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Mark Scheme (Results)

October 2016

Pearson Edexcel IAL in Accounting (WAC11)
Paper 01 The Accounting System and Costing

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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.

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Question Number	Answer	Mark
1(a)	**AO1 (7), AO2 (7)** **A01: Seven marks for recording the given expense in the trial balance.** **A02: Seven marks for adjustment.**	**(14)**

Weston Airways
Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 September 2016

	£	£	
Revenue		1 500 000	**(1)** AO1
Less			
Salaries-Aircrew (275 000 + 13 000)	288 000		**(1)** AO2
Administration	82 000		**(1)** AO1
Landing charge expenses	90 000		**(1)** AO1
Fuel (140 000 + 20 000)	160 000		**(1)** AO2
Ground services	210 000		**(1)** AO1
Aircraft maintenance	315 000		**(1)** AO1
Marketing (70 000 – 10 000)	60 000		**(1)** AO2
Administration expenses	145 000		**(1)** AO1
Rent	50 000		**(1)** AO1
Depreciation – Aircraft	48 000		**(1)** AO2
Computers and fixtures	8 000		**(1)** AO2
Bank loan interest 9 000 **(1)** + 3 000 **(1)**	12 000		AO2
		(1 468 000)	
Profit for the year		32 000	

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Question Number	Answer	Mark
1(b)	**AO1 (7), AO2 (7)** **A01: Seven marks for recording the given entry.** **A02: Seven marks for adjustment.**	**(14)**

Statement of Financial Position at 30 September 2016

Non-current assets	Cost	Accumulated Depreciation	Carrying value	
	£	£	£	
Aircraft	600 000	(548 000)	52 000	**(1)** AO2
Computers and fixtures	58 000	(26 000)	32 000	**(1)** AO2
	658 000	(574 000)	84 000	
Current assets				
Trade receivables			47 000	**(1)** AO1
Other receivables			10 000	**(1)** AO2
Cash and bank			486 000	**(1)** AO1
			543 000	
Total assets **(1)** AO1			627 000	
Capital			300 000	**(1)** AO1
Profit for the year			32 000	**(1 of)** AO1
			332 000	
Non-current liabilities **(1)** AO1				
6% Bank Loan (repayable 30 June 2020)			200 000	**(1)** AO2
Current liabilities				
Trade payables			59 000	**(1)** AO1
Other payables (13 000 **(1)** AO2+20 000 **(1)** AO2 3 000 **(1)** AO2)			36 000	
			95 000	
Total capital and liabilities			627 000	

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Question Number	Answer	Mark
1(c)	**AO1 (2), AO2 (9), AO3 (4)** **A01: Two marks for transferring balance and calculating new balance.** **A02: Nine marks for calculations.** **AO3: Four marks for two stage calculations.**	**(15)**

Effect on Profit or Loss

Proposal 1 - Aircraft are purchased				**Proposal 2 - Aircraft are hired.**			
			£				£
Profit for the year ended 30 September 2016 (from part (a))			32 000	Profit for the year ended 30 September 2016 (from part (a))			32 000 **(1 of)** **AO1**
	Increase to profit	Decrease to profit			Increase to profit	Decrease to profit	
	£	£			£	£	
Revenue	282 000 **(2)**			Revenue	282 000		
Fuel	48 000 **(1)**			Fuel	48 000 **(1 of)**		
Aircraft maintenance	126 000 **(1)**			Aircraft maintenance	126 000 **(1 of)**		
Ground services expenses		42 000 **(1)**		Ground services expenses		42 000 **(1 of)**	
Depreciation		96 000 **(2)**		Depreciation	48 000 **(1 of)**		
Additional bank loan interest		120 000 **(1)**		Additional bank loan interest	Nil	Nil	
Hire of aircraft	Nil	Nil		Hire of aircraft		250 000 **(1)**	
Sub totals	456 000	258 000	198000	Sub totals	504 000	292 000	212 000
Projected profit or loss for the year ended 30 September 2017			230 000	Projected profit or loss for the year ended 30 September 2017			244 000 **(1 of)** **AO1**

Workings
Revenue
1 500 000 x 10% = + 150 000 **(1)** AO3
1 650 000 x 8% = + 132 000 **(1)** AO3
+ 282 000
Fuel
160 000 x 70% = - 48 000 **(1)** AO2

Aircraft maintenance
315 000 x 40 % = - 126 000 **(1)** AO2

Ground services expenses
210 000 x 20% = + 42 000 **(1)** AO2

Depreciation
1 800 000 x 8% =144 000 **(1)** AO3
-48 000 **(1 of)** AO3 = + 96 000

Additional loan interest
1 500 000 x 8% = + 120 000 **(1)** AO2

Workings
Aircraft hire
125 000 x 2 = 250 000 **(1)** AO2

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Question Number	Indicative content	Mark
1(d)	**AO1 (1), AO2 (1), AO3 (5), AO4 (5)** Potential arguments to lease • No requirement for major loan and the risk attached to borrowing such a large sum. Inability to repay loan if there is a down turn in the market • No interest charge to impact upon profit. Removal of risk of interest rate rises • Lower or no repair costs to aircraft. These costs may be factored into the annual lease charge and borne by the lessor • Cash flow 'smoothed' as annual cost of lease matched to annual revenue • Cash inflow from sale of existing planes. Although relatively small this will be a valuable source of cash • More projected profit (own figure) using this model. Potential arguments to buy • Long term commitment to lease for 12 years. Weston Airways will be required to commit to a long term contract which may be difficult to vary from at a later date. Perhaps more flexible to buy • Aircraft would be owned by Weston Airways. This would enable them to modify the aircraft as required without seeking the permission of the lessor • Hire total costs are higher than purchasing. The debate is whether to incur a major loan at the start or to make regular annual payments for the lease. The total cost of purchase including loan repayment and interest is less than the total lease charge over 12 years • Cash flow more difficult to manage as there is considerable expenditure at the start of the project. The lease option smooths the cash flow over the life of the project. Conclusion • Candidates may argue for lease or purchase. Candidate's decision should be supported by key arguments in arriving at that decision.	**(12)**

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	0	A completely incorrect response.
Level 1	1-3	Isolated elements of knowledge and understanding recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
Level 2	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.
Level 3	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
Level 4	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.

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Question Number	Answer	Mark
2(a)	**AO1 (14), AO2 (1)** **A01: Fourteen marks for recording the given entries in the trial balance.** **A02: One mark for determining the balancing figure.**	

Trial Balance at 30 September 2016

	Dr	Cr	
	£	£	
Revenue		62 300	(1)AO1
Returns inwards	1 150		(1)AO1
Inventory	5 350		(1)AO1
Purchases	25 100		(1)AO1
Trade receivables	6 750		(1)AO1
Trade payables		8 200	(1)AO1
Non-current assets (cost)	25 000		(1)AO1
Provision for depreciation		7 500	(1)AO1
General expenses	9 300		(1)AO1
Bad debts	450		(1)AO1
Rent receivable		1 400	(1)AO1
Bank overdraft		600	(1)AO1
Drawings	6 460		(1)AO1
Suspense	440	____	(1)AO2
	80 000	80 000	(1 of) AO1
Both totals			

(15)

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Question Number	Answer	Mark
2(b)	**AO1 (5), AO2 (8)** **A01: Five marks for recording the journalised entry in the suspense account.** **A02: Eight marks for determining the correction entry.** **(b) (i)** Journal Dr £ Cr £ (1) Purchases 360 (1) AO2 Suspense 360 (1) AO2 (2) Bank 400 (1) AO2 Suspense 400 (1) AO2 (3) General expenses 130 (1) AO2 Suspense 130 (1) AO2 (4) Suspense 450 (1) AO2 Drawings 450 (1) AO2 **(8)** **(b) (ii)** Suspense Account £ £ Balance 440 (1)AO1 Purchases 360 (1) AO1 Drawings 450 (1)AO1 Bank 400 (1) AO1 General expenses 130 (1) AO1 890 890 **(5)** Accept own figures from (a) and (b) (i)	**(13)**

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Question Number	Answer	Mark
2(c)	**AO1 (3), AO2 (6)** **A01: Three marks for naming errors not revealed by the trial balance.** **A02: Six marks for explaining how the three errors occur.** Three from the following: Error of original entry (1) AO1 + (2) AO2 for explanation Error of omission (1) AO1+ (2) AO2 for explanation Error of commission (1) AO1 + (2) AO2 for explanation Error of principle (1) AO1 + (2) AO2 for explanation Error of reversal (1) AO1 + (2) AO2 for explanation Compensating error (1) AO1 + (2) AO2 for explanation	**(9)**

Question Number	Answer	Mark
2(d)	**AO1 (2), AO2 (4)** **A01: Two marks for placing the opening balance on the debit and bringing the closing balance down on the debit.** **AO2: Four marks for correctly selecting and placing in the control account.** Trade Receivables Control Account £ £ Balance b/d 5 630 (1) AO1 Returns inwards 1 150 (1)AO2 Revenue 62 300 (1) AO2 Bank: Receipts 59 580 (1)AO2 Bad debts 450 (1) AO2 Balance c/d 6 750 67 930 67 930 Balance b/d 6 750 (1of) AO1 No aliens	**(6)**

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Question Number	Indicative content	Mark
2(e)	**AO1 (1), AO2 (1), AO3 (5), AO4 (5)** Potential arguments for the policy of recording bad debts when they occur • It is simple to apply entries need only be made when the bad debts occur. There are therefore fewer entries as there is no maintenance of an allowance for doubtful debts account • Actual bad debts known will be known with precision and recorded when they occur • No estimates or judgements will need to be made of potential debts. The recording of bad debts will be based upon actual figures. Potential arguments against the policy of recording bad debts when they occur • Accrual principle/prudence principle not applied. There is a requirement when preparing accounts to match expenditure with income. It would therefore be prudent to allow for doubtful debts which we know will occur, but the extent of which is uncertain • Profit for the year could be overstated because we are making the assumption that all debts will be realised through payment. This is probably unrealistic to assume that all credit debts will be paid • Business could be destabilised by a significant bad debt in the future. A significant actual bad debt could destabilise the business, although the impact could still be great, advanced action could be taken if there was a process of reviewing and projecting potential non payment • Cannot predict future bad debts with accuracy. Events will largely be out of our control for when a bad debt occurs. Conclusion • Candidates may argue for or against an allowance for doubtful debts. Candidate's decision should be supported by key arguments in arriving at that decision. Arguments **NOT** accepted Time consuming Need to employ an accountant	**(12)**

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Question Number	Answer	Mark
3(a)	**AO2 (8)** **A02: Eight marks for carrying out the calculation.** Gross profit as a percentage of revenue 60 000 (1)AO2 x 100 = 40% (1) AO2 150 000 Percentage return on capital employed (2000) + 4 000 = 2% (1) AO2 60 000 + 40 000 (1) AO2 Current ratio 63 000 + 27 000 =3:1 (1) AO2 25 000 + 5 000 (1) AO2 Liquid (acid test) ratio 27 000 (1) AO2 =0.9:1 (1) AO2 25 000 + 5 000	**(8)**

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Question Number	Answer	Mark
3(b)	**AO2 (4), AO3 (4)** **A02: Four marks for giving a qualitative statement of how the ratio calculated compares to the industry average.** **A03: Four marks analysing a possible reason for that variance.** Gross profit as a percentage of revenue Is better than the industry average. (1) AO2 This may be due to higher prices or lower purchasing costs. (1) AO3 Percentage return on capital employed This is worse than the industry average. (1) AO2 This may be due to higher expenses or high bank loans. (1) AO3 Current ratio This is much higher than the industry average, but there are idle funds. (1) AO2 This may be due to an excessive inventory holding. (1) AO3 Liquid (acid test) ratio This is at the industry average and close to the 1:1 benchmark. (1) AO2 This is at the appropriate level because the current liabilities can be met by the liquid assets of the business. (1) AO3	**(8)**

Question Number	Answer	Mark
3(c)	**AO1 (1)** **A01: One mark for identifying each possible non-financial factor.** Skill of the workforce Quality/design of the product Reputation/ image of the business Location of premises Branding Relationships with suppliers 4 points x (1) AO1	**(4)**

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Question Number	Answer	Mark
3(d)	**AO1 (4)** **A01: Two marks recalling the definition of goodwill and carrying out the deduction of the two figures.** (i) Goodwill is the price paid (1) AO1 in excess of the net book value of tangible assets in the business purchased.(1) AO1 (ii) Good will is £85 000 - £60 000 (1) AO1 = £25 000(1) AO1	**(4)**

Question Number	Indicative content	Mark
3(e)	**AO2 (1), AO3 (2), AO4 (3)** Potential arguments in favour of purchase • Gross margin is higher than the industry average, so business profitable. Every Day Wear is able to either sustain charging higher prices in the market or obtaining highly competitive prices from suppliers • Acid test liquidity is good with the business performing at the benchmark level and able to pay its short term debts. Compared to the Sector, Every Day wear is very slightly above level of the Sector. Potential arguments against the purchase • ROCE is low, this could be due to either high expenses including bank interest or a higher capital employed because the business has a £40 000 bank loan • The business has excessive inventory for which there is the risk that it may become outdated. Every Day Wear is providing clothing upon which fashion has an impact. The longer inventory is held the greater the risk of it becoming outdated • The goodwill purchase may be high for a business with such low ROCE. Conclusion • Candidates may argue for or against the purchase of Every Day Wear. Candidate's decision should be supported by key arguments in arriving at that decision.	**(6)**

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	0	A completely incorrect response.
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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.

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<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>4(a)</td><td>AO1 (4)
A01: Four marks for explaining two differences.

<table>
<tr><th>Receipts and payments</th><th>Income and Expenditure</th></tr>
<tr><td>Cash book of a club</td><td>Income statement of a club</td></tr>
<tr><td>Cash/bank payment summary</td><td>Includes non-cash items e.g depreciation</td></tr>
<tr><td>Balance carried forward to next year's account</td><td>New account each year, no balance carried forward</td></tr>
</table>

(1) Mark for each point which is related to the specific account x 4</td><td>(4)</td></tr>
</table>

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>4(b)(i)</td><td>AO2 (3), AO3 (2)
A02: Three marks for applying correct figures to the account.
AO3: Two marks for calculating the bad debts and income and expenditure transfer.

Annual Subscriptions Account
<table>
<tr><td></td><td>£</td><td></td><td></td><td>£</td><td></td></tr>
<tr><td>2015</td><td></td><td></td><td>2015</td><td></td><td></td></tr>
<tr><td>1 Sept Balance b/d</td><td>900</td><td></td><td>1 Sept Balance b/d</td><td>350</td><td>(1) AO2</td></tr>
<tr><td>31 Aug Income and expenditure</td><td>4 140</td><td>(1) AO3</td><td>2015/16 Bank</td><td>4 250</td><td>(1) AO2</td></tr>
<tr><td></td><td>2016</td><td></td><td></td><td>2016</td><td></td></tr>
<tr><td></td><td></td><td></td><td>31 Aug Bad debts</td><td>270</td><td>(1) AO3</td></tr>
<tr><td>31 Aug Balance c/d</td><td>530</td><td></td><td>31 Aug Balance c/d</td><td>700</td><td></td></tr>
<tr><td></td><td>5 570</td><td></td><td></td><td>5 570</td><td></td></tr>
<tr><td>1 Sept Balance c/d</td><td>700</td><td></td><td>1 Sept Balance c/d</td><td>530</td><td>(1) AO2</td></tr>
</table>
</td><td>(5)</td></tr>
</table>

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Question Number	Answer	Mark
4(b)(ii)	**AO2 (4), AO3 (1)** **A02: Four marks for applying correct figures to the account.** **AO3: One mark for calculating the transfer.** Life Membership Account £ £ 2015 2015 1 Sept Balance b/d 30 400 **(1)** AO2 2015/16 Bank 1 600 **(1)** AO2 2016 2016 31 Aug Income and Expenditure 3 200**(1)** AO3 31 Aug Balance c/d 28 800**(1)** AO2 32 000 32 000 1 Sept Balance b/d 28 800 **(1 of)** AO2	**(5)**

Question Number	Answer	Mark
4(c)	**AO2 (2)** **A02: Two marks for identifying and totalling the assets and liabilities of the club.** Assets £ Liabilities £ Subscriptions in arrears 700 Subscriptions in advance 530 Clubhouse (at book value) 55 000 Life membership 28 800 Bank 1 950 5% Bank loan 6 000 Trade payables 825 Accrued expenses 235 57 650 **(1)** AO2 36 390**(1of)** AO2 Accumulated Fund at 31 August 2016 £21 260	**(2)**

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Question Number	Answer	Mark
4(d)	**AO1 (4), AO2 (3), AO3 (1)** **AO1: Four marks for correctly posting figure.** **A02: Three marks for correctly posting figures and labelling.** **AO3: One mark for identifying two non-current liabilities and totalling the section.**	**(8)**

Sandy Bay Social Club
Statement of Financial Position at 31 August 2016

	£	£
Assets		
Non-current assets		
Clubhouse (at book value)		55 000 **(1)** AO1
Current assets		
Subscriptions in arrears	700 **(1)** AO2	
Bank	1 950	
		2 650
		57 650 **(1)** AO2
Liabilities		
Accumulated fund		21 260 **(1)** AO1
Non-current liabilities		
5% Bank loan (repayable 30 June 2020)	6 000 **(1)** AO1	
Life membership subscriptions	28 800	
		34 800 **(1)** AO3
Current liabilities		
Subscriptions in advance	530 **(1)** AO2	
Trade payables	825	
Other payables	235 **(1)** AO1	
		1 590
		57 650

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Question Number	Indicative content	Mark
4(e)	**AO2 (1), AO3 (2), AO4 (3)** Potential arguments for life membership • Positive initial cash flow. As members take up the option of life membership, sums in excess of the normal annual subscription will be received in cash and raising the cash balance • Ties members to the club long term. If members have subscribed to a life membership they will be more inclined to retain contact with the club long term • May attract new members because of the discount offered. Viewed in cost per annum the subscription will seem cheaper than an individual annual subscription • The cash inflow could be used to pay back the loan • Probably reduces bad debts. Certainly there will be fewer subscriptions in arrears. Time will be saved in 'chasing' debts. Potential arguments against using life membership • Does the club need the advanced cash payment when it has a surplus and cash in the bank? There is no pressing need to bring in cash to the club • Creates a long term liability to provide the service. The club will be committing itself to provide the long term provision of services for an up front payment • Probably delivered at a substantial discount. The charge for the life time membership has not been stated but this will probably have to be offered at a substantial discount to attract members to subscribe. This will have a long term, ongoing, detrimental impact on future surpluses. Conclusion • Candidates may argue for or against life membership. Candidate's decision should be supported by key arguments in arriving at that decision.	**(6)**

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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.

Question Number	Answer	Mark
5(a)	**AO1 (4)** **A01: Four marks for explaining the two terms.** A variable cost varies directly **(1)** with activity levels **(1)** Fixed costs do not change **(1)** with the level of activity **(1)**	**(4)**

Question Number	Answer	Mark
5(b)	**AO1(2)** **A01: Two marks for carrying out the calculation.** Variable costs – Call charges **(1)** Fixed cost – Depreciation of phone or network rental **(1)**	**(2)**

Question Number	Answer	Mark
5(c)	**AO2(12), AO3(4)** **A02: Twelve marks for carrying out the calculation.** **AO3: Four marks for carrying out multiple calculations correctly.**	**(16)**

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Company	Sales Manager	Purchasing Manager
National Telecom	Fixed costs £ Depreciation 10 **(1)** AO2 Rental 50 60**(1)** AO3 Semi-var/Vari Call 10 10 20**(1)** AO3 Total cost 80**(1 of)** AO2	Fixed costs £ Depreciation 10 Rental 50 60 Variable Call costs 6**(1)** AO2 Total costs 66**(1 of)** AO2
One2One Link	Fixed costs £ Depreciation 13 Rental 10 23**(1)** AO3 Variable Call 90 **(1)** AO2 90 Total cost 113**(1 of)** AO2	Fixed costs £ Depreciation 13 Rental 10 23 Variable Call 45 **(1)** AO2 45 Total cost 68**(1 of)** AO2
Speed Call	Fixed costs £ Depreciation 6 Rental 45 51 **(1)** AO3 Variable Call 48 **(1)** AO2 48 Total cost 99**(1 of)** AO2	Fixed costs £ Depreciation 6 Rental 45 51 Variable Call 24 **(1)** AO2 24 Total cost 75**(1 of)** AO2

Question Number	Answer	Mark
5(d)	**AO1(2)** **A01: Two marks for identification.** • Sales Manager National Telecom **(1of)** • Purchasing Manager National Telecom **(1of)**	**(2)**

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Question Number	Indicative content	Mark
5(e)	**AO2 (1), AO3 (2), AO4 (3)** Potential arguments for apportionment • Overhead is divided on the most reasonable basis. The sales and purchasing managers will be responsible for the provision of services to a number of departments. There is a requirement to apportion this cost and the most reasonable basis for apportionment must be determined • A fair share of overheads is attached to each department. What amounts to a 'fair share' will be determined by the method of apportionment chosen • The apportionment will be based upon the cost driver for that overhead. The factor which links the expenditure to the volume of use must be determined. Potential arguments against apportionment • The division of the cost is an estimate of use and not a precise calculation • Apportionment can be an accurate calculation because there is a strong link between the cost and the 'driver'. However, the link can be arbitrary if the link between the cost and the 'driver' is not strong • Requires considerable work to determine the basis of apportionment. Detailed consideration of the driving factors and collection of data to enable the apportionment to be completed will be required Conclusion • Candidates may argue for or against apportioning the mobile phone costs. Candidate's decision should be supported by key arguments in arriving at that decision.	**(6)**

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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.

Question Number	Answer	Mark
6(a)	**AO1 (4)** **AO1: Four marks for correct explanations.** Capital expenditure is the acquisition of or enhancement of non-current assets **(1)** which will provide a benefit to the business for more than one year. **(1)** Revenue expenditure is day to day expenditure **(1)** the benefit of which will only be in the current year. **(1)**	**(4)**

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Question Number	Answer	Mark
6(b)	**AO1 (4)** **AO1: Four marks for correct explanation.** A proportion of the non-current asset value (depreciation) **(1)** will be charged to the Statement of Profits or Losses and Other Comprehensive Income. **(1)** The non-current asset will be recorded in the Statement of Financial Position at original cost **(1)** less accumulated depreciation **(1)** to give the carrying value which will be totalled with the other assets.	**(4)**

Question Number	Answer	Mark
6(c)	**AO3 (2)** **AO3: Two marks for analysing the scenario and determining the concept.** (i) Prudence **(1)** (ii) Consistency **(1)**	**(2)**

Question Number	Answer	Mark
6(d)(i)	**AO2 (5), AO3 (1)** **A02: five marks for correct calculation.** **AO3: One mark for analysing the difference.**	**(6)**

Straight line	**Reducing balance**
£	£
Cost 25 000	Cost 25 000
30 September 2014 2 500 **(1)** AO2	30 September 2014 5 000 **(1)** AO2
Carrying value 22 500	Carrying value 20 000
30 September 2015 2 500 **(1)** AO2	30 September 2015 4 000 **(1)** AO2
Carrying value 20 000	Carrying value 16 000
	Difference
	Reducing balance 5 000 + 4 000 = 9 000
	Straight line 2 500 + 2 500 = 5 000
	Difference 4 000 **(2/1 of)** AO3
	OR carrying value
	Reducing balance 16 000
	Straight line 20 000
	Difference 4 000 **(2/1 of)** AO3

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Question Number	Answer	Mark
6(d) (ii)	**AO2 (2)** **A02: Two marks for correct calculation.** 30 September 2016 16 000 **(1 of)** x 20% = 3 200 **(1)** AO2	**(2)**

Question Number	Answer	Mark
6(e)	**AO2 (5), AO3 (1)** **A02: Five marks for correctly posting figures and labelling.** **AO3: One mark for correctly posting the annual depreciation and difference.**	**(6)**

Computers - Provision for Depreciation Account

		£			£
2014			2014		
30 Sept	Balance c/d	2 500	30 Sept	Income Statement	2 500 **(1)** AO2
		2 500			2 500
2015			2015		
30 Sept	Balance c/d	5 000	1 Oct	Balance b/d	2 500 **(1)** AO2
			30 Sept	Income statement	2 500 **(1)** AO2
		5 000			5 000
2016			2016		
30 Sept	Balance c/d	12 200	I Oct	Balance b/d	5 000 **(1 of)** AO2
			30 Sept	Income Statement	7 200 **(1 of)** AO3
		12 200		(3 200 +4 000)	12 200
			1 Oct	Balance b/d	12 200 **(1 of)** AO2

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Question Number	Indicative content	Mark
6(f)	**AO2 (1), AO3 (2), AO4 (3)** Potential arguments for keeping straight line • Simple to calculate, easier to use. The calculation is a straight percentage of cost • Consistent to retain straight line method. Applying the consistency concept it would be better to retain the current method • Equal usage in each year. The straight line concept is valid on the grounds that the usage of the non-current asset will probably be the same each year. Therefore an equal amount of depreciation should be charged against income • Time and skill required to restate previous year's figures. Re-calibrating the overhead calculations will take time and accounting skills. Potential arguments against keeping straight line • Computers depreciate by more than 10% per annum. Computers tend to lose considerable value in the early years, a 10% charge will understate the depreciation incurred • Carrying value will be higher than market value for many years. The non-current asset will therefore be overvalue in the financial position statement • Applying the concept of prudence, the change in method is advised. The change would ensure that depreciation charged would be appropriate to the value of the non-current asset. Conclusion • Candidates may argue for or against retaining straight line. Candidate's decision should be supported by key arguments in arriving at that decision.	**(6)**

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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.

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