



# General Certificate of Education

## Accounting 6121

### *ACC5 Further Aspects of Financial Accounting*

# Mark Scheme

## *2005 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 2005**

**ACC5**

## **MARK SCHEME**

### **INSTRUCTIONS TO EXAMINERS**

You should remember that your marking standards should reflect the levels of performance of Advanced Level candidates, mainly 18 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 (QWC)**

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.

#### **Synoptic Assessment**

Synoptic assessment is located in the last question. Candidates will be required to integrate their knowledge, understanding and skills learned in different parts of the A Level course.

1

**Total for this question: 18 marks**

Denise Watson sells one type of agricultural machine, a mini-baler. She provides the following information for April 2005.

Denise had 2 mini-balers in stock at 1 April 2005. They cost £1200 each.

<b>Date</b>	<b>Purchases</b>	<b>Sales</b>
1 April	3 @ £1200	
3 April		4 @ £2900
7 April	4 @ £1350	
17 April		4 @ £3000
21 April	8 @ £1400	
24 April		7 @ £3000
Total purchases for month	£20 200	Total sales for month
		£44 600

Denise has calculated her gross profit to be £24 782, using the weighted average cost method (AVCO) of valuing her stock.

She sells her mini-balers in the order in which she purchases them. For this reason, she believes she should change her method of valuing stock to the first in first out method (FIFO).

**REQUIRED**

- (a) Calculate the value of stock at 30 April 2005 using the first in first out (FIFO) method of stock valuation.

**2 balers in stock (1) OF @ £1 400 each (1) or (0) = £2 800 (1) OF**

**3 marks**

- (b) Prepare a trading account for the month of April 2005 using the FIFO method of valuing stock.

**Denise Watson**  
**Trading account for April 2005 (1)**

	£	
<b>Stock</b>	2 400	(1)
<b>Purchases</b>	20 200	(1) or (0)
	<u>22 600</u>	
<b>Less stock</b>	2 800	(1) OF
	<u>19 800</u>	
<b>Gross profit</b>	24 800	(1) OF
<b>Sales</b>	<u>44 600</u>	(1) or (0)

**6 marks**

**(1)**

- (c) Discuss the advantages and disadvantages of both these methods of valuing stock. Advise Denise whether she should change her method of valuing stock.

**FIFO and AVCO are both acceptable methods (1) from a taxation point of view and SSAP9 (1).**

**FIFO more realistic for her (1). AVCO never uses actual prices paid (1).**

**Method of issue is not important (1), these are methods of valuation (1).**

**FIFO will reveal higher profits in short run in times of rising prices (1) which might be important if Denise is contemplating selling the business (1).**

**FIFO is much easier to calculate (1), can use periodic method (1).**

**AVCO requires a new calculation each time goods are received (1).**

**Consistency (1) – she will have to adjust her financial accounts if she wants to compare results (1).**

**max 7 marks**

**Advice (1) + (1) for development**

**2 marks**

**Overall max 9 marks**

2

**Total for this question: 10 marks**

The treasurer of the Detford Tennis Club provides the following information for the year ended 30 April 2005, which is the end of the club's first year.

**Receipts and Payments Account for the year ended 30 April 2005**

	£		£
Subscriptions for year ended 30 April 2005	2 176	General expenses	1 867
Subscriptions for year ended 30 April 2006	96	Equipment	610
Money raising-events	563	Building costs for new pavilion	6 540
Donation for building new pavilion	50 000	Balance 30 April 2005	43 818
	52 835		52 835

The donation was given on the understanding that it would be used solely for the construction of a new pavilion.

The committee of the Detford Tennis Club has agreed that the equipment should be written off over 10 years using the straight-line method.

The treasurer has already calculated the accumulated fund balance at 30 April 2005 as £7351.

**REQUIRED**

Prepare a balance sheet at 30 April 2005, taking into account the donor's wishes.

**Detford Tennis Club  
Balance Sheet at 30 April 2005 (1)**

<b>Fixed assets</b>		<b>Accumulated fund</b>	<b>7 351 (1) or (0)</b>
<b>Pavilion</b>	<b>6 540 (1)</b>		
<b>Equipment</b>	<b>610 (1)</b>	<b>Building fund</b>	<b>43 460 (1)</b>
<b>Less depreciation</b>	<b>61 (1)</b>	<b>Subscriptions</b>	<b>96 (1)</b>
	<b>549</b>		
	<b>7 089</b>		
<b>Balance at bank</b>			
<b>Ordinary account</b>	<b>358 (1)</b>		
<b>Pavilion account</b>	<b>43 460 (1)</b>		
	<b>43 818</b>		
	<b>50 907</b>		<b>50 907</b>

**Plus 1 mark for showing Pavilion account and Building Fund separately**

**10 marks**

**Part A (28 marks)**

Tom Stoddart set up an office cleaning business on 1 March 2003. He did not keep a full set of bookkeeping records. He was, however, able to supply the following information which related to the financial year ended 29 February 2004.

A bank overdraft of £42 was shown on the business bank statement at 29 February 2004.

At 29 February 2004 there was an unrepresented cheque for £38.

Cheques totalling £720 paid into the bank on 29 February did not appear on the bank statement.

**REQUIRED**

- (a) Prepare a bank reconciliation statement at 29 February 2004 to determine Tom's bank balance at that date.

**Bank Reconciliation Statement at 29 February 2004 (1)**

	£	
Balance as per bank statement	42	(o/d) (1)
Add cheques not yet credited	720	(1)
	678	
Less unrepresented cheques	38	(1)
Balance as per cash book	640	(1) or (0)

**5 marks**

- (b) Advise Tom on the benefits of preparing a bank reconciliation statement on a regular basis.

**Advice – very useful (1)**

**1 mark**

**Detects errors in own records (1) plus example (1).**

**Detects errors made by bank (1) plus example (1).**

**Shows items paid by bank (s/o, direct debits, credit transfers) that can then be included in records (2).**

**Can identify that unrepresented cheques from one month have been drawn later (1).**

**max 5 marks****Overall max for (b) 6 marks**

Tom's opening capital on 1 March 2003 was £32 000.

His assets and liabilities at 29 February 2004 were:

	£
Machinery at valuation	46 000
Two vehicles at valuation	34 000
Loan from Eliza, a friend	20 000
Stock of cleaning materials	380
Amounts outstanding for the purchase of cleaning materials	180
Amounts owed by customers	1 870
Bank balance	?

During the year, Tom:

took £14 184 cash from the business for his private use;

took cleaning materials to the value of £96 for use in his home;

received a gift of £15 000 from his mother, which he paid into the business bank account.

(3)

(c) Calculate Tom’s net profit for the year ended 29 February 2004.

(Note: a profit and loss account is **not** required.)

<b>Closing capital W<sub>1</sub></b>	<b>62 710</b>		<b>(5)</b>
<b>Opening capital</b>	<b>32 000</b>		<b>(1)</b>
	<b>30 710</b>		
<b>Add drawings</b>	<b>14 280</b>		<b>(1)</b>
	<b>44 990</b>		
<b>Mother’s gift</b>	<b>(15 000)</b>		<b>(1)</b>
<b>Net profit</b>	<b>29 990</b>		<b>(2) or (1) OF</b>

<b>W<sub>1</sub></b>	<b>Machinery</b>	<b>46 000</b>			
	<b>Vehicles</b>	<b>34 000</b>			}
	<b>Stock</b>	<b>380</b>			
	<b>Debtors</b>	<b>1 870</b>			
	<b>Bank</b>	<b>640</b>	<b>OF</b>		
		<b>82 890</b>			
	<b>Loan</b>	<b>(20 000)</b>			}
	<b>Creditors</b>	<b>(180)</b>			
	<b>Capital</b>	<b>62 710</b>	<b>(1) OF</b>		

All 5 – 3 marks  
4 or 3 – 2 marks  
2 or 1 – 0 marks

both 1 mark

10 marks

(d) (i) Calculate Tom’s return on capital employed.

$$\text{ROCE} = \frac{\text{NP}}{\text{Opening capital}} = \frac{29\,990 \text{ OF}}{32\,000} = 93.7\% \quad (2) \text{ OF}$$

(or other acceptable formulae)

2 marks

(ii) Comment on your result.

Usually we need ‘something’ to compare a ratio with (1) either as part of a trend analysis (1) or comparison with a similar business (1): neither of these comparisons is possible (1) – Tom’s first year (1), no other other results available (1).  
However, Tom could not achieve such a high return (1) from a ‘normal’ investment eg building society, share yield, bank interest (1), so it does appear to be a very good return on his investment (1).

max 5 marks

(3)

**Part B (25 marks)**

On 1 March 2004, Tom entered into partnership with his friend, Eliza.

A partnership agreement was drawn up. It provided that:

fixed capital accounts are to be maintained at: Tom £70 000  
Eliza £25 000;  
in addition, partnership current accounts are to be maintained.

It further provided that:

profits and losses are to be shared in the ratio of 2:1 respectively;  
Eliza is to be credited with a partnership salary of £8000 per annum;  
partners are to be credited with interest on their capital accounts at the rate of 6% per annum;  
interest is to be charged on partners' drawings.

The net profit for the year ended 28 February 2005 was £11 467.

	Tom £	Eliza £
Partners' drawings for the year were	21 460	18 500
Interest charged on drawings was	637	420

**REQUIRED**

(e) Prepare a profit and loss appropriation account for the year ended 28 February 2005.

**Tom and Eliza**  
**Profit and Loss Appropriation Account for the year ended 28 February 2005 (1)**

	£	£
<b>Net profit</b>		<b>11 467 (1)</b>
<b>Add interest on drawings – Tom</b>	<b>637 (1)</b>	
<b>Eliza</b>	<b>420 (1)</b>	<b>1 057</b>
		<b>12 524</b>
<b>Less salary – Eliza</b>		<b>8 000 (1)</b>
		<b>4 524</b>
<b>Less interest on capital – Tom</b>	<b>4 200 (1)</b>	
<b>Eliza</b>	<b>1 500 (1)</b>	<b>5 700</b>
		<b>(1 176)</b>
<b>Share of residual loss – Tom</b>	<b>(784) (1) OF</b>	
<b>Eliza</b>	<b>(392) (1) OF</b>	<b>(1 176)</b>

**9 marks**



(3)

(f) Prepare partnership current accounts at 28 February 2005.

	<b>Current Accounts</b>			
	<b>Tom</b>	<b>Eliza</b>	<b>Tom</b>	<b>Eliza</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Loss</b>	784 (1) OF	392 (1) OF	<b>Salary</b>	8 000 (1)
<b>Drawings</b>	21 460 (1)	18 500 (1)	<b>Interest on capital</b>	1 500 (1) OF
<b>Interest on drawings</b>	637 (1)	420 (1)	<b>Balances c/d</b>	9 812 (1) OF
	22 881	19 312		19 312
<b>Balances b/d</b>	18 681	9 812		
	<b>Both (1) OF</b>			

12 marks

(g) Explain briefly what the closing balances on the partners' current accounts indicate.

**They show the relationship between the partners and the business (1). It records total profits credited to each partner (1) and any drawings taken from the business (1). Balances at the year end show that in Tom and Eliza's cases, they both owe the business money (2) OF, because they have debit entries on their current accounts (1).**

max 4 marks

(3)

**Part C (19 marks)**

Both partners agreed that the partnership was not the success that they both hoped that it might have been. They agreed that the partnership be dissolved on 28 February 2005.

At 28 February 2005, the partnership had the following assets and liabilities:

	£
Machinery at valuation	36 000
Three vehicles at valuation	28 000
Stock of cleaning materials	430
Amounts owed to suppliers of cleaning materials	340
Amounts owed by customers	1 250
Bank balance	1 167

Immediately prior to dissolution, the partners' current account balances were transferred to their capital accounts.

The capital account balances then stood at:

Tom	£51 319	Cr
Eliza	£15 188	Cr

The machinery was sold to Pristine Cleaners Ltd for a purchase consideration of £20 000.

The amount was settled by the issue of 12 000 ordinary shares of £1 each in Pristine Cleaners Ltd. The partners received half of the shares each.

A vehicle with a book value of £12 000 was taken over by Eliza for £9000.

The other two vehicles were sold for £15 000 cash.

Stocks of cleaning materials were sold for £380 cash.

Creditors were paid in full.

Debtors paid £1150 in full settlement.

The costs of dissolution amounted to £2485.

(3)

**REQUIRED**

(h) Calculate the profit or loss on dissolution.

<b>Realisation account</b>					
	£			£	
<b>Machinery</b>	36 000	(1)	<b>Capital – Eliza (vehicle)</b>	9 000	(1)
<b>Vehicles</b>	28 000	(1)	<b>Cash (vehicles)</b>	15 000	(1)
<b>Stock</b>	430	(1)	<b>Cash (stock)</b>	380	(1)
<b>Discount allowed</b>	100	(1)	<b>Pristine Cleaners Ltd</b>	20 000	(1)
<b>Cash - costs</b>	2 485	(1)	<b>Loss on realisation</b>	22 635	(1) OF
	67 015			67 015	

**OR**

<b>Loss on realisation</b>					
	£			£	
<b>Machinery</b>				36 000	(1)
<b>Vehicles</b>				28 000	(1)
<b>Stock</b>				430	(1)
<b>Discounts allowed</b>				100	(1)
<b>Costs – cash</b>				2 485	(1)
				67 015	
<b>Pristine Cleaners Ltd</b>	20 000	(1)			
<b>Vehicles – Eliza</b>	9 000	(1)			
<b>Cash</b>	15 000	(1)			
<b>Stock – cash</b>	380	(1)		44 380	
<b>Loss on realisation</b>				22 635	(1) OF

**10 marks**

(i) Prepare partners' capital accounts to show the closing entries.

	<b>Capital accounts</b>						
	Tom		Eliza		Tom	Eliza	
	£		£		£	£	
<b>Loss on realisation</b>	15 090	(1)OF	7 545	(1)OF	<b>Balance b/d</b>	51 319	(1)
<b>Shares in Pristine Ltd</b>	10 000	(1)or(0)	10 000	(1)or(0)	<b>Cash</b>	11 357	(1)
<b>Vehicle</b>			9 000	(1)			OF
<b>Cash</b>	26 229	(1)OF					
	51 319		26 545			51 319	
						26 545	

**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.
- 3-4** 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.
- 5** 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.