



ASSESSMENT and
QUALIFICATIONS
ALLIANCE

Mark scheme

June 2003

GCE

Accounting

Unit ACC3

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June 2003**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. 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: 2 marks**

Janice owns and runs a plumbing business. She operates her business from an industrial unit on the outskirts of town.

The same sized unit next to hers was sold for £120 000 in May. Janice has shown her premises on her balance sheet as at 31 May 2003 at the cost price of £60 000.

REQUIRED

(a) Complete the following sentence.

This is an example of the **Going Concern/Cost** concept.

1 mark

Recently Janice purchased a desk top calculator for use in the business. It cost £9.99. She expects that it will be in constant use for at least 5 years. She has included the cost of the calculator in her books of account as office expenses.

(b) Complete the following sentence.

This is an example of the **Materiality** concept.

1 mark

2**Total for this question: 6 marks**

Gina O'Malley has recently purchased a new delivery van for use in her business. The following is a summary of the invoice that Gina received from the garage.

	£
Purchase price of van	27 450
Alterations to interior of van	1 760
Road fund tax	170
Tank of fuel	48
Cost of painting logo on side of van	314
Insurance premium for one year	509

REQUIRED

(a) Calculate the total amount of capital expenditure incurred by Gina.

The total amount of capital expenditure incurred was **£29 524**

Workings

27450 (1)

1760 (1)

314 (1)

(b) Calculate the total amount of revenue expenditure incurred by Gina.

The total amount of revenue expenditure incurred was **£727**

Workings

170 (1)

48 (1)

509 (1)

6 marks

3

Total for this question: 12 marks

Jock McIntyre has produced a draft profit and loss account for the year ended 31 March 2003. As yet no entries have been made in the profit and loss account for the following information.

	£
Payments to local authority for business rates during the year	1950
Payments to landlords for rent of premises during the year	4200
Receipts from Qualwen plc for commission receivable during the year	600

Additional information

	Year ended 31 March 2002	Year ended 31 March 2003
	£	£
Payment to local authority	in advance 70	in arrears 80
Payment to landlord	in arrears 60	in advance 120
Commission received from Qualwen plc	in arrears 50	in arrears 40

REQUIRED

Calculate the amounts to be entered in the profit and loss account for the year ended 31 March 2003. Indicate in the table below the amount and whether it should be subtracted from or added to the profit of the business.

	Amount to be <i>subtracted</i> from draft net profit £	Amount to be <i>added</i> to draft net profit £
Business rates	2100 (4)	
Rent of premises	4020 (4)	
Commission receivable		590 (4)

Workings

	Rates	Rent	Commission
	1950 (1)	4200 (1)	600 (1)
	70 (1)	(60) (1)	(50) (1)
	80 (1)	(120) (1)	40 (1)
Correct Column and correct OF	(1)	(1)	(1)

12 marks

4

Total for this question: 8 marks

Cindy Fireplace wishes to improve her reported business profits and cash balances. She has purchased a new computer system for her business at a cost of £6000. She will use the system for two years and then replace it. At the end of the two years the system will have no scrap value.

She will depreciate her computer system by using
either the straight-line method
or the reducing-balance method using 60% per annum.

She is unsure which method will increase her reported profits **and** her cash balances over the two years.

REQUIRED

(a) Calculate the charge to the profit and loss account for **each** year for **each** method.

	Straight-line method £	Reducing-balance method £
Year 1	3000 (1)	3600 (1)
Year 2	3000 (1)	1440 (1) or 2400 (1)

4 marks

(b) Discuss how charging depreciation will affect Cindy's cash flow.

Depreciation is a non cash expense (1) it is only a book entry (1)
Neither method (1) provides cash (1) to replace the system (1) except by discouraging drawings (1) because reported profits will be lower (1) than if no depreciation was shown
max 4 marks

5

Total for this question: 8 marks

“Prudence is an accounting concept that is applied to the valuation of stock.”

REQUIRED

Explain how the concept of prudence is applied to the valuation of stock and why it is necessary to apply it.

Concept says provide for losses as soon as they are anticipated (1) but do not recognise profits until they are realised (1).

Application – use lower (1) of cost (1) or net realisable value (1) – NRV is selling price (1) less any costs incurred in getting the goods into a saleable condition (1) – this ensures that profits are not over stated (1) if they were then resources could be depleted (1) by excessive drawings or dividends (2) which might jeopardise the existence of the business (2).

max 8 marks

6

Total for this question: 21 marks

The draft profit for the year ended 31 May 2003 of Srian plc is £12 000 000. The following information for the year has not been taken into account.

	£
Ordinary dividends - paid	800 000
proposed	1 300 000
Directors' fees	1 500 000
Provision for corporation tax	2 600 000
Debenture interest	1 200 000
Transfer to general reserve	1 000 000

REQUIRED

- (a) Prepare the profit and loss appropriation account for the year ended 31 May 2003.

Srian plc
Profit and loss appropriation account for the year ended 31 May 2003

		£'000
Net Profit w₁		9300 (3)
Less provision for corporation tax		2600 (1)
Profit after tax (must say)		6700 (1) OF
Less transfer to general reserve		1000 (1)
		5700
Less dividend - paid	800 (1)	
proposed	1300 (1)	2100
Retained profit for year (must say)		3600 (1) OF

9 marks*Workings*

W₁ 12 000 (1)
(1500) (1)
(1200) (1)

The following has been extracted from the balance sheet of Srian plc as at 31 May 2003.

	£
Ordinary shares of £1 each fully paid	25 000 000
6% Debentures	20 000 000

The directors have seen an opportunity to expand the company's operation. They need to raise £30 000 000.

The directors are considering raising the whole amount by
either an issue of 20 000 000 ordinary shares at £1.50 each
or an issue of £30 000 000 6% debentures.

(b) Evaluate the **two** methods of raising finance being considered by the directors of the company.

Ordinary shares – Voting rights

not repayable (1)

no dividend necessary (1) but failure to pay dividends may make future issues more difficult (2)

dilution of existing shareholders' power (1) – might be beneficial (1) or

detrimental (1) to the company plus (1) for example

max 5 marks

Debentures –

changes structure of financing (1)

interest charges £1 200 000 (1) at present will rise to £3 000 000 (1)

interest must be paid (1) whether profits or losses are made (1)

can company stand extra expense (1) – risky (1) could lead to liquidation (1)

no vote (1) so no dilution of shareholder power (1)

fixed interest (1) loan (1)

capital must be repaid (1)

pledged assets (1) restrictions on later use (1)

max 5 marks

Evaluation based on discussion (2)

2 marks

7

Total for this question: 19 marks

Noriv plc is a manufacturing business. The following figures have been extracted from the company's ledgers as at 31 May 2003.

	£
Stocks as at 1 June 2002 - raw materials	21 450
work in progress	14 780
finished goods	58 620
Sales	657 000
Purchases of raw materials	234 090
Direct labour costs	260 000
Indirect labour costs	82 800
Factory overheads (excluding labour costs)	138 000
Manufacturing royalties	6 560
Returns inwards	1 000
Returns outwards	980
Carriage inwards	750
Carriage outwards	1 340

Additional information

(1) At 31 May 2003 stocks were valued as follows:

	£
Raw materials	22 170
Work in progress	13 750
Finished goods	60 650

(2) At 31 May 2003 factory wages accrued and unpaid amounted to £8000. One quarter of this was for indirect labour and the remainder was for direct labour.

(3) Provision for depreciation of factory machinery for the year was £25 000.

REQUIRED

(a) Selecting from the information given, prepare an extract from the manufacturing account for the year ended 31 May 2003 to show prime cost.

Noriv plc
Manufacturing Account – prime cost for the year ended 31 May 2003 (1)

	£		£	
Stock of raw materials			21 450	(1)
Purchases of raw materials	234 090	(1)		
Carriage inward	750	(1)		
	234 840			
Less returns outward	980	(1)		
	233 860			
Less stock of raw materials	22 170	(1)	211 690	
Raw materials consumed (1)			233 140	(1) OF
Direct labour W₁			266 000	(4)
Manufacturing Royalties			6 560	(1)
PRIME COST (1)			505 700	(2) for correct figure(1) OF

W₁ 260 000 (1)
 6 000 (1) 8 000 (1) x ¾ (1)

(b) Explain what is meant by “work in progress”.

Partly finished goods (1) still need to be worked on (1) stage between raw materials (1) and finished products (1) 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.