



ASSESSMENT and  
QUALIFICATIONS  
ALLIANCE

# Mark scheme January 2003

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## GCE

### Accounting

### Unit ACC5

**January 2003****ACC5****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 (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.

1

Total marks for this question: 6 marks

**REQUIRED**

Discuss **two** possible problems that Jose may encounter as a partner that he would not have experienced as a sole trader.

**Problem areas for Jose could include:**

- **roles within the business; work load, etc;**
- **financial arrangements – profit shares, further injections of capital, etc;**
- **financial procedures when structural changes occur – revaluation of assets, goodwill, etc;**
- **changed relationships to other workers caused by Mick’s ‘elevation’;**
- **unlimited liability now includes Mick.**

0 – 3 marks for each point. 1 for identification plus 2 further marks for development. max 6

2

Total marks for this question: 14 marks

**REQUIRED**

(a) Calculate her net profit for the year ended 30 November 2002.

<b>Closing capital</b>	<b>79 300</b>	<b>(3) W<sub>1</sub></b>		<b>47 000</b>	
<b>Opening capital</b>	<b>87 000</b>	<b>(1) or (0)</b>		<b>21 600</b>	
	<b>(7 700)</b>	<b>9 450 (1)</b>		<b>12 000</b>	<b>All 7 – (3)</b>
<b>Add drawings</b>	<b>11 550</b>	<b>(2) 2 100 (1)</b>		<b>1 090</b>	<b>6 – (2)</b>
<b>Net profit (1)</b>	<b>3 850</b>	<b>(1) OF</b>		<b>5 700</b>	<b>3-5 – (1)</b>
				<b>(7 450)</b>	
				<b>(640)</b>	

**8 marks**

(b) Evaluate the advantages and disadvantages of the method that you used to determine net profit.

**Accurate method (1) provided figures are accurate (1) e.g. debtors, creditors, stocks, value of fixed assets (1) for any example**

**Quick method (1) provided figures are available (1) e.g. stock, debtors, creditors (1) for any example(s)**

**BUT**

**Method is not detailed (1) enough for stewardship (1) or management (1) purposes (1) further mark for examples (1)**

**Would not be sufficient (1) for tax (1) or VAT (1) purposes**

**Advantages max 3 marks, disadvantages max 3, BUT if no evaluation max 4 marks overall.**

**Conclusion – evaluation of method (2)**

**Overall max 6 marks**

3

Total marks for this question: 11 marks

**REQUIRED**

(a) Assess the effect each of the three methods of stock valuation would have on profits:

(i) in the short term;

**FIFO Higher profits (1)**

**AVCO 'inbetween' profits (1)**

**LIFO Lower profits (1)**

} when prices are rising (2)

**max 3 marks**

(ii) in the long term.

**Aggregate profits over the life (1) of the business will be the same whichever method is chosen (1). (0-2)**

(b) Explain whether or not Bernice should change the method of stock valuation she has been using in order to alter:

(i) profits;

**If Bernice wished to lower her profits (1) she could change to AVCO or LIFO (1) but this would not be consistent (1) and it would make comparisons difficult (1). She would have to adjust her final accounts when making decisions (1).**

**max 4 marks**

(ii) cash flow.

**Stock valuation does not affect cash flow (2).**

**REQUIRED**

- (a) Calculate the amount for annual subscriptions to be shown in the income and expenditure account for the year ended 31 December 2002.

<b>Cash paid</b>	<b>29 250</b>	<b>(1)</b>			
<b>Subs unpaid 31/12/01</b>	<b>(150)</b>	<b>(1)</b>	<b>OR</b>	<b>Bal b/d</b>	<b>150 (1)</b>
<b>paid in adv 31/12/01</b>	<b>200</b>	<b>(1)</b>		<b>Inc &amp; ex a/c</b>	<b>29 350</b>
<b>unpaid 31/12/02</b>	<b>100</b>	<b>(1)</b>		<b>Bal c/d</b>	<b>50 (1)</b>
<b>paid in adv 31/12/02</b>	<b>(50)</b>	<b>(1)</b>			<b>29 550</b>
	<u><b>29 350</b></u>				<u><b>29 550</b></u>
<b>To Inc &amp; exp account</b>					

**5 marks**

- (b) Explain how the £100 subscriptions remaining unpaid at 31 December 2002 should be shown in the balance sheet as at 31 December 2002.

**Under the heading of current asset (2).**

**2 marks**

- (c) Calculate (show detailed workings):

- (i) the amount to be transferred from the life membership fund to the income and expenditure account for the year ended 31 December 2002;
- (ii) the balance remaining in the life membership fund as at 31 December 2002 and explain how it should be treated in the balance sheet.

**Life Membership Fund**

<b>c(i) Income &amp; exp a/c</b>	<b>6 900</b>	<b>(2)</b>		<b>Balance b/d</b>	<b>63 750</b>
<b>Balance c/d</b>	<u><b>62 100</b></u>			<b>Cash</b>	<u><b>5 250</b></u>
	<u><b>69 000</b></u>				<u><b>69 000</b></u>

**4 marks**

- c(ii) £62 100 (1) OF shown as a liability under separate heading (1)**

**2 marks**

- (d) To what extent will the operation of a life membership scheme benefit the club?

**Benefits –**

- Lump sums available for club use (1)**
- Income from sums invested (2)**
- Benefits from assets purchased e.g. more facilities (0-3)**

} **max 3**

**Disbenefits – No further contributions of cash from life members (0-3)**

**Benefits max 3 marks, disbenefits max 3 marks, BUT if no evaluation max 4 marks overall.**

**Conclusion – evaluation of benefit (2)**

**6 marks**

**REQUIRED**

- (a) Calculate the profit or loss on the dissolution of the partnership.

		<u>Realisation a/c</u>		May be shown as a calculation.	
Fixed Assets	205 000 (1)	Cash		154 000 (1)	
Stock	3 400 (1)	Capital	A	6 000	}
Disc Alld	300 (1)		B	5 000	
Costs	7 250 (1)		C	3 000	
		Disc Rec		100 (1)	
		Loss	A	23 925	
			B	15 950	
			C	7 975	
	<u>215 950</u>			<u>47 850</u> (1) OF	
				<u>215 950</u>	

**8 marks**

- (b) Prepare the partnership bank account for the period 31 October 2002 to 31 December 2002.

		<u>Cash</u>	
Balance	2 100	Realisation (costs)	7 250 (1)
Realisation (FA)	154 000 (1)	Creditors	3 900 (1)
Debtors	3 200 (1)	Capital	A
			109 393 (1) OF
			B
			<u>38 757</u> (1) OF
	<u>159 300</u>		<u>159 300</u>

**6 marks**

- (c) Prepare the partners' capital accounts for the period 31 October 2002 to 31 December 2002.

		<u>Capitals</u>					
		A	B	C	A	B	C
Realisation (cars)	6 000	5 000	3 000 (1)	Balances b/d	140 000	60 000	10 000 (1)
Loss on realisation	23 925 (1) OF	15 950 (1) OF	7 975 (1) OF	Capital	A		682 (1)
Capital C	682 (1) OF	293 (1) OF*			B		293 (1)
Cash	<u>109 393</u> (1) OF	<u>38 757</u> (1) OF			<u>140 000</u>	<u>60 000</u>	<u>10 975</u>
	<u>140 000</u>	<u>60 000</u>	<u>10 975</u>		<u>140 000</u>	<u>60 000</u>	<u>10 975</u>

**10 marks**

\* (must be 7:3 for OF here)

- (d) Outline any factors, other than financial considerations, that the partners may have taken into account before deciding to dissolve the partnership.

**Loss of jobs (1) plus 3 further marks for discussion on the consequences to families and locality but not nationally. Loss of skills, knowledge, expertise (max 2) gained in cancer research, plus 3 further marks for discussion. **max 8****

(e) Calculate (show the formulae used);

(i) dividend yield on ordinary shares;

$$\text{dividend yield} = \frac{\text{dividends}}{\text{market price of share}} \quad (1) \quad \frac{10}{500} = 2\% \quad (1)$$

2 marks

(ii) dividend cover;

$$\text{dividend cover} = \frac{\text{profits available for dividends} \quad (1)}{\text{dividends}} \quad \frac{786\,000}{200\,000} = 3.93 \text{ times} \quad (1)$$

2 marks

(f) explain how the two ratios calculated in (e) above might help Abdul to reach a decision as to whether or not he should purchase ordinary shares in Graypus plc;

(i) Abdul will require a return on his investment (1); this ratio shows how much actual income he will receive (1) based on the market price of £5 (1). He should compare this with the return he could gain elsewhere (1) e.g. Building Society etc, (1) but he may make a capital gain when he sells his shares (1). max 4

(ii) This shows how likely it is that the company will be able to continue paying the current dividend (1) providing profits stay at least the same (1). The cover is almost 4 (1), so there is about 75% profits ploughed back (1) – these also belong to the shareholders (1) – these retained profits will be reflected in the market price of the shares (1). max 4

(g) assess the usefulness of using ratios as a basis for making an investment decision.

**Identification of each benefit or limitation 1 mark, plus a further 2 marks for development.**

**Maximum of three points**

**Points –**

- Use of historic data
- Figures give an overview
- Only monetary aspects shown
- Preparation of accounts on one day
- Helps analysis of results
- Helps form an opinion/judgement on performance
- Diagnostic tool

**Benefits max 3, limitations max 3, BUT if no assessment max 5 overall.**

**Assessment (1).**

**max 6**

## 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.