



General Certificate of Education

Accounting 5121

ACC2 Financial Accounting: Introduction to Published Accounts

Mark Scheme

2006 examination - January series

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

January 2006

ACC2

MARK SCHEME

INSTRUCTIONS TO EXAMINERS

You should remember that your marking standards should reflect the levels of performance of candidates, mainly 17 years old, writing under examination conditions.

Positive Marking

You should be positive in your marking, giving credit for what is there rather than being too conscious of what is not. Do not deduct marks for irrelevant or incorrect answers as candidates penalise themselves in terms of the time they have spent.

Mark Range

You should use the whole mark range available in the mark scheme. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **must** be given. A perfect answer is not required. Conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Alternative Answers / Layout

The answers given in the mark scheme are not exhaustive and other answers may be valid. If this occurs, examiners should refer to their Team Leader for guidance. Similarly, candidates may set out their accounts in either a vertical or horizontal format. Both methods are acceptable.

Own Figure Rule

In cases where candidates are required to make calculations, arithmetic errors can be made so that the final or intermediate stages are incorrect. To avoid a candidate being penalised repeatedly for an initial error, candidates can be awarded marks where they have used the correct method with their own (incorrect) figures. Examiners are asked to annotate a script with **OF** where marks have been allocated on this basis. **OF** always makes the assumption that there are no extraneous items. Similarly, **OF** marks can be awarded where candidates make correct conclusions or inferences from their incorrect calculations.

Quality of Written Communication

Once the whole script has been marked the work of the candidate should be assessed for the Quality of Written Communication, using the criteria at the end of the mark scheme. The mark should be shown separately on the candidate's script.

1**Total for this question: 23 marks**

The following is the trial balance of Anderson Electronics Ltd at 31 December 2005.

	Dr £	Cr £
Fixed assets	160 000	
Stock at 1 January 2005	12 000	
Wages and salaries	24 000	
Rent and rates	8 000	
Directors' salaries	10 000	
Debenture interest	4 000	
Ordinary shares of £1 each fully paid		100 000
Purchases and sales	75 000	120 000
Discount		1 000
Carriage outwards	2 000	
Returns	10 000	5 000
Rent received		25 000
Profit and loss account at 1 January 2005		20 000
General expenses	6 000	
Debtors and creditors	30 000	20 000
Bank overdraft		10 000
10% debentures		40 000
	341 000	341 000

Additional information

- (1) Stock at 31 December 2005 was £15 000.
- (2) The directors propose a final dividend of 10p per share.

REQUIRED

Prepare trading, profit and loss and appropriation accounts for the year ended 31 December 2005. Clearly identify the cost of goods sold, gross profit, operating profit and retained profit for the year.

A balance sheet is **not** required.

(1)

**Trading, Profit and Loss and Appropriation Accounts for Anderson Electronics Ltd
for the year ended 31 December 2005 (1)**

	£	£	£	
Sales			120 000	(1)
Less returns inwards			<u>10 000</u>	(1)
			110 000	
Less cost of goods sold (1)				
Opening stock		12 000		(1)
Purchases	75 000	(1)		
Returns outwards	<u>5 000</u>	(1)	<u>70 000</u>	
			82 000	
Less closing stock		<u>15 000</u>	(1)	<u>67 000</u>
Gross profit (1)			43 000	(1) OF
Plus				
Rent received			25 000	(1)
Discount received			<u>1 000</u>	(1)
			69 000	
Less expenses				
Wages and salaries		24 000	(1)	
Carriage outwards		2 000	(1)	
Rent and rates		8 000	(1)	
Directors' salaries		10 000	(1)	
General expenses		<u>6 000</u>	(1)	<u>50 000</u>
Operating profit (1)			19 000	(1) OF
Less debenture interest			<u>4 000</u>	(1)
Net profit			15 000	(1) OF labelled
Less proposed dividend			<u>10 000</u>	(1)
Retained profit for the year			<u><u>5 000</u></u>	(1) OF labelled

23 marks

(1)

ALTERNATIVE LAYOUT ACCEPTED AS BELOW

**Trading, Profit and Loss and Appropriation Accounts for Anderson Electronics Ltd
for the year ended 31 December 2005 (1)**

	£		£		£		
Opening stock			12 000	(1)	Sales	120 000	(1)
Purchases	75 000	(1)			Less returns inwards	10 000	(1)
Less returns outwards	<u>5 000</u>	(1)	<u>70 000</u>				
			82 000				
Less closing stock			<u>15 000</u>	(1)			
Cost of goods sold (1)			<u>67 000</u>				
Gross profit (1)			<u>43 000</u>	(1) OF			
			<u>110 000</u>			<u>110 000</u>	
Wages and salaries			24 000	(1)	Gross profit	43 000	
Carriage outwards			2 000	(1)	Rent received	25 000	(1)
Rent and rates			8 000	(1)	Discount received	1 000	(1)
Directors' salaries			10 000	(1)			
General expenses			6 000	(1)			
Operating profit (1)			<u>19 000</u>	(1) OF			
			<u>69 000</u>			<u>69 000</u>	
Debenture interest			4 000	(1)	Operating profit	19 000	
Net profit			<u>15 000</u>	(1) OF labelled		<u>19 000</u>	
			<u>19 000</u>			<u>19 000</u>	
Proposed dividends			10 000	(1)	Net profit	15 000	
Retained profit for the year			<u>5 000</u>	(1) OF labelled		<u>15 000</u>	
			<u>15 000</u>			<u>15 000</u>	

23 marks

2

Total for this question: 6 marks

The annual report of a public limited company contains many different sections.

REQUIRED

Identify the section in which you would find each of the following.

- (a) A statement of profit for the year.

Profit and loss account. Allow profit and loss appropriation account, directors' report.

- (b) A statement of the sources and uses of liquid funds during the year.

Cash flow statement.

- (c) A statement expressing an opinion on the truth and fairness of the accounting statements.

Auditor's report.

- (d) An explanation of the accounting methods used, for example, the depreciation of the fixed assets.

Notes to the accounts.

- (e) An explanation of the main features of the recent trading year and suggestions for the future progress of the company.

Chairman's statement or directors' report.

- (f) A statement which includes the amounts owed by the company.

Balance sheet. Allow directors' report, chairman's statement.

1 mark each correct answer.

6 marks

3

Total for this question: 15 marks

There are some types of errors that can be made in the double-entry bookkeeping system, yet the trial balance totals will still agree.

REQUIRED

Complete the table below, showing, for each of the following errors:

- (i) the type of error;
- (ii) the accounts to be corrected;
- (iii) the effect of each correction.

An example has been given.

	Error	Type of error	Accounts to be corrected	Correction £	
<i>Example</i>	A sales invoice for £450 to B Good has been completely omitted from the accounts.	<i>Omission</i>	<i>B Good</i>	<i>Plus 450</i>	
			<i>Sales</i>	<i>Plus 450</i>	
(a)	Petrol expenses of £25 paid by cash have been entered in the motor vehicles account. They have been correctly entered in the cash account.	Principle (1)	Petrol expenses or motor expenses	Plus 25	(2)
			Motor vehicles	Minus 25	(2)
(b)	Payment of £250 by cheque to a creditor, M Small, has been entered in the accounts as £25.	Original entry (1)	M Small	Plus 225	(2)
			Bank	Minus 225	(2)
(c)	A sales invoice for £75 to G Clark has been correctly entered in the sales account, but has been entered in G Chalk's account.	Commission (1)	G Clark	Plus 75	(2)
			G Chalk	Minus 75	(2)

15 marks

4

Total for this question: 11 marks

A company has an authorised capital of:

2 million ordinary shares of £1 each
500 000 10% preference shares of £1 each.

The company has issued:

1 million ordinary shares at a premium of 25p each
500 000 10% preference shares at par.

All shares are fully paid.

REQUIRED

(a) Complete the following table to show the amount that was entered in each account.

Account	Amount £
Issued ordinary share capital	£1 000 000 (1)
Issued preference share capital	£500 000 (1)
Share premium	£250 000 (2)
Bank	£1 750 000 (1 OF)

5 marks

(b) Explain the term 'authorised capital'.

Authorised capital is the maximum (1) number of shares that the company is allowed to issue (1), as determined by the Memorandum of Association (1) and agreed by the registrar of Companies (1).

max 2 marks

(c) Explain **one** difference between capital and revenue reserves. Give **one** example of a capital reserve and **one** example of a revenue reserve.

Difference: (one required, max 2 marks).

Revenue reserves can be used to finance the payment of dividends (1), whereas capital reserves cannot (1).

Revenue reserves arise from realised trading profits (1), whereas capital reserves arise from non-trading activities (1).

Example of a capital reserve: Revaluation reserve, share premium

(1 required = 1 mark)

Example of a revenue reserve: General reserve, retained earnings, profit and loss account

(1 required = 1 mark)

4 marks

5

Total for this question: 7 marks

A friend has inherited a sum of money which he wishes to invest in shares in a company. He has been studying the annual reports of several companies. He is unsure whether to invest in ordinary shares or preference shares.

REQUIRED

- (a) Identify **two** advantages of investing in preference shares.

Preference shares carry a fixed rate of dividend.

Preference shareholders are entitled to receive a dividend before the ordinary shareholders.

In the event of liquidation, the preference shareholders would receive repayment of capital before the ordinary shareholders.

1 mark for each suitable advantage.

max 2 marks

- (b) Identify **two** advantages of investing in ordinary shares.

Ordinary shareholders have the potential to receive a higher dividend than the preference shareholders.

Ordinary shares are more likely to yield a capital gain.

Ordinary shareholders have voting rights.

1 mark for each suitable advantage.

max 2 marks

Your friend has a cautious attitude to investing.

REQUIRED

- (c) Explain which type of share you would recommend to your friend for his investment.

1 mark for a recommendation and 2 marks for development.

Preference shares will probably yield a lower (1) yet regular dividend (1), and are less risky (1).

Ordinary shares have the potential for higher returns (1) but carry a higher degree of risk (1).

max 3 marks

6

Total for this question: 14 marks

The trainee accountant of Johnson Brothers Motor Repairs Ltd has prepared the following balance sheet at the end of the first year of trading.

It contains errors.

Balance Sheet for the year ended 31 December 2005

	£	£
Fixed assets		90 000
Current assets		
Stock	8 000	
Trade debtors	13 000	
Cash at bank	7 000	
	28 000	
Current liabilities		
Trade creditors: amounts falling due within 1 year	8 000	
		36 000
		54 000
Capital and reserves		
Issued shares		82 000
Net profit for the year		28 000
		54 000

Additional information

- (1) Fixtures and fittings costing £3000 had been recorded as purchases and charged to the trading account for the year.
- (2) One of the directors had taken £1000 cash from the bank account as his salary. This had not been recorded in the accounts.
- (3) The trainee found a cheque for £2500 received from a customer during December, which had been mislaid and not recorded.
- (4) Fixed assets should have been revalued upwards by £20 000, but this had not been recorded.

(6)

REQUIRED

Redraft the balance sheet, correcting any errors.

Johnson Brothers Motor Repairs Ltd
Balance Sheet at 31 December 2005 (1)

	£		£	
Fixed assets*			113 000	(3) W₁
Current assets*				
Stock	8 000			
Trade debtors	10 500	(2)	W₂	
Bank	8 500	(3)	W₃	
	<u>27 000</u>			
Creditors : amounts falling due within one year*				
Trade creditors	<u>8 000</u>			
Net current assets			<u>19 000</u>	
			<u>132 000</u>	
Capital and reserves*				
Issued shares			82 000	
Revaluation reserve			20 000	(1)
Retained profit for year			<u>30 000</u>	(3) W₄
			<u>132 000</u>	

* 1 mark in total if all four asterisked headings are correct.

$$W_1 \quad 90\,000 + 3\,000 \text{ (1)} + 20\,000 \text{ (1)} = 113\,000 \text{ (1) OF}$$

$$W_2 \quad 13\,000 - 2\,500 \text{ (1)} = 10\,500 \text{ (1) OF}$$

$$W_3 \quad 7\,000 + 2\,500 \text{ (1)} - 1\,000 \text{ (1)} = 8\,500 \text{ (1) OF}$$

$$W_4 \quad 28\,000 - 1\,000 \text{ (1)} + 3\,000 \text{ (1)} = 30\,000 \text{ (1) OF}$$

14 marks

(6)

ALTERNATIVE MARK SCHEME FOR QUESTION 6

**Johnson Brothers Motor Repairs Ltd
Balance Sheet at 31 December 2005 (1)**

	£		£	
Fixed assets*			113 000	(3) W ₁
Current assets*				
Stock	8 000			
Trade debtors	13 000	(1) ⁺		
Bank	8 500	(3)	W ₃	
	29 500			
Creditors : amounts falling due within one year*				
Trade creditors	8 000			
Net current assets			21 500	
			134 500	
Capital and reserves*				
Issued shares			82 000	
Revaluation reserve			20 000	(1)
Retained profit for year			32 500	(4) W ₂
			134 500	

* 1 mark in total if all four asterisked headings are correct.

+ This mark can be awarded only if retained profit has been adjusted.

W₁ 90 000 + 3000 (1) + 20 000 (1) = 113 000 (1) OF

W₂ 28 000 - 1000 (1) + 3000 (1) + 2500 (1) = 32 500 (1) OF

W₃ 7000 + 2500 (1) - 1000 (1) = 8500 (1) OF

14 marks

QUALITY OF WRITTEN COMMUNICATION

After the candidate's script has been marked, the work should be assessed for the Quality of Written Communication, using the following criteria.

Marks

- 0** Accounts and financial statements are unclear and poorly presented.
There is little or no attempt to show workings or calculations.
Descriptions and explanations lack clarity and structure.
There is very limited use of specialist vocabulary.
Answers may be legible but only with difficulty.
Errors in spelling, punctuation and grammar are such that meaning is unclear.
- 1-2** There is some attempt to present accounts and financial statements in an appropriate format.
Workings are missing or are not clearly linked to the answers.
Descriptions and explanations are understandable but they lack a logical structure.
There is some use of specialist vocabulary but this is not always applied appropriately.
In most cases answers are legible, but errors in spelling, punctuation and grammar are such that meaning may be unclear.
- 3** Accounts and financial statements are generally well presented but there are a few errors.
Workings are shown and there is some attempt to link them to the relevant account(s).
Descriptions and explanations are usually clearly expressed but there are some weaknesses in the logical structure. There is a good range of specialist vocabulary which is used with facility.
Answers are legible. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed.
- 4** Accounts and financial statements are well organised and clearly presented.
Workings are clearly shown and easy to follow. Descriptions and explanations are clearly expressed.
Arguments are logically structured. There is wide use of specialist vocabulary which is used relevantly and precisely.
Answers are clearly written and legible. Spelling is accurate and the standard conventions of punctuation and grammar are followed so that meaning is clear.

To help them to make judgements, examiners should focus on the following issues.

Are there clear presentations of formats and prose answers?

Are there clear and logical workings, where appropriate?

Is the whole script legible and understandable (including spelling, punctuation and grammar)?

Is there a grasp of Accounting terminology (eg avoiding slang, avoiding text language, avoiding abbreviations in prose answers)?