



ASSESSMENT and
QUALIFICATIONS
ALLIANCE

Mark scheme January 2003

GCE

Accounting

Unit ACC3

January 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 / Layouts

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: 5 marks**

“Stocks should be valued at the lower of cost or net realisable value.”

REQUIRED

- (a) Complete the following sentence.

The above statement is an example of the **prudence** concept.

1 mark

- (b) Explain what is meant by the term “net realisable value”.

**Selling price (1) less (1) any costs incurred (1),
getting the goods into a saleable condition (1),
an example (1).**

Max 4 marks

2

Total for this question: 13 marks

REQUIRED

- (a) Calculate Lee’s net profit after using the reducing-balance method of providing depreciation on fixed assets.

	£			
Lee’s draft net profit for the year ended 31 December 2002	34 700	(1)	(1)	(1)
Provision for depreciation on fixed assets	<u>3 600</u>	(3)	$(40\,000 - 4\,000) \times \frac{1}{10}$	
Lee’s revised net profit for the year ended 31 December 2002	<u><u>31 100</u></u>	(1OF)		

4 marks

- (b) Prepare a balance sheet extract showing Lee’s fixed assets as at 31 December 2002 after charging depreciation using the reducing-balance method.

	£			
Fixed assets at cost	40 000		(1)	(1OF)
Depreciation	<u>7 600</u>	(2OF)	$4\,000 + 3\,600$	
Net book value	<u><u>32 400</u></u>	(1OF)		

3 marks

- (c) Name **two** accounting concepts used when providing for depreciation of fixed assets.

Two from Consistency, Accruals, Prudence, Cost

2 marks

- (d) Explain **two** reasons why fixed assets depreciate.

**Two from: wear and tear,
age,
obsolescence, etc.**

**1 mark for identifying each reason
plus 1 mark for explaining each reason**

4 marks

3

Total for this question: 21 marks

REQUIRED

- (a) Calculate the retained profit for the year ended 31 December 2002 after appropriations.

	£	
Retained profit for the year as per draft final accounts	150 000	
Transfer to general reserve	(45 000)	(1)
Ordinary dividend	(35 000)	(1)
Preference dividend	(4 000)	(1)
Corrected retained profit for the year	<u>66 000</u>	(10F)
If any of the figures are added - no mark for total		<u>4 marks</u>

- (b) Prepare the summarised balance sheet as at 31 December 2002 as it would appear after taking into account the additional information listed on the opposite page.

David Mark Ltd					
Summarised Balance Sheet as at 31 December 2002					
	£		£		£
Fixed assets					700 000
Current assets					
Stock		85 000		(1)	
Debtors		60 000		(1)	
Bank balance		<u>167 000</u>		(1)	
		312 000			
Less current liabilities					
Trade creditors	37 000	(1)			(35 000) (10F)
Proposed div'd	<u>39 000</u>	(2)	<u>76 000</u>		(4 000) (10F)
					<u><u>936 000</u></u>
Ordinary shares				350 000	(1)
8% Preference Shares				100 000	
Share Premium Account				50 000	(1)
General Reserve				120 000	(1)
Profit and loss account				<u>316 000</u>	(10F)
				<u><u>936 000</u></u>	
					<u>10 marks</u>

- (c) State the type of business ownership that would have “Ltd” as part of its name.

Limited company (1) OR Private Limited Company (2)

2 marks

- (d) Assess the importance of the term “Ltd” to an ordinary shareholder in David Mark Ltd.

Means shareholders (1) in David Mark Ltd have limited liability (1).

Could lose investment (1) but cannot be asked to contribute further (1) in case of liquidation (1) unless shares are not fully paid (1). This limits the risk taken (1) by the shareholders.

Limits to transfer (1) of any shares in the company (1).

Max 5 marks

4

Total for this question: 23 marks

REQUIRED

- (a) Prepare a summarised manufacturing account for the year ended 31 December 2002.

Dewray plc	
Summarised Manufacturing Account for the year ended 31 December 2002	
	£000
Prime cost	1 207
Factory overheads	915 (1)
Depreciation of machinery	<u>15 (1)</u>
	2 137 (1OF)
Add WIP 1 January 2002	<u>34 (1)</u>
	2 171
Less WIP 31 December 2002	<u>36 (1)</u>
	2 135
Profit loading	<u>427 (1OF) (20%)</u>
Transfer price	<u><u>2 562 (1OF)</u></u>

7 marks

- (b) Prepare a trading account for the year ended 31 December 2002.

Dewray plc		
Trading Account for the year ended 31 December 2002		
	£000	£000
Sales		3 460 (1)
Less cost of sales		
Stock 1 January 2002	156 (1)	
COGM	<u>2 562 (1OF)</u>	
	2 718	
Less stock 31 December 2002	<u>192 (1)</u>	
		<u>2 526 (1OF)</u>
Gross Profit (must say)		<u><u>934 (1OF)</u></u>

6 marks

- (c) Calculate the amount of the adjustment to the provision for unrealised profit to be shown in the profit and loss account for the year ended 31 December 2002.

The amount of the adjustment to the provision for unrealised profit to be shown in the profit and loss account is: **£6000**.

$$192 \times \frac{20}{120} (1) = 32 (1 \text{ OF})$$

$$156 \times \frac{20}{120} (1) = 26 (1 \text{ OF})$$

4 marks

- (d) Explain how the amount calculated in (c) should be shown in the profit and loss account.

Included in Profit and Loss account as an expense (1)

OR

deducted from GP on manufacturing when included in Profit and Loss account (2)

2 marks

- (e) Complete the following extract from the balance sheet.

Dewray plc			
Balance Sheet Extract as at 31 December 2002			
	£000		£000
Current assets			
Stock - raw materials			75 (1) or 0
- work in progress			36 (1) or 0
- finished goods	192 (1)		
less provision	<u>32</u> (1OF)	160	

4 marks

5

Total for this question: 14 marks

REQUIRED

- (a) State
- one**
- advantage
- and one**
- disadvantage of each type of investment.

Ordinary shares

Advantage	Voting rights Capital growth High dividends in good years Any other relevant point	1 mark
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Disadvantage	Risk Low (or no) dividend in poor years Any other relevant point	1 mark
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7% preference shares

Advantage	Set dividend Less risky than ordinary shares Any other relevant point	1 mark
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Disadvantage	No voting rights Set dividend Less good capital growth prospects than OS Any other relevant point	1 mark
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6% debentures

Advantage	Fixed interest Not shares Less risky than shares Any other relevant point	1 mark
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Disadvantage	Not shares Less good capital growth prospects than shares Set rate of interest Any other relevant point	1 mark
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6 marks

- (b) Advise Jill which type of investment she should choose.

Probably ordinary shares (1) or other justified decision.**Could lose investment (1) but could make a capital gain (1) if market price rises (1).****Could get large dividends (1) if company is profitable but could get low dividends (1) or nothing if results are poor (1).****Advise (1) plus 3.****max 4 marks**

- (c) Advise Jack which type of investment he should choose.

Preference shares give higher return (1) than debentures (1) but slightly more risk involved (1), would pay £700 per annum (1) may be capital growth (1).**Debentures will yield £600 and least risky option (1).****Debenture holders are creditors (1) so rank before Preference and Ordinary shareholders (1).****Advise (1) plus 3.****max 4 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.