



# General Certificate of Education

## Accounting 5121

### *ACC3 Financial Accounting: Determination of Income*

# 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**

**ACC3**

## **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: 8 marks**

The terms “Shareholders’ funds” and “Creditors: amounts falling due after more than one year” are often seen in balance sheets of limited companies.

**REQUIRED**

- (a) Identify **two** characteristics of items appearing under each heading.

Shareholders’ funds

Characteristic 1

**Made up of shares and reserves (1).**

**1 mark**

Characteristic 2

**Belongs to shareholders (1).**

**Shows shareholder’s stake in the business (1).**

**1 mark**

Creditors: amounts falling due after more than one year

Characteristics 1 and 2

**Loan capital (1) Borrowed funds (1) Paid interest (1) shows outside financing of the business (1) must be serviced whatever level of profit or loss (1).** **1 mark each characteristic, max 2**

- (b) Identify **two** items that would appear under each heading.

Shareholders’ funds

Item 1 **Ordinary shares (1)**

**1 mark**

Item 2 **Any reserve (1)**

**1 mark**

Creditors: amounts falling due after more than one year

Item 1 **Long term bank loan (1)**

**1 mark**

Item 2 **Debentures (1)**

**1 mark**

2

**Total for this question: 5 marks**

Adrienne is about to prepare her final accounts for the year ended 31 December 2005. She has been in business as a sole trader for many years. She purchased her premises in 1987 at a cost of £56 000. Her friend Bryn, an estate agent, has said that because of the condition and location of the premises, they would fetch £150 000 if Adrienne sold them.

**REQUIRED**

- (a) Advise Adrienne how she should value her premises on the balance sheet at 31 December 2005.

Adrienne should value her premises at **£56 000**.

**1 mark**

Identify the concept that she should use for her valuation.

The concept to be used is **going concern, prudence, cost, objectivity**.

**1 mark**

An overseas student lives in the flat above Adrienne's business premises. She charges the student rent of £200 per calendar month. On 20 December 2005, when the student flew home to visit his parents, he had not paid his rent for December. He will return on 17 January 2006. On his return, he will pay rent of £400 for December 2005 and January 2006.

Adrienne intends to include the £400 payment for rent in next year's final accounts, since this is when she will receive the money.

**REQUIRED**

- (b) State how Adrienne should treat the student's rent payment in her final accounts.

**£200 included in 2005 profit and loss account (1) £200 included in 2006 profit and loss account (1) £200 shown as a prepayment/accrued income/current asset (1) in the 2005 Balance Sheet.**

**max 2 marks**

Identify the concept that should be applied in this situation.

The concept to be applied is **Accruals or matching**

**1 mark**

3

**Total for this question: 23 marks**

Amandeep Pawar owns a manufacturing business. She transfers all goods from the factory to the trading account at cost plus 20%. She has prepared her manufacturing account, and the total cost of production (**before** the addition of factory profit) was £720 000.

Amandeep provides the following information.

(1) Sales for the year ended 31 December 2005 were £1 430 972.

(2) Stocks	at 1 January 2005	at 31 December 2005
	£	£
Raw materials at cost	6 780	7 140
Work in progress at cost	9 630	9 880
Finished goods at cost plus 20%	27 804	31 776

(3) Administrative expenses for the year were £478 221.

**REQUIRED**

(a) Calculate the change in the provision for unrealised profit for the year ended 31 December 2005.

The change is **£662**

**7 marks**

*Workings*

$$\begin{aligned}
 27\,804 \text{ (1 or 0)} \times 20/120 \text{ (1 or 0)} &= 4634 \text{ (1 OF)} \\
 31\,776 \text{ (1 or 0)} \times 20/120 \text{ (1 OF)} &= 5296 \text{ (1 OF)} \\
 &662 \text{ (1 OF)}
 \end{aligned}$$

(b) Prepare a trading account for the year ended 31 December 2005.

<b>Amandeep Pawar</b>					
<b>Trading Account for the year ended 31 December 2005</b>					
	£		£		
Sales			1 430 972	(1)	
Less cost of sales					
Stock	27 804	(1)			
Cost of gds manuf'd	864 000	(3)	720 000	(1)	x 1.2 (1) = 864 000 (1)
	<u>891 804</u>				
Stock	31 776	(1)	<u>860 028</u>		
Gross profit			<u>570 944</u>	(1 OF)	

**7 marks**

(c) Prepare a summarised profit and loss account for the year ended 31 December 2005.

**Summarised Profit and Loss Account for the year ended 31 December 2005**

	£		£	
<b>Gross profit on trading</b>			<b>570 944</b>	<b>(1 OF)</b>
<b>Gross profit on manufacture COM (1 OF) less 720 000</b>	<b>144 000</b>	<b>(3 OF)</b>		
<b>Less provision for unrealised profit</b>	<u><b>662</b></u>	<b>(1 OF)</b>	<u><b>143 338</b></u>	<b>(1 OF)</b>
			<b>714 282</b>	<b>(1 OF)</b>
<b>Less administrative expenses</b>			<u><b>478 221</b></u>	<b>(1 or 0)</b>
<b>Net profit</b>			<u><b>236 061</b></u>	<b>(1 OF)</b>

**9 marks**

4

**Total for this question: 40 marks**

The following information has been extracted from the books of Wullie McDuff at 30 September 2005.

	£	£
Gross profit for the year		807 850
Wages	748 432	
Rent and rates	12 460	
General expenses	36 980	
Bad debts written off during year	760	
Bad debts recovered during year		100
Trade debtors	35 000	
Trade creditors		27 000
Premises	120 000	
Vehicles	60 000	
Provision for depreciation		
Premises		21 600
Vehicles		30 000
Provision for doubtful debts		940

**Additional information**

- (1) General expenses remaining unpaid at 30 September 2005 amounted to £918.
- (2) Rent paid for October 2005 amounted to £320.
- (3) Depreciation is to be provided at the following rates:  
     Premises at 2% using the straight-line method;  
     Vehicles at 25% using the reducing balance method.
- (4) The provision for doubtful debts is to be maintained at 2½% of debtors outstanding at the financial year-end.
- (5) During the year, a vehicle that cost £20 000 was sold for £4800 cash. The vehicle had been depreciated by £15 000 over its lifetime. This transaction has been recorded, but the profit or loss on disposal has yet to be calculated.

**REQUIRED**

- (a) Prepare a profit and loss account for the year ended 30 September 2005.

<b>Wullie McDuff</b>			
<b>Profit and Loss Account for the year ended 30 September 2005</b>			
		£	£
W <sub>1</sub> 35 000	(1)		
x 2.5%	(1)		
875	(1)		
(940)	(1)		
		<b>Gross profit</b>	<b>807 850</b>
		<b>Provision for doubtful debts W<sub>1</sub></b>	<u><b>65</b></u> (5)
			<b>807 915</b>
<b>Less expenses</b>			
W <sub>2</sub> 12460	(1)	748 432	(1)
(320)	(1)	12 140	(3)
		<b>General expenses W<sub>3</sub></b>	<b>37 898</b> (3)
W <sub>3</sub> 36980	(1)	<b>Bad debts W<sub>4</sub></b>	<b>660</b> (3)
918	(1)	<b>Loss on sale of vehicle W<sub>7</sub></b>	<b>200</b> (4)
		<b>Depreciation – premises W<sub>5</sub></b>	<b>2 400</b> (3)
W <sub>4</sub> 760	(1)	<b>Depreciation - vehicles W<sub>6</sub></b>	<u><b>7 500</b></u> (4)
(100)	(1)		
			<u><b>809 230</b></u> (1) OF
		<b>Net loss</b>	<u><b>1 315</b></u> (1) OF
W <sub>5</sub> 120000	(1)		
x 2%	(1)		
W <sub>6</sub> 60000	(1)		
(30 000)	(1)		
x 25%	(1)		
W <sub>7</sub> 20000	(1)		
(15000)	(1)		
(4800)	(1)		

**28 marks**

Wullie's sister, Morag, has told him that she thinks that it may be to his advantage if he changes his business into a private limited company.

**REQUIRED**

- (b) Advise Wullie whether it would be to his advantage to change his business into a private limited company.

**Advantages would include****Limited liability – only his investment is at risk – his private assets would be safeguarded. (0-2)****If he wishes to expand he may find that raising further capital is easier – sell more shares (0-2)****Raise loan or overdraft – often cheaper (0-2)****Seen as less risky (0-2)****Does not have to pay dividends – may wish to retain profits (0-2)****If there are other shareholders, he could discuss marginal decisions with them (0-2)****max 6 marks****Disadvantages would include****Diluted ownership if other shareholders are involved – may lose control of “his” business (0-2)****May receive a lower return – profits shared (0-2)****More shareholders – more time to reach decisions (0-2)****max 6 marks****Overall max 10 marks****Advice and justification (0-2)****2 marks****12 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)?