



## **General Certificate of Education**

# **Accounting ACC2**

## **Unit 2      Financial Accounting: Introduction to Published Accounts of Limited Companies**

# **Mark Scheme**

*2007 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.

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**January 2007****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: 22 marks**

Bill Burgess Limited is a business selling mobile phones. A trial balance at 31 October 2006 has been prepared, but the following balances have not yet been included.

|                                       | £      |
|---------------------------------------|--------|
| Premises                              | 40 400 |
| Debtors                               | 3 610  |
| Creditors                             | 1 870  |
| Share capital                         | 20 000 |
| Mortgage on premises (repayable 2025) | 3 000  |
| Share premium                         | 4 400  |

**REQUIRED**

(a) Complete the trial balance below. Enter any difference as 'Balance at bank'.

**Trial Balance at 31 October 2006**

| Account                               | Debit £           | Credit £            |
|---------------------------------------|-------------------|---------------------|
| Sales                                 |                   | 57 120              |
| Purchases                             | 18 340            |                     |
| Stock at 1 November 2005              | 5 300             |                     |
| Motor expenses                        | 8 850             |                     |
| Wages                                 | 12 460            |                     |
| Motor vehicles                        | 2 000             |                     |
| Premises                              | <b>40 400 (1)</b> |                     |
| Debtors                               | <b>3 610 (1)</b>  |                     |
| Creditors                             |                   | <b>1 870 (1)</b>    |
| Share capital                         |                   | <b>20 000 (1)</b>   |
| Mortgage on premises (repayable 2025) |                   | <b>3 000 (1)</b>    |
| Share premium                         |                   | <b>4 400 (1)</b>    |
| Balance at bank                       |                   | <b>4 570 (1) OF</b> |
| <b>Totals</b>                         | <b>90 960</b>     | <b>90 960</b>       |

**7 marks**

- (1) (b) Complete the table below to show under which balance sheet heading the following items should appear. Place a tick in the appropriate column. The first item has been completed as an example.

|                                       | Fixed Assets | Current Assets | Current Liabilities | Long-Term Liabilities | Share Capital and Reserves |
|---------------------------------------|--------------|----------------|---------------------|-----------------------|----------------------------|
| Share Capital                         |              |                |                     |                       | ✓                          |
| Debtors                               |              | ✓              |                     |                       |                            |
| Premises                              | ✓            |                |                     |                       |                            |
| Mortgage on premises (repayable 2025) |              |                |                     | ✓                     |                            |
| Share premium                         |              |                |                     |                       | ✓                          |
| Bank overdraft                        |              |                | ✓                   |                       |                            |

1 mark for each correct answer

**5 marks**

After the trial balance was completed, it was discovered that the payment of £4500 for the purchase of a motor vehicle had been debited to the motor expenses account.

### REQUIRED

- (c) Identify the name of this type of error. **1 mark**  
**Error of principle (1)**
- (d) Explain why the trial balance should still balance.  
**Debit (1) and credit entries (1) both present. Both entries are debit entries (2).**  
**Error involves mis-posting only (1), not an omission (1)**  
**max 2 marks**
- (e) Explain how this error would affect the net profit for the year. Give **one** reason for your answer.  
**Effect:**  
**Profit understated by £4500 (1)** **max 1 mark**  
*Marker note – Do not allow in isolation +/- £4500 or £4500/(£4500) – hedging.*

### Reasons

- Motor vehicles are fixed assets, motor expenses are running costs (2).**  
**Motor vehicles on balance sheet, motor expenses on profit and loss account (2).**

**max 2 marks**

**3 marks**

(1)

After discovering the above error, the managing director, Bill Burgess, tells you that he is thinking of computerising the company's accounting records.

**REQUIRED**

(f) Write a memorandum to Bill advising him of **one** advantage and **one** disadvantage of computerising the company's accounting records.

**To:** Bill Burgess

**From:** A. Student

**Date:** 11 January 2007

**Re:** Advantage and disadvantage of computerisation of accounting records

**Advantage**

- **Speed - processes are automatic**
- **Accuracy - multi-tasking and automatic posting**
- **Availability of management information**
- **Legibility - avoids errors**
- **Efficiency - better use of resources**
- **Automatic document production – invoices, statements, cheques etc**
- **Up-to-date information – available through automatic updating**  
**max 2 marks – 1 for identification and 1 for development**

**Disadvantage**

- **Cost – hardware and software**
- **Training needs – time and cost**
- **System failure – danger of loss of work if not backed up**
- **Security – viruses, hackers etc**
- **Staff de-motivation – suspicion of change**  
**max 2 marks – 1 for identification and 1 for development**

**4 marks**

2

Total for this question: 12 marks

Xiang Fabrics Ltd sells soft furnishings. The following list of balances has been extracted from the company's books of account at 31 December 2006.

|                         | £      |
|-------------------------|--------|
| Carriage inwards        | 1 425  |
| Carriage outwards       | 912    |
| Directors' fees         | 6 400  |
| Light and heat          | 1 246  |
| Motor vehicle           | 2 000  |
| General expenses        | 4 193  |
| Postage and stationery  | 462    |
| Purchases               | 31 840 |
| Rent and rates          | 3 248  |
| Returns inwards         | 1 678  |
| Returns outwards        | 720    |
| Sales                   | 59 210 |
| Shop assistant's wages  | 5 966  |
| Stock at 1 January 2006 | 4 750  |

**Additional information**

|                           |       |
|---------------------------|-------|
| Stock at 31 December 2006 | 5 800 |
|---------------------------|-------|

**REQUIRED**

Prepare a trading account for the year ended 31 December 2006.

**Xiang Fabrics Ltd**  
**Trading Account for the year ended 31 December 2006 (1)**

|                               |                   |                      |              |
|-------------------------------|-------------------|----------------------|--------------|
| <b>Sales</b>                  |                   | <b>59 210</b>        | <b>(1)</b>   |
| <b>Less: Returns inwards</b>  |                   | <u><b>1 678</b></u>  | <b>(1)</b>   |
| <b>Turnover</b>               |                   | <b>57 532</b>        |              |
| <b>Opening stock</b>          |                   | <b>4 750</b>         | <b>(1)</b>   |
| <b>Purchases</b>              | <b>31 840</b>     |                      | <b>(1)</b>   |
| <b>Less: Returns outwards</b> | <u><b>720</b></u> | <b>31 120</b>        |              |
| <b>Carriage inwards</b>       |                   | <u><b>1 425</b></u>  | <b>(1)</b>   |
|                               |                   | <b>37 295</b>        |              |
| <b>Less: Closing stock</b>    |                   | <u><b>5 800</b></u>  | <b>(1)</b>   |
| <b>Cost of goods sold (1)</b> |                   | <b>31 495</b>        | <b>(1)OF</b> |
| <b>Gross profit (1)</b>       |                   | <u><b>26 037</b></u> | <b>(1)OF</b> |

**12 marks**

**3****Total for this question: 11 marks**

The accounts clerk of Terry Products Ltd has produced a draft trading and profit and loss account for the year ending 31 October 2006, showing a net profit for the year of £12 520. On investigation, the following errors were discovered.

- (1) Wages account had been overcast by £100.
- (2) A cheque payment of £178 for travel expenses had been posted to the credit of travel expenses.
- (3) A cheque for £65 for the purchase of petrol had been recorded as £56 in the motor expenses account.
- (4) A sales invoice for £312 to Fabrique Ltd had been incorrectly debited to the account of DB Fabrics Ltd.
- (5) Discount received of £120 was entered in the cash book, but had not been posted to the general ledger.
- (6) Closing stock had been entered as £13 345. The closing stock figure should have been £13 435.

**REQUIRED**

Calculate the corrected net profit of Terry Products Ltd for the year. Show clearly whether the correction of the error increases net profit, decreases net profit or has no effect on the net profit. The first error has been shown as an example.

|   | <b>Detail</b>                                   | <b>Effect</b>        | <b>Amount £</b>      |
|---|---|----------------------|----------------------|
|   | Net profit per original profit and loss account |                      | 12 520               |
| 1 | <i>Wages</i>                                    | <i>Increase</i>      | <i>100</i>           |
| 2 | Travel expenses                                 | <b>Decrease (1)</b>  | <b>356 (1)</b>       |
| 3 | Motor expenses                                  | <b>Decrease (1)</b>  | <b>9 (1)</b>         |
| 4 | Sales invoice – Fabrique Ltd                    | <b>No effect (1)</b> | <b>0</b>             |
| 5 | Discount received                               | <b>Increase (1)</b>  | <b>120 (1)</b>       |
| 6 | Closing stock                                   | <b>Increase (2)</b>  | <b>90 (1)</b>        |
|   | <b>Revised net profit</b>                       |                      | <b>12 465 (1) OF</b> |

**11 marks**



4

**Total for this question: 22 marks**

The trading and profit and loss account of Poole Catering Ltd for the year ended 31 December 2006 has been completed and the following balances remain on the books.

|   | <b>Dr</b><br><b>£</b> | <b>Cr</b><br><b>£</b> |
|---|-----------------------|-----------------------|
| 10% preference shares of £1 each fully paid |                       | 10 000                |
| 5% debentures (repayable 2015)              |                       | 60 000                |
| Balance at bank                             |                       | 4 000                 |
| Trade creditors                             |                       | 12 000                |
| Trade debtors                               | 15 000                |                       |
| Ordinary shares of 50p each fully paid      |                       | 75 000                |
| Premises                                    | 215 000               |                       |
| Profit and loss account at 1 January 2006   |                       | 96 000                |
| Net profit for the year after taxation      |                       | 11 000                |
| Stock at 31 December 2006                   | 38 000                |                       |
|   | <u>268 000</u>        | <u>268 000</u>        |

The directors recommend the following:

- (1) payment of 4p dividend per share on the ordinary shares;
- (2) payment of the full dividend due on the 10% preference shares.

**REQUIRED**

- (a) Prepare a profit and loss appropriation account for the year ended 31 December 2006.

**Poole Catering Ltd****Profit and loss appropriation account for the year ended 31 December 2006**

|  |              |        |                     |        |
|--|--------------|--------|---------------------|--------|
| <b>Net profit after taxation</b>               |              |        | <b>11 000</b>       | (1)    |
| <b>Dividends – ordinary shares</b>             | <b>6 000</b> | (3) W1 |                     |        |
| <b>Dividends – preference shares</b>           | <b>1 000</b> | (1)    | <u><b>7 000</b></u> |        |
| <b>Retained profit for the year (must say)</b> |              |        | <u><b>4 000</b></u> | (1) OF |

W1 150 000 (1) x 4p (1) = 6000 (1)

**6 marks**

4 (b) Prepare a balance sheet.

**Poole Catering Ltd**  
**Balance Sheet at 31 December 2006**

|                                     | £                   | £                     |
|-------------------------------------|---------------------|-----------------------|
| <b>FIXED ASSETS *</b>               |                     |                       |
| Premises                            |                     | 215 000 (1)           |
| <b>CURRENT ASSETS *</b>             |                     |                       |
| Stock                               | 38 000 (1)          |                       |
| Debtors                             | <u>15 000 (1)</u>   |                       |
|                                     | <u>53 000</u>       |                       |
| <b>CURRENT LIABILITIES *</b>        |                     |                       |
| Creditors                           | 12 000 (1)          |                       |
| Bank overdraft                      | 4 000 (1)           |                       |
| Dividends payable                   | <u>7 000 (1) OF</u> |                       |
|                                     | <u>23 000</u>       |                       |
| <b>NET CURRENT ASSETS</b>           |                     | <u>30 000</u>         |
|                                     |                     | 245 000               |
| <b>LONG TERM LIABILITIES *</b>      |                     |                       |
| 5% Debenture (repayable 2015)       |                     | <u>60 000 (1)</u>     |
|                                     |                     | <u>185 000</u>        |
| <b>SHARE CAPITAL AND RESERVES *</b> |                     |                       |
| Ordinary shares of 50p each         |                     | 75 000 (1)            |
| 10% preference shares of £1 each    |                     | 10 000 (1)            |
| Profit & loss account (W1)          |                     | <u>100 000 (2) OF</u> |
|                                     |                     | <u>185 000</u>        |

W1 96 000 (1) + 4 000 (1) OF = 100 000

\* Balance sheet headings – all five present (2). Three of five present (1).

**13 marks**

The directors of Poole Catering Ltd have decided to revalue the premises at £300 000.

(c) Explain how this revaluation will affect the balance sheet.

**Fixed asset value will increase to £300 000 (1) and be described as 'at valuation'(1). Creation of revaluation reserve (1) of £85 000 (1) shown under share capital and reserves (1)** **max 3 marks**

**3 marks**

5

Total for this question: 9 marks

**REQUIRED**

- (a) Explain the main duties of the directors with regard to a company's accounts.

**They are accountable to the shareholders (1) to ensure that:**

- **accounts are prepared in accordance with company law (1) and accounting standards (1)**
- **company maintains adequate supporting records (1)**
- **accounts give a true and fair view (1) of the state of the company's affairs (1).**

**max 3 marks**

- (b) Explain the main duties of the auditors with regard to a company's accounts.

**To report to the members (1) whether in their opinion (1) the accounts give a true and fair view (1). To report whether the company has maintained adequate records (1) and that the accounts are consistent with those records (1).**

**max 3 marks**

- (c) Explain why debenture holders would be interested in seeing a copy of the latest accounts of a company.

**To verify the financial security of the company (1) and to gauge that their investment is safe (1) from the perspective of capital (1) and interest (1).**

**max 3 marks**

**overall 9 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, understandable and logically argued (including spelling, punctuation and grammar)?

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