

GCE 2004

June Series



Mark Scheme

Accounting

Unit ACC2

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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Dr. Michael Cresswell Director General

June 2004**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 make 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: 15 marks**

Country Fair plc is financed by the following:

1 500 000 issued ordinary shares of £1 each fully paid;
£400 000 7% debentures repayable in 2010.

For the year ended 31 March 2004:

the debenture interest has been paid;
the directors have proposed a dividend of 13p per share.

REQUIRED

(a) Calculate the debenture interest paid (show workings). **2 marks**

Interest paid : **£28 000 (2)**

Workings: **400 000 (1) x 7/100 (1)**

(b) Calculate the proposed dividend (show workings). **2 marks**

Proposed dividend: **£195 000 (2)**

Workings: **1 500 000 (1) x 13p (1)**

(c) Identify in which section (subheading) of the balance sheet each of the following would appear.

Issued shares: **Capital and reserves/Financed by** **1 mark**

Debentures: **Long term loans/creditors due after more than one year** **1 mark**

Proposed dividend: **Current liabilities/creditors due in less than one year** **1 mark**

(d) Explain **two** benefits of owning debentures rather than ordinary shares.

Benefit 1 **They will receive interest (1) even if no profits are made (1).** **2 marks**

Benefit 2 **They will be repaid first (1) in the event of insolvency (1).** **2 marks**

(e) Explain **two** benefits the company gains from issuing ordinary shares rather than debentures.

Benefit 1 **They do not have to pay dividends (1) if profits are low (1).** **2 marks**

Benefit 2 **No repayments of capital (1) are required (1).** **2 marks**

2

Total for this question: 17 marks

On 30 April 2004 the following figures were extracted from the ledgers of Country Crafts Ltd.

	£
Bank loan (repayable 2010)	20 000
Bank overdraft	3 900
Buildings	85 000
Ordinary share capital at 1 May 2003	75 000
Creditors	4 700
Debtors	6 900
Dividends proposed	5 660
Net profit retained for year	10 690
Plant and machinery	22 500
Profit and loss account balance at 1 May 2003	12 500
Stock at 30 April 2004	7 850
Vehicles	10 200

REQUIRED

(a) Prepare a balance sheet as at 30 April 2004.

Country Crafts Ltd Balance Sheet as at 30 April 2004

Fixed assets			
Buildings		85 000	(1)
Plant and machinery		22 500	(1)
Vehicles		10 200	(1)
		<u>117 700</u>	
Current assets			
Stock		7 850	(1)
Debtors		6 900	(1)
		<u>14 750</u>	
Current liabilities			
Creditors	4 700	(1)	
Bank overdraft	3 900	(1)	
Dividends proposed	5 660	(1)	490
		<u>14 260</u>	(1)
			<u>118 190</u>
Long term liabilities			
Bank loan		20 000	(1)
		<u>98 190</u>	
Share capital			
Profit and loss account	(12 500)	(1)	75 000
		+ 10 690	(1)
			<u>23 190</u>
			<u>98 190</u>

No mark if item is in wrong section

13 marks

- (b) What changes would need to be made to the balance sheet if the directors decide to revalue the buildings at £100 000?

The buildings net book value (1) will be increased (1) by £15 000 (1).
A revaluation reserve (1) will be opened (1) with a balance of £15 000 (1).

max 4 marks

3

Total for this question : 12 marks

On 30 April 2004 China Products plc prepared a trial balance. The trial balance totals did not agree. A suspense account was opened.

The following errors have been discovered.

- (1) The sales account had been overcast by £200.
- (2) A purchase invoice for £500 had been entered in both the supplier's account and the purchases account as £50.
- (3) Rent paid of £650 had been correctly entered in the cash book, but had been entered in the rent account as £400.

REQUIRED

- (a) Make appropriate entries in the suspense account. Show the opening balance.

Dr		Suspense Account		Cr	
Date 2004	Details	£	Date 2004	Details	£
30 Apr	Balance/error o/f no aliens	450(1)	30 Apr	Sales	200 (1)
		<u>450</u>		Rent	<u>250 (1)</u>
					<u>450</u>

No reversals

3 marks

- (b) Give an example of an error of commission. Explain why it will not be revealed by a trial balance.

Example: **Correct example e.g. J Jones payment entered in B Jones a/c.**

2 marks

Explanation: **As the entry is made on the correct side of the ledger (1), the trial balance will still balance (1) although the entry is in the wrong a/c (1).**

3 marks

- (c) Identify **two** reasons for preparing a trial balance.

Reason 1: **To check the arithmetical (1) accuracy of the ledgers (1).**

2 marks

Reason 2: **To make the preparation of the final accounts (1) simpler (1)/speedier (1).**

2 marks

4

Total for this question : 22 marks

REQUIRED

Prepare the trading, profit and loss and appropriation accounts for The Magnificent Garden Centre plc for the year ended 31 March 2004 from the following information. Show clearly the cost of sales, gross profit, net profit and retained profit.

	£
Administration expenses	14 893
Carriage inwards	4 300
Carriage outwards	2 794
Dividends paid	32 500
Interest paid	15 000
Profit and loss account at 1 April 2003	67 450
Purchases	243 600
Returns inwards	5 963
Returns outwards	4 982
Sales	450 687
Selling and distribution expenses	15 450
Stock at 1 April 2003	26 830
Stock at 31 March 2004	22 786

The Magnificent Garden Centre plc (1)**Trading, Profit and Loss and Appropriation Accounts for the year ended 31 March 2004 (1)**

	£	£	£
Sales			450 687 (1)
Less returns inwards			<u>5 963 (1)</u>
			444 724
Less cost of sales (1)			
Opening stock		26 830 (1)	
Purchases	243 600		(1)
Carriage in	<u>4 300</u>		(1)
	274 730		
Less returns out	<u>(4 982)</u>		(1)
		<u>269 748</u>	
Less closing stock		<u>22 786 (1)</u>	<u>246 962 (1) OF</u>
Gross profit (1)			197 762 (1) OF
Less			
Administration expenses		14 893 (1)	
Carriage outwards		2 794 (1)	
Selling and distribution		<u>15 450 (1)</u>	<u>33 137</u>
Profit before interest			164 625
Less interest paid			<u>15 000 (1)</u>
Net profit (1)			149 625 (1) OF
Less dividends paid			<u>32 500 (1)</u>
Profit retained for year (1)			117 125 (1) OF

22 marks

5

Total for this question : 10 marks

REQUIRED

Explain the meaning of **each** of the following terms taken from the report and accounts of Serge Ravenhurst plc. Explain why an ordinary shareholder would be particularly interested in each of them.

Earnings per share:

Meaning $\frac{\text{Profit (after tax)}}{\text{Number of ordinary shares}}$ (1)

It is the amount of profit earned by each (1) ordinary (1) share issued (1). max 3 marks

Shareholder's interest **If EPS high (1) it may increase the dividend (1).** 2 marks

Profit retained:

Meaning **Amount of profit retained in the business (1) after the dividends are paid (1).** 2 marks

Shareholder's interest **Reflects the amount of profit (1) not paid out (1) but ploughed back (1) for future expansion (1) and profitability (1).** max 3 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.

