

General Certificate of Education

Accounting ACC5

Unit 5 Further Aspects of Financial Accounting

Mark Scheme

2008 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

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January 2008

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**

Amanda sells one model of luxury mobile home. She provides the following information for March 2007. At 1 March 2007 she had four in stock; they had been valued at their cost price of £26 000 each.

Date	Purchases	Sales
7 March	3 at £27 000	
15 March	1 at £28 000	
22 March		5 at £52 000
26 March		1 at £52 500
30 March	2 at £30 000	
31 March		2 at £53 000
	Total purchases for the month = £169 000	Total sales for the month = £418 500

Amanda has prepared a trading account using the AVCO (weighted average cost) method of valuing her stock. She has calculated her gross profit for the month at £202 125.

An accounting student friend has suggested that it might be better if Amanda changed her method of valuing stock to the FIFO method (first in first out).

REQUIRED

- 1(a) Prepare a trading account for the month ended 31 March 2007 using the FIFO method of valuing stock.

Amanda
Trading account for the month ended 31 March 2007 (1)

	£	£
Sales		418 500 (1 or 0)
Less cost of sales		
Stock	104 000 (1)	
Purchases	<u>169 000</u> (1 or 0)	
	273 000	
Stock	<u>60 000</u> (1)	<u>213 000</u>
Gross profit (must say)		205 500 (1)

6 marks

- 1(b) Advise Amanda whether or not she should change her current method of valuing stock. Give reasons for your advice.

If she changes her method she cannot compare results (1) with previous months (1) unless she adjusts previous reported profits (1). It could be argued that she would be going against the concept of consistency (1).

Both methods are acceptable under accounting standards (1).

FIFO is simpler (1) and can always be calculated quickly using a periodic method (1).

AVCO needs recalculating after each new purchase (1).

FIFO will give higher profits in the short run (1) but FIFO is better if the business is to be sold (1) or results are to be used by providers of finance (1) to assess risk (1).

LIFO is simple compared to AVCO (1); reveals lower profit (1); stock valued at historic prices (1); unacceptable under standards/tax (1).

Advice based on the arguments above (0 - 2)

max 10 marks

Overall 12 marks

2

Total for this question: 23 marks

Tajinder owns and runs a gift shop. She does not keep a full set of accounting records. However, she is able to provide the following information for the year ended 31 December 2007.

	£
Cash sales	58 547
Cash received from debtors	9 342
Purchases for cash	2 341
Cash paid to creditors	22 704
Discounts allowed during the year	454
Discounts received during the year	112

Additional information

(1)	At 1 January 2007	At 31 December 2007
	£	£
Stock	1859	1939
Debtors	843	1300
Creditors	7490	6106

- (2) One of the debtors outstanding at 1 January 2007 was unable to settle a debt of £149 and this amount was written off in July 2007.
- (3) Tajinder is considering making a provision for doubtful debts at 3% of debtors outstanding at the end of the year.
- (4) During the year, Tajinder took goods costing £761 from the business for her own use.

REQUIRED

2(a) Prepare a trading account for the year ended 31 December 2007.

Tajinder
Trading Account for the year ended 31 December 2007

	£		£		£
Sales				68 949	(7 OF) W1
Less cost of sales					
Stock			1 859	(1)	
Purchases	23 773	(6 OF) W2			
Goods for own use	761	(1)	23 012		
			24 871		
Stock			1 939	(1)	22 932
Gross profit (must say)				46 017	(10F)

Workings

W1 Total debtors' account

	£		£
Balance b/d	843(1)	Cash	9 342 (1)
Sales	10 402 (1)	Discount allowed	454 (1)
		Bad Debts	149 (1)
		Balance c/d	1 300 (1)
	<u>11 245</u>		<u>11 245</u>
Balance b/d	1 300		

W2 Total creditors' account

	£		£
Cash	22 704 (1)	Balance b/d	7 490 (1)
Discount received	112 (1)	Purchases	21 432 (1)
Balance c/d	6 106 (1)		
	<u>28 922</u>		<u>28 922</u>
		Balance b/d	6 106

W1 10 402 (6OF) + 58 547 (1)

W2 21 432 (5OF) + 2 341 (1)

17 marks

2(b) Advise Tajinder whether or not she should make a provision for doubtful debts. Give reasons for your advice.

If Tajinder feels that there may be the possibility of bad debts occurring in the future (1) creating a provision will reduce reported profits (1) and will reduce the balance sheet figure for outstanding debtors (1) (application of prudence concept) (1). This will ensure that any profits that could accrue from those outstanding debts will not then be recognised (1) thus avoiding using business resources (1) that might then not be realised (1).

max 4 marks

It would be prudent (1) for her to make a provision (1).

Advice 0-2 marks

3

Total for this question: 59 marks

Dough, Ray and Mee were in partnership sharing profits and losses in the ratio 3:2:1 respectively. Business profits have been falling consistently over the past few years and the partners have decided to dissolve the partnership with effect from 31 December 2007.

The balance sheet of the partnership at 31 December 2007 was as follows.

	£	£
Fixed assets		
Premises at cost		100 000
Machinery at cost		40 000
Vehicles at cost		20 000
		<u>160 000</u>
Current assets		
Stock	7 000	
Trade debtors	11 000	
Bank	5 000	
	<u>23 000</u>	
Current liabilities		
Trade creditors	2 000	21 000
		<u>181 000</u>
Capital accounts		
Dough		120 000
Ray		60 000
Mee		1 000
		<u>181 000</u>

Additional information at 31 December 2007

- (1) The debtors settled their outstanding debts for £10 000.
- (2) Trade creditors were settled. They allowed £500 cash discount.
- (3) Premises were sold to Loneta plc at an agreed purchase consideration of £140 000, consisting of 50 000 ordinary shares of £1 each, £18 000 7% debentures and £14 000 cash. The shares were divided in the profit sharing ratio and the debentures were shared equally between the partners.
- (4) The machinery, which was extremely old, was sold for £1100 cash.
- (5) One vehicle was taken over by Dough at an agreed value of £3000.
A second vehicle was taken over by Ray at an agreed value of £2000.
The third vehicle was sold for £4000 cash.
- (6) Ray took over the stock at an agreed value of £6000.
- (7) Dissolution expenses amounted to £5400.
- (8) All cash transactions were processed through the business bank account.

REQUIRED

Prepare the following to show the closing entries in the partnership books of account:

3(a) a realisation account to dissolve the partnership;

Realisation account					
	£			£	
Discount allowed	1 000	(1)	Discount received	500	(1)
Premises	100 000	(1)	Loneta plc	140 000	(1)
Machinery	40 000	(1)	Cash (machinery)	1 100	(1)
Vehicles	20 000	(1)	Capital Dough (vehicle)	3 000	(1)
Stock	7 000	(1)	Ray (vehicle)	2 000	(1)
Expenses	5 400	(1)	Cash (vehicle)	4 000	(1)
			Capital Ray (stock)	6 000	(1)
			Loss on realisation		
			Dough	8 400	
			Ray	5 600	
			Mee	2 800	
				16 800	(1)
	<u>173 400</u>			<u>173 400</u>	

14 marks

3(b) the partners' capital accounts;

Capital accounts							
	Dough £	Ray £	Mee £		Dough £	Ray £	Mee £
Debentures	6 000 (1)	6 000 (1)	6 000(1)	Balances	120 000 (1)	60 000 (1)	1 000(1)
Ordinary shares	54 000 (1)	36 000 (1)	18 000(1)				
Realisation (Vehicle)	3 000 (1)	2 000 (1)		Cash			25 800 (1OF)
Realisation (stock)		6 000 (1)					
Loss on realisation	8 400 (1OF)	5 600 (1OF)	2 800 (1OF)				
Cash	48 600 (1OF)	4 400 (1OF)					
	<u>120 000</u>	<u>60 000</u>	<u>26 800</u>		<u>120 000</u>	<u>60 000</u>	<u>26 800</u>

18 marks

3(c) a bank account;

Bank account					
	£			£	
Balance	5 000	(1)	Creditors	1 500	(1)
Debtors	10 000	(1)	Expenses	5 400	(1)
Loneta	14 000	(1)	Capital Dough	48 600	(1OF)
Realisation (Machinery)	1 100	(1)	Ray	4 400	(1OF)
Realisation (Vehicle)	4 000	(1)			
Capital Mee	25 800	(1OF)			
	<u>59 900</u>			<u>59 900</u>	

10 marks

3(d) the account of Loneta plc.

Loneta Plc					
	£			£	
Realisation (premises)	140 000	(1)	Cash	14 000	(1)
			Debentures	18 000	(1)
			Ordinary Shares Dough	54 000	(1)
			Ray	36 000	(1)
			Mee	18 000	(1)
	<u>140 000</u>			<u>140 000</u>	

6 marks

Ray will open a new business in Spring 2008.

He has prepared a business plan which reveals that the new business will require start-up capital of £100 000.

He is unsure whether to:

- (i) use his own private resources;
- (ii) borrow the necessary capital or;
- (iii) enter into another partnership.

He has asked your advice on how to raise the capital.

REQUIRED

3(e) Advise Ray on how he can raise the start-up capital for his new business venture. Give reasons for your advice.

Use of own money:

No repayment required (1)

No interest charges (1) although there is the opportunity cost (1)

No restriction on the use of the money (1)

No loss of control (1)

No loss of ownership (1).

However:

Could cause liquidity problems (1) shortage of readily accessible funds (1)

Could jeopardise future investment (1).

max 3 marks

Use of loan:

Must be repaid (1) with interest (1)

Repayments and interest could worsen liquidity situation (1)

Could be restriction on the use to which it might be put (1).

However:

Borrowing would leave his own funds available (1) for future emergencies (1) or further expansion (1).

max 3 marks

Entering new partnership:

No repayment required (1)

No interest to be paid (1)

Acquisition of new skills (1) and knowledge (1).

However:

Sharing control (1)

Sharing profits (1)

More permanent than a loan (1)

May be disagreements (1).

**max 3 marks
9 marks**

Advice based on arguments (0 – 2)

**2 marks
Overall 11 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.

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, understandable and logically argued (including spelling, punctuation and grammar)?

Is there a grasp of accounting terminology (eg avoiding slang, avoiding text language, avoiding abbreviations in prose answers)?

Are arguments logically argued?