



General Certificate of Education

Accounting 5121

*ACC3 Financial Accounting:
Determination of Income*

Mark Scheme

2006 examination - June 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.

June 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: 12 marks

Pat Way manufactures bricks for the building trade. The following information relates to the year ended 31 March 2006.

	£
Purchases of direct materials	1 800 000
Direct wages	1 500 000
Purchase of new machinery on 17 December 2005	340 000

During July and August 2005, Pat used his own workmen and direct materials to build a new store-room for his business.

The wages amounted to £21 000 and the materials used cost £14 000.

REQUIRED

- (a) Define capital expenditure and revenue expenditure.

Capital expenditure is **spending on fixed assets (or their improvement).**

1 mark

Revenue expenditure is **spending on the “every day” running costs of the business.**

1 mark

- (b) Calculate Pat’s capital expenditure during the year ended 31 March 2006.

The amount of capital expenditure was **£375 000**

3 marks

Workings	£	
	340 000	(1)
	21 000	(1)
	14 000	(1)

“I don’t see the point of separating capital and revenue expenditure,” Pat was heard to remark recently.

REQUIRED

- (c) Explain why it is important to distinguish between capital and revenue expenditure.

Capital expenditure is recorded in the balance sheet (1)

Revenue expenditure is recorded in the (trading and) profit and loss account (1)

If they are incorrectly classified:

the balance sheet will be incorrect (1); the total value of the assets will be greater/less than they should be (2).

the (trading and) profit and loss account will be incorrect (1); recorded profits will be more/less than they should be (2).

Classification should be correct in order to show “a true and fair view” (1)

May affect decisions made (0-3)

max 7 marks

2

Total for this question: 17 marks

The chief accountant of Srewolf Ltd has been ill. During her absence, one of her assistants has produced the following balance sheet, which failed to balance by £280 000.

Srewolf Ltd
Summarised Balance Sheet at 30 April 2006

	£	£
Fixed assets		1 270 000
Current assets	355 000	
Creditors: amounts falling due in less than one year		
Trade creditors	31 000	324 000
		1 594 000
Capital and reserves		
Ordinary shares of £1 each		750 000
General reserve		100 000
Profit and loss account at 1 May 2005		77 000
Net profit for this year before appropriations		387 000
Suspense account (difference in balance sheet totals)		280 000
		1 594 000

On her return, the chief accountant discovered the following.

- (1) An issue of 200 000 ordinary shares was made in October 2005 at £1.40 per share. Although the monies received had been correctly entered in the cash book, no other entries had been made in the company's books of account.
- (2) The following items have been proposed by the company directors but have yet to be taken into account:
 - (i) a final dividend of 4p per share on all shares held at the year-end;
 - (ii) a transfer to general reserve of £50 000;
 - (iii) a provision for corporation tax of £110 000.

(2)

REQUIRED

(a) Prepare a profit and loss appropriation account for the year ended 30 April 2006.

Srewolf Ltd					
Profit and Loss Appropriation Account for the year ended 30 April 2006					
£					
Net profit	387 000	(1)			
Corporation tax	(110 000)	(1)			
Net profit after tax	277 000				
Transfer to general reserve	(50 000)	(1)	W ₁	750 000	(1)
Proposed dividend W ₁	(38 000)	(4)		200 000	(1)
Retained profit for the year	189 000	(1 OF)		950 000	
				x 4p	(1)
				38 000	(1)

8 marks

(b) Prepare a corrected summarised balance sheet at 30 April 2006.

Srewolf Ltd					
Summarised Balance Sheet at 30 April 2006					
	£	£	£		
Fixed assets			1 270 000	*	
Current assets		355 000		*	
Less creditors : amounts falling due in less than one year					All 3 * = 2 marks
Trade creditors	31 000	*			2 * = 1 mark
Taxation	110 000	(1)			
Dividends	38 000	(1 OF)	179 000	176 000	
				1 446 000	
Share capital and reserves					
Ordinary shares			950 000	(1)	} correct figures + correct order + correct addition (1)
Share premium account			80 000	(1)	
General reserve			150 000	(1)	
Profit and loss account			266 000	(1 OF)	
			1 446 000		

9 marks

3

Total for this question: 47 marks

The following information has been extracted from the ledgers of Ken Tucky at 31 March 2006.

Purchases £280 797	Bad debts £1 368
Sales £587 461	General expenses £33 713
Returns inwards £837	Premises at cost £145 000
Stock 1 April 2005 £39 771	Equipment at cost £11 400
Wages £128 528	Motor vehicles at cost £42 000
Motor expenses £47 870	Provisions for depreciation at 1 April 2005:
Rates £7 810	Premises £46 400
Insurances £7 780	Equipment £6 840
	Motor vehicles £26 880

Additional information at 31 March 2006

1. Stock was valued at £40 135.
2. A motor van purchased during the year for £18 500 has been included in the motor expenses account.
3. Wages remaining unpaid amounted to £1383.
4. Insurances paid in advance amounted to £286.
5. Ken took goods to the value of £2170 from the business for his own personal use.
6. Depreciation is to be charged at the following rates:
 - Premises at 2% per annum using the straight-line method;
 - Equipment at 10% per annum using the straight-line method;
 - Motor vehicles at 40% per annum using the reducing-balance method.

It is Ken's policy to charge a full year's depreciation on all assets held at the end of the financial year.

(3)

REQUIRED

(a) Prepare a trading and profit and loss account for the year ended 31 March 2006.

Ken Tucky
Trading and Profit and Loss Account for the year ended 31 March 2006

	£	£	
Sales	587 461 (1)		
Less returns inwards	<u>837 (1)</u>	586 624	
Less cost of sales			
Stock	39 771 (1) or (0)		
Purchases (280 797 (1) – 2170 (1) = 278 627 (1))	<u>278 627 (3)</u>		
	318 398		
Stock	<u>40 135 (1) or (0)</u>	<u>278 263</u>	
Gross profit (must say)		308 361	(1) OF
Less expenses			
Wages (128 528 (1) + 1383 (1) = 129 911 (1))	129 911 (3)		
Motor expenses (47 870 (1) – 18 500 (1) = 29 370 (1))	29 370 (3)		
Rates	7 810		
General expenses	33 713		
Bad debts	1 368		
Insurances (7780 (1) – 286 (1) = 7 494 (1))	<u>7 494 (3)</u>		
Depreciation – Premises	2 900 (3)		
Equipment	1 140 (3)		
Motor vehicles W ₁	<u>13 448 (5)</u>		
Net profit (must say)		<u>81 207 (1 OF)</u>	
W ₁	42 000 (1)		
	18 500 (1)		
	(26 880) (1)		
	<u>x 40% (1)</u>		
	13 448 (1)		

} 1 mark for all three

30 marks

(3)

- (b) Explain your treatment of Additional Information (4) and (5). Make reference to appropriate concepts that you have used.

Additional information 4

Accruals concept (matching) (2) – only transactions relating to the year under consideration should be included (1), insurances paid for the following year will appear in the following year's profit and loss account (1), so needs to be deducted from payments undertaken in the current year (1). Will appear as a pre-payment (1) under current assets (1) in the balance sheet.

max 6 marks

Additional information 5

Business entity concept (2) – only transactions involving the business should be included in the business books (1). The goods for own use are drawings (1) and will thus appear as a deduction from capital in the balance sheet (1). As such, they need to be ignored in the calculation of cost of sales (1) – only the purchases used in the business are recorded (1), they are matched to the sales that are derived from them (1).

max 6 marks

Ken has recently seen an increase in the number of customers' debts that need to be written off as bad.

REQUIRED

- (c) Advise Ken why he should create a provision for doubtful debts.

Ken's profits may be over-stated by the amount of the dubious debts (0-2) so rather than anticipate the proceeds, it is wiser to make a provision (0-2).

This is using the concept of prudence (1).

Advice based on arguments (0-2)

max 5 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.