AO2</b>

(4)

(d)(i) **AO1 (6) AO2 (5) AO3 (5)**

**AO1: Six marks for transferring balances or calculating appropriation**

**AO2: Five marks for calculating and inserting entries**

**AO3: Five marks for two stage calculations and inserting entries**

Linda and Rishi

Statement of Profit or Loss and Other Comprehensive Income and Appropriation  
for the year ended 30 April 2022

	£	£
Revenue		570 000
Less		
Opening inventory	61 000	
Purchases	390 000	
Carriage inwards	<u>3 600</u>	
	454 600	
Closing inventory	<u>(72 000)</u>	
Cost of sales		<b>(382 600) (1) AO3</b>
Gross profit		187 400
Other income		
Commission receivable	6 750 <b>(1) AO1</b>	
Decrease in allowance for irrecoverable debts	<u>600 (1) AO3</u>	
		<u>7 350</u>
		194 750
Less expenses:		
Carriage outwards	8 100 <b>(1) AO1</b>	
Staff wages	57 500 <b>(1) AO1</b>	
General expenses	9 200 <b>(1) AO1</b>	
Management salaries	38 000 <b>(1) AO1</b>	
Rent and insurance (4 800 + 450 - 800)	4 450 <b>(1) AO3</b>	
Irrecoverable debts	2 850 <b>(1) AO1</b>	
Advertising (7 950 + 2 400)	10 350 <b>(1) AO3</b>	
Premises refurbishment (12 600)	12 600 <b>(1) AO2</b>	
Depreciation:		
Computer equipment	7 000 <b>(1) AO3</b>	
Fixtures and fittings	<u>4 200 (1) AO2</u>	
		<b>(154 250)</b>
Profit for the year		40 500
Interest on drawings:		
Linda	1 200 <b>(1) AO2</b>	
Rishi	<u>1 600 both</u>	
		<u>43 300</u>

Interest on capital:		
Linda	(2 000) <b>(1) AO2</b>	
Rishi	(3 000) both	
		<u>38 300</u>
Share of profit/loss:		
Linda	(19 150) <b>(1of) AO2</b>	
Rishi	(19 150) both split equally	
		<u>38 300</u>

**(16)**

(d)(ii)

**AO1 (1) AO2 (3)**

**AO1: One mark for balances**

**AO2: Three marks for correctly inserting entries**

Current accounts

	Linda	Rishi		Linda	Rishi
	£	£		£	£
			Balance b/d	2 000	450
Drawings	15 000	20 000	Int on capital	2 000	3 000
Int on drawings	1 200	1 600	Share of profit	19 150	19 150
Balance c/d	<u>6 950</u>	<u>1 000</u>			
	<u>23 150</u>	<u>22 600</u>		<u>23 150</u>	<u>22 600</u>
			Balance b/d	6 950	1 000

Drawings/interest on drawings, Int on capital, Share of profit 3 x **(1 of) AO2**

Balances c/d brought down on 1 May 2022 1 x **(1 of) AO1 No aliens**

**(4)**

(e) **AO1 (2) AO2 (8) AO3 (2)**

**AO1: Two marks for transferring balances**

**AO2: Eight marks for calculating and inserting entries**

**AO3: Two marks for two stage calculations and inserting entries**

Statement of Financial Position at 30 April 2022

<b>Assets</b>			
Non-current assets			
	Cost	Accumulated depreciation	Carrying value
	£	£	£
Computer equipment	56 000	(28 000)	28 000 <b>(1of) AO3</b>
Fixtures and fittings	<u>28 000</u>	(13 200)	<u>14 800 (1of) AO2</u>
	<u>84 000</u>	<u>(41 200)</u>	42 800
Current assets			
Inventory		72 000 <b>(1) AO1</b>	
Trade receivables	8 000		
Less Allowance for irrecoverable debts	<u>(400)</u>	7 600 <b>(1) AO3</b>	
Other receivables:			
Insurance prepaid		800 <b>(1) AO2</b>	
Bank (17 350 - 12 600 - 1 800)		<u>2 950 (2) AO2</u>	
	<b>[1] [1]</b>		<u>83 350</u>
<b>TOTAL ASSETS</b>			<u>126 150</u>
Capital and Liabilities:			
	Linda	Rishi	
Capital accounts	40 000	60 000	100 000 <b>(1) AO1</b>
Current accounts	6 950	1 000	7 950 <b>(1 of) AO2</b>
Current Liabilities			
Trade payables (11 150 + 6 000 <b>[1]</b> + 600 <b>[1]</b> )		17 750 <b>(2) AO2</b>	
Other payables:			
Rent owing		<u>450 (1) AO2</u>	
			<u>18 200</u>
<b>TOTAL CAPITAL AND LIABILITIES</b>			<u>126 150</u>

(f) **AO1 (1) AO2 (1) AO3 (5) AO4 (5)**

### **Positive points in favour of selling cash only**

**Improves the cash flow** of Linda and Rishi as cash is received immediately.

**Eliminates irrecoverable debts** as customers are not receiving credit.

**Less book-keeping** for Linda and Rishi with no trade receivables ledger to prepare.  
Less demand for book-keeping services.

**No cash discounts** to pay improved profit

**No credit control**, telephone calls and letters

### **Negative points against selling cash only**

**Not everybody has cash to purchase** with, therefore, sales will be lost. Many customers will need to sell the goods before making their payment.

Some **customers will go to rival sellers** rather than purchase from Linda and Rishi. Smaller market share.

**Competitors will be able to grow their businesses** and provide greater competition to Linda and Rishi.

**Security issues with a large amount of cash** on hand will make Linda and Rishi a target for thieves.

**Possibility of fraud** as cash is being paid into the business. The temptation for fraud will be higher.

Decision

Candidates may conclude that it is/or is not better to trade on a cash only basis. Candidates should support that decision with an appropriate rationale.

<b>Level</b>	<b>Mark</b>	<b>Descriptor</b>
	0	A completely incorrect response.
<b>Level 1</b>	1-3	Isolated elements of knowledge and understanding recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
<b>Level 2</b>	4 - 6	Elements of knowledge and understanding, which are applied to the scenario. Chains of reasoning are present, but may be incomplete or invalid. A generic or superficial assessment is present.
<b>Level 3</b>	7 - 9	Accurate and thorough understanding, supported throughout by relevant application to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects. An attempt at an assessment is presented, using financial and non-financial information, in an appropriate format and communicates reasoned explanations
<b>Level 4</b>	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and non-financial information and makes informed recommendations and decisions.

(12)

<b>Q1</b>	<b>Total marks</b>	<b>55</b>
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2 (a)

**AO2 (12)**

**AO2: Twelve marks for calculating and inserting correct entries**

<b>Ratio</b>	<b>Calculation</b>	<b>Answer</b>
(i) Inventory turnover (in times per year)	$\frac{90\,000}{(12\,000 + 18\,000)/2}$ <b>(1) AO2</b>	6 times <b>(1) AO2</b>
(ii) Gross profit as a percentage of revenue	$\frac{150\,000 \times 100}{240\,000}$ <b>(1) AO2</b>	62.50% <b>(1) AO2</b>
(iii) Profit for the year as a percentage of revenue	$\frac{40\,000 \times 100}{240\,000}$ <b>(1) AO2</b>	16.67% <b>(1) AO2</b>
(iv) Percentage return on capital employed	$\frac{40\,000 + 4\,000 \times 100}{120\,000 + 50\,000}$ <b>(1) AO2</b>	25.88% <b>(1) AO2</b>
(v) Trade payables collection period (in days)	$\frac{15\,000 \times 365}{96\,000}$ <b>(1) AO2</b>	57.03 days <b>(1) AO2</b>
(vi) Trade receivables collection period (in days)	$\frac{18\,000 \times 365}{216\,000}$ <b>(1) AO2</b>	30.42 days <b>(1) AO2</b>

**Accept reasonable rounding**

**(12)**

(b)(i) **AO2 (2) AO3 (2)**

**AO2: Two marks for a qualitative comment about the movement of the ratio.**

**AO3: Two marks for development of a possible reason for the movement.**

**OWN FIGURE RULE APPLIES**

Gross profit as a percentage of revenue has **improved (1) AO2** this may be due to reducing costs of purchasing or increasing selling prices. **(1) AO3**

Profit as a percentage of revenue has **improved (1) AO2** although expenses appeared to have increased in the year they have been controlled. **(1) AO3**

The return on capital employed has **deteriorated, (1) AO2** this is probably due to the increased capital employed through the bank loan. **(1) AO3**

The return on capital employed is still at a **high level** of 25.9%, **(1) AO2** well above an acceptable return level of 10-15%. **(1) AO3**

MAX 2 points x **(1) AO2** plus 2 x **(1) AO3** for development.

**(4)**

(ii) **AO2 (2) AO3 (2)**

**AO2: Two marks for a qualitative comment about the movement of the ratio.**

**AO3: Two marks for development of a possible reason for the movement.**

**OWN FIGURE RULE APPLIES**

The current ratio has **improved (1) AO2** this is probably due to increasing the level of inventory over the period. **(1) AO3**

The current ratio **improvement above the accepted level** of 1.4-2:1 **(1) AO2** has led to idle funds in the current assets. **(1) AO3**

The rate of inventory turnover has **deteriorated (1) AO2** this may be due to increasing the level of inventory by the end of the period. **(1) AO3**

The liquid ratio is **fairly constant** over the period **(1) AO2** and within the accepted levels of 0.7-1:1. **(1) AO3**

Trade payables payment period has **deteriorated** substantially. **(1) AO2** Possibly may cause problems with future credit purchases. **(1) AO3**

Trade receivables collection period has **improved** marginally **(1) AO2** and is around the accepted 30 days /showing good credit control procedures. **(1) AO3**

MAX 2 points x **(1) AO2** plus 2 x **(1) AO3** for development.

**(4)**

(c)(i) **AO1 (4)**

**AO1: Four marks for explaining the difference.**

Fixed costs **do not change (1) AO1** with the **level of activity. (1) AO1**

Variable costs change in **direct proportion (1) AO1** to the **level of activity. (1) AO1**

**(4)**

(ii) **AO1 (4)**

**AO1: Four marks for explaining the difference.**

Semi-fixed costs are **constant over a range of activity (1) AO1** The cost will then increase and then remain **constant over the next range of activity. (1) AO1**

Semi-variable costs include an element of **fixed cost regardless of the level of activity. (1) AO1** As activity increases the variable element will **increase in proportion to the increase in activity. (1) AO1**

**(4)**

(d) **AO2 (4)**

**AO2: Four marks for interpreting behaviour of costs.**

Fixed cost	Rent	<b>(1) AO2</b>
Variable cost	Purchases or Cost of sales	<b>(1) AO2</b>
Semi-fixed cost	Depreciation	<b>(1) AO2</b>
Semi-variable cost	General expenses	<b>(1) AO2</b>

**(4)**

(e) **AO2 (3) AO3 (2)**

**AO2: Three marks for calculating and inserting entries.**

**AO3: Two marks for two stage calculations and inserting entries.**

Forecast Statement of Profit or Loss and Other Comprehensive Income  
for the year ended 30 April 2023

	<b>£</b>	<b>£</b>
Revenue		300 000 <b>(1) AO2</b>
Less		
Cost of sales (90 000 +25%) - 10%		<u>(101 250)</u> <b>(1) AO3</b>
Gross profit		198 750
Less		
Depreciation	19 000 <b>(1) AO2</b>	
Rent	25 000	
Expenses (including bank loan interest)	<u>75 000</u> <b>(1) AO3</b>	
		<u>(119 000)</u>
Forecast <b>profit</b> for the year		<u>79 750</u> <b>(1 of) AO2</b> +w

**No aliens**

**(5)**

(f) **AO1 (3) AO2 (3)**

**AO1: Three marks for identifying social accounting issues.**

**AO2: Three marks for developing the issues.**

<b>Social accounting</b>	<b>Development</b>
Local community	Support the local community with an appropriate level of paid employment.
Environment	Non-polluting process/transport which limits emissions to stay within legal limits.
Workforce	Ensure that workforce is appropriately trained and is developed to better meet objectives.
Health and safety	Ensure that the process and practices do not injure or adversely affect the health of employees.
Use of natural resources	Use sustainable materials ensuring the future supply of materials.

3 x **(1) AO1** for identification PLUS 3 x **(1) AO2** for development.

**(6)**

(g) **AO1 (1) AO2 (1) AO3 (5) AO4 (5)**

### **Positive points in favour of judging a business solely on profitability ratios**

Ratios **enable comparison** to be made between Syed's business and other similar businesses.

There are '**yardsticks**' that can be used to assess progress of the business, most commonly the businesses comparison with its previous year's results.

**Return on capital employed percentage is directly comparable across all businesses** and can be comparable with alternative investments.

**Profit is the main driver** for the businessman

### **Negative points against judging a business solely on profitability ratios**

**Non-financial factors are ignored** but these are critical for future prospects of Syed's business. Factors such as the innovation of the management, skill of the workforce, product development are critical but ignored if only financial considerations are considered.

**Social factors are ignored**, such as the businesses impact on the workforce, the environment, the community, this will have a detrimental effect on the image of Syed's business.

**Liquidity** and use of assets also needs to be considered.

**Ethical factors** needs to be considered.

## Decision

Candidates may conclude that the use of profitability ratios as the way of judging the success of a business is or is not appropriate. Candidates should support that decision with an appropriate rationale.

<b>Level</b>	<b>Mark</b>	<b>Descriptor</b>
	0	A completely incorrect response.
<b>Level 1</b>	1-3	Isolated elements of knowledge and understanding recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
<b>Level 2</b>	4 - 6	Elements of knowledge and understanding, which are applied to the scenario. Chains of reasoning are present, but may be incomplete or invalid. A generic or superficial assessment is present.
<b>Level 3</b>	7 - 9	Accurate and thorough understanding, supported throughout by relevant application to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects. An attempt at an assessment is presented, using financial and non-financial information, in an appropriate format and communicates reasoned explanations
<b>Level 4</b>	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and non-financial information and makes informed recommendations and decisions.

(12)

<b>Q2</b>	<b>Total marks</b>	<b>55</b>
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(c) **AO1 (2) AO2 (7) AO3 (1)**

**AO1: Two marks for transferring balances**

**AO2: Seven marks for calculating and inserting entries**

**AO3: One mark for multiple stage calculation**

Income and Expenditure Account  
For the year ended 30 April 2022

	£	£
<b>Income</b>		
Subscriptions (2 950 – 200 + 860)	3 610 (1) AO2	
Profit on dance	130 (1of) AO2	
Donations received	300 (1) AO2	
Disposal profit	<u>150 (1) AO2</u>	
		4 190
<b>Expenditure</b>		
Rent payable	1 500 (1) AO2	
Telephone charges	320 (1) AO1	
Equipment repairs 600 - 250	350 (1) AO2	
Sundry expenses 1 450 + 420 - 130	1 740 (1) AO2	
Depreciation on equipment (4 510 + 250 – 1 100 – 3 310)	<u>350 (1) AO3</u>	
Deficit		(4 260)
		<u>70 (1of) AO1 + w</u>
		<b>(10)</b>

(d) **AO1 (1) AO2 (1) AO3 (5) AO4 (5)**

**OWN FIGURE RULE APPLIES**

**Positive points for the club**

The Hillside Club made a **profit on the dance**.

The Hillside Club was **close to breaking-even** on its activities with only a small deficit.

**Negative points against the club**

The Hillside Club made a small **deficit which will need addressing** over time to retain the funds to maintain the activities and club growth.

There are still £860 of **subscriptions due** for the last year which could result in some irrecoverable debts.

The Hillside Club should assess whether these are likely to be paid and should improve its **subscription collection process**.

The Hillside Club has **not allowed for any possible irrecoverable debts**.

The Hillside Club **has an overdraft** and a shortage of cash.

Decision

Candidates may conclude that the club is favourably or unfavourably placed. Candidates should support that decision with an appropriate rationale.

<b>Level</b>	<b>Mark</b>	<b>Descriptor</b>
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

**(6)**

<b>Q3</b>	<b>Total marks</b>	<b>30</b>
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4(a) **AO1 (4)**

**AO1: Four marks for stating reasons.**

- Checks **accuracy** of the double entry system.
- Identify **arithmetical errors**.
- Locate/**localize errors**.
- **Totals of ledgers** can speed up the preparation of the trial balance and financial statements.
- **Internal control**, the prevention of fraud.
- To **reconcile** trade receivables to control account.

**NOT**

Aids decision making

Correct errors.

Determine credit purchases and sales

4 x (1) **AO1**

**(4)**

(b) **AO1 (2) AO2 (5) AO3 (3)**

**AO1: Two marks for balancing account**

**AO2: Five marks for correct insertion of entries**

**AO3: Three marks for multiple stage calculation and posting.**

Trade Receivables Ledger Control Account

Date	Details	£	Date	Details	£
2022			2022		
1 April	Balance b/d	8 700	1 April	Balance b/d	250
April	Sales	8 900 <b>(1) AO3</b>	April	Bank	8 350 <b>(1) AO2</b>
	Bank (dishonoured)	420 <b>(1) AO2</b>		Sales returns	550 <b>(1) AO3</b>
	Cheque)			Discount Allowed	350 <b>(1) AO2</b>
	Interest charged	80 <b>(1) AO3</b>		Contra	50 <b>(1) AO2</b>
				Irrecoverable debts	730 <b>(1) AO2</b>
30 April	Balance c/d	<u>400</u>	30 April	Balance c/d	<u>8 220</u>
		<u>18 500</u>			<u>18 500</u>
1 May	Balance b/d	8 220 <b>(1of) AO1</b>	1 May	Balance b/d	400 <b>(1) AO1</b>

**(10)**

(c) **AO1 (2) AO2 (1)**

**AO1: Two marks for heading and transferring balances**

**AO2: One mark for netting debit and credit balances**

Statement of Financial Position (extract) at 30 April 2022

**Current assets**

**£**

Trade receivables	8 220 <b>(1of) AO1</b>
Less Credit balance	<u>(400) <b>(1) AO1</b></u>
	7 820 <b>(1of) AO2</b>

**(3)**

(d) **AO1 (1) AO2 (6)**

**AO1: One mark for transferring balances**

**AO2: Six marks for calculating and inserting entries**

**B. Luck Account**

<b>Date</b>	<b>Details</b>	<b>£</b>	<b>Date</b>	<b>Details</b>	<b>£</b>
2022			2022		
1 April	Balance b/d	420	18 April	Bank	420 <b>(1)</b> <b>AO2</b>
20 April	Sales	120 <b>(1)</b> <b>AO2</b>			
28 April	Bank (dishonoured)	420 <b>(1)</b> <b>AO2</b>	30 April	Irrecoverable debts	540 <b>(1)</b> <b>AO2</b>
		<u>960</u>			<u>960</u>
25 May	Irrecoverable debts recovered <b>(1) AO1</b>	135 <b>(1)</b> <b>AO2</b>	25 May	Bank	135 <b>(1)</b> <b>AO2</b>
		<u>135</u>			<u>135</u>

**(7)**

(e)

**AO2 (1) AO3 (2) AO4 (3)**

**Points for being able to avoid irrecoverable debts**

Marvin **could only make cash sales**. However, a proportion will need to be made on credit or sales will decline substantially. The proportion on credit runs the risk of irrecoverable debts.

Marvin should ensure the **careful financial vetting of customers** to whom he intend to sell goods on credit this should reduce irrecoverable debts.

**Speedy invoicing and credit control** will pressure debtors to pay regularly.

**Points for not being able to avoidable irrecoverable debts**

Marvin will **have to sell some goods on credit running the risk of debts** being irrecoverable.

Marvin should ensure that **sufficient resource are applied to the collection of debts** through credit control procedures.

Regular **customers circumstances may change** making it more likely that they could become bankrupt and their debt will be irrecoverable.

Decision

Candidates may conclude that all recoverable debts can be avoided or not avoided. Candidates should support that decision with an appropriate rationale.

<b>Level</b>	<b>Mark</b>	<b>Descriptor</b>
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

**(6)**

<b>Q4</b>	<b>Total marks</b>	<b>30</b>
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5(a) **AO1 (2)**

**AO1: Two marks for explaining**

- **Overhead allocation**

Charging costs to a cost centre where the total costs **(1) AO1** are completely associated with that cost centre. **(1) AO1**

- **Overhead apportionment**

Sharing of costs between two or more cost centres **(1) AO1** on the most appropriate and reasonable basis. **(1) AO1**

**(4)**

(b)(i) **AO1 (3) AO2 (10) AO3 (3)**

**AO1: Three marks for transferring entries**

**AO2: Ten marks for correct insertion of entries**

**AO3: Three marks for multiple stage calculation and posting.**

**Manufacturing Account for the year ended 30 April 2022**

	£	£
Raw materials:		
Opening inventory	20 500	
Purchases	<u>134 250</u>	
	154 750	
Closing inventory	<u>(18 900)</u>	
Cost of raw materials		135 850 <b>(1) AO3</b>
Production wages		165 750 <b>(1) AO1</b>
Production expenses		5 400 <b>(1) AO2</b>
Royalties		<u>10 200</u> <b>(1) AO1</b>
<b>Prime cost</b>		317 200 <b>(1of) AO3</b> +w No aliens
Overheads:		
Rent and rates	21 000 <b>(1) AO2</b>	
Electricity and power	4 800 <b>(1) AO2</b>	
Production expenses	3 600 <b>(1) AO2</b>	
Management salaries	45 000 <b>(1) AO2</b>	
Canteen costs	10 800 <b>(1) AO2</b>	
Non-current asset depreciation	<u>21 000</u> <b>(1) AO2</b>	
		<u>106 200</u>
		423 400 <b>(1of) AO3</b> No aliens
Work in progress:		
Opening WIP	42 100	
Closing WIP	<u>(38 700)</u>	
		<u>3 400</u> <b>(1) AO2</b>
<b>Cost of production</b>		426 800 <b>(1of) AO1</b>
Profit on manufacture		<u>64 020</u> <b>(1of) AO2</b> + w
<b>Transfer to trading account</b>		<u>490 820</u> <b>(1of) AO2</b> + w No aliens

**(16)**

(b)(ii) AO1 (2) AO2 (2)

**AO1: Two marks for description and opening balance on credit side.**

**AO2: Two marks for correct transfer and balancing sum**

**Provision for Unrealised Profit Account**

Date	Details	£	Date	Details	£
2022			2021		
30 April	Income statement <b>(1) AO1</b>	400 <b>(1) AO2</b>	1 May	Balance b/d	6 700 <b>(1) AO1</b>
	Balance c/d	<u>6 300</u>			<u>        </u>
		<u>6 700</u>			<u>6 700</u>
2022			2022		
			1 May	Balance b/d	6 300 <b>(1of) AO2</b>

Cr No aliens

Working

Unrealised profit     £48 300 x  $\frac{15}{115}$  = £6 300

(c)AO2 (1) AO3 (2) AO4 (3)

**Positive points for day work/ negative points for group bonus scheme**

Day work is a **lot simpler to operate** for Harptree Manufacturing. No standard times to complete goods required as would be the case with a bonus scheme.

**Quality can be more accurately controlled** by Harptree Manufacturing with day work as production workers have no incentive to ‘cut corners’ when producing work.

**Slower workers** will not feel that they are unable to keep up with the pace of other workers.

**Negative points for day work/ positive points for group bonus scheme.**

Day work does not **motivate** the production staff of Harptree Manufacturing to be efficient with their time, but group bonus scheme will. This will increase cost per unit.

Group bonus scheme should result in production workers **working faster and as a team**, but this may result in a higher accident rate.

Group bonus scheme will **reduce cost per unit** of goods produced by Harptree Manufacturing.

## Decision

Candidates may conclude that the proposed change is/is not beneficial. Candidates should support that decision with an appropriate rationale.

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

(6)

Q5	Total marks	30
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6(a) **AO1(3) AO2(3)**

**AO1: Three marks for stating the basic concept**

**AO2: Three marks for explaining concepts application**

- (i) All non-current assets must be **recorded at their cost price (1) AO1** although the replacement/ **market value** may have increased or decreased. **(1) AO2**
- (ii) Once a depreciation method has been chosen it should be used **consistently over the life** of the asset. **(1) AO1** This will ensure that **profits are not distorted** over the years. **(1) AO2**
- (iii) It is assumed that the business will continue with **perpetual/indefinite life. (1) AO1**  
The non-current asset should therefore be **depreciated over its full economic life. (1) AO2**

**(6)**

(b) **AO2 (1) AO3 (3)**

**AO2: One mark for calculating depreciation owned for a full year**

**AO3: Three marks for multiple stage calculation of depreciation.**

	<b>£</b>
Asset sold on 1 Aug 24 000 x 15% = 3 600 multiplied by 3/12	= 900 <b>(1) AO3</b>
Assets purchased on 1 November 32 000 x 15%=4 800 multiplied by 6/12	= 2 400 <b>(1) AO3</b>
Asset purchased on 1 January 16 000 x 15% x 4/12	= 800 <b>(1) AO3</b>
All other assets 216 000 x 15%	= <u>32 400</u> <b>(1) AO3</b>
<b>Total depreciation charge</b>	<b>= <u>36 500</u></b>
	<b>(4)</b>

(c) (i) **AO1 (2) AO2 (9)**

**AO1: Two marks for balancing and bringing down the balance**

**AO2: Nine marks for correct insertion of entries**

**Equipment Account**

<b>Date</b>	<b>Details</b>	<b>£</b>	<b>Date</b>	<b>Details</b>	<b>£</b>
2021			2021		
1 May	Balance b/d	240 000	1 Aug	Disposal	24 000 <b>(1) AO2</b>
1 Nov	CT & Partners	32 000 <b>(1) AO2</b>			
2022			2022		
1 Jan	Bank	<u>16 000</u> <b>(1) AO2</b>	30 April	Balance c/d	<u>264 000</u>
		<u>288 000</u>			<u>288 000</u>
2022					
1 May	Balance b/d	264 000 <b>(1) AO1</b>			

**(4)**

(ii)

### Equipment- Provision for Depreciation Account

Date	Details	£	Date	Details	£
2021			2021		
1 Aug	Disposal	16 900 (1) AO2	1 May	Balance b/d	45 000
2022			2022		
30 April	Balance c/d	<u>64 600</u>	30 April	Income Statement	<u>36 500 (1of)</u> AO2
		<u>82 700</u>			<u>82 700</u>
			1 May	Balance b/d	64 600 (1of) AO1

(3)

(iii)

### Disposal Account

Date	Details	£	Date	Details	£
2021			2021		
1 Aug	Equipment	24 000 (1) AO2	1 Aug	Depreciation	16 900 (1) AO2
2022					
30 April	Income Statement	<u>1 900 (1) AO2</u>		Cash	<u>9 000 (1) AO2</u>
		<u>25 900</u>			<u>25 900</u>

(4)

(d) AO1 (3)

**AO1: Three marks for stating disadvantages.**

- Valuation is **just a judgement** and difficult to get accurate.
- **Considerable work** in revaluing non-current assets every year.
- Requires input from **specialist valuers**.
- Can **distort profits** as valuations fluctuate.
- Brings the use of the **historic cost concept into question**.
- Does **not comply with equal use** same depreciation
- Revaluation **usually used on small items** only.

3 x (1) AO1

(3)

(e ) **AO2 (1) AO3 (2) AO4 (3)**

**Positive points for straight line method/ negative points for an alternative method**

Charges the **same depreciation to Highgate Construction income statement each year** representing even usage over the years.

Does **not distort the profits** of Highgate Construction by depreciation charges being high in the early years and lower in the later years.

The use of a **revaluation method would require annual input from a professional valuer** to assess current values. Straight line does not require that input or incur that cost.

Straight line is **based on historic cost concept**, re-valuation is subjective and may go against that concept.

**Negative points for straight line method/positive points for alternative method**

Many non-current assets **lose a high proportion of their value in the early years**. This is particularly common with equipment such as that are owned by Highgate Construction as evidenced by the market value of the digger.

Non-current assets such as **equipment will be over-valued in the books** of Highgate Construction in the early years using straight line method.

As the years progress the straight-line method will **increase the costs of Highgate Construction when depreciation and maintenance** are considered.

Decision

Candidates may conclude that the straight-line method is appropriate/is not appropriate. Candidates should support that decision with an appropriate rationale.

<b>Level</b>	<b>Mark</b>	<b>Descriptor</b>
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

**(6)**

<b>Q6</b>	<b>Total marks</b>	<b>30</b>
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