



ASSESSMENT and
QUALIFICATIONS
ALLIANCE

Mark scheme

June 2003

GCE

Accounting

Unit ACC2

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June 2003**ACC2****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. 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: 18 marks**

A to Z Spares Ltd has an authorised capital of:
 3 million ordinary shares of £1 each;
 1 million 6% preference shares of 25p each.

The company issued:
 2 million ordinary shares at a premium of 50p each and
 500 000 6% preference shares at par.

All shares were fully paid.

REQUIRED

(a) Complete the following table to show the amount to be entered in each account.

6 marks

Account	Amount £
Ordinary share capital	£2 million (1)
Preference share capital	£125 000 (1)
Share premium	£1 million (1)
Bank	£3 125 000 (3) o/f from above

(b) On 31 March 2003 there was profit available for distribution of £750 000. The directors therefore proposes that the annual dividend is paid on the preference shares and a dividend of 10p per share is paid on the ordinary shares.

Calculate:

i) the total preference share dividend

3 marks

$$\text{£125 000 (1) x 6\% (1) = £7 500 (1) o/f}$$

ii) the total ordinary share dividend

3 marks

$$2\,000\,000 \text{ shares (1) x 10p (1) = £200 000 (1)}$$

iii) the total of retained profit after distribution

3 marks

$$\text{£750 000 (1) - £207 500 o/f (1) = £542 500 (1) o/f}$$

(c) List **three** items which will be included in the Directors' Report.

3 marks

**Results(1): Dividends(1): Activities(1): Review of business(1): List of Directors(1)
 and their interests(1) share capital(1) employees(1) charity(1) /political(1)
 donations environmental policy(1) investment (1)**

2

Total for this question: 12 marks

The trial balance of HG Patel Ltd, as at 30 April 2003, has been partially completed, but the following balances have yet to be included.

	£
Purchases	38 900
Sales	98 000
Returns outwards	3 698
Carriage inwards	367
Carriage outwards	450
Discount received	2 135
Dividends paid	6 900

REQUIRED

(a) Enter these figures into the trial balance provided below.

7 marks

(b) Total the trial balance and enter any difference in the suspense account.

1 mark

total marks for a) and b) = 8 as shown in the TB

H G Patel Ltd: Trial Balance as at 30 April 2003

Account	Debit £	Credit £
Wages	23 890	
Administration costs	6 000	
Share capital		60 000
Premises	65 000	
Motor vehicles	15 000	
Motor expenses	1 650	
Purchases	38 900(1)	
Sales		98 000(1)
Returns outwards		3 698(1)
Carriage inwards	367(1)	
Carriage outwards	450(1)	
Discount received		2 135(1)
Dividends paid	6 900(1)	
Suspense	5 676(1)	o/f
TOTAL	163 833	163 833

(c) There are many reasons for the error(s) giving rise to the suspense account.

From the following list of bookkeeping errors, tick the Yes or No box to indicate whether or not it could be responsible for the difference in the trial balance. **4 marks**

An example has been given.

Error	Yes	No
1. <i>A balance has been entered in the wrong column of the trial balance.</i>	✓	
2. An error of principle has occurred.		✓ (1)
3. The sales account has been totalled incorrectly.	✓ (1)	
4. An invoice has been completely omitted.		✓ (1)
5. A cheque has been debited in the cash book as £150 but credited in the customer's account as £105.	✓ (1)	

3

Total for this question: 13 marks

The accountant of James White Ltd has prepared a trial balance to verify the accuracy of the ledgers. The directors believe this to be a waste of time.

REQUIRED

Prepare a report for the directors under the following headings.

REPORT

To:

From:

Date:

Subject:

Report heading 1 mark

(a) **Two** reasons for preparing a trial balance

It will check the arithmetical accuracy (1) of the ledgers(1)

It will show the debit and credit(1) entries are equal(1)

It will provide useful information(1) for preparing the final accounts(1)

A check for errors before preparing the final accounts (2)

4 marks

(b) **One** limitation of a trial balance (other than that of being time consuming)

There are some errors it will not reveal(1) Any example(1)

one for limitation + 2 for development and explanation it may be in the form of example only if well explained

Errors are shown but not identified (1)

3 marks

Note: It is not accepted that a limitation is that it is time consuming, the note was made in the question to avoid the loss of marks to the many students who use this as an example.

(c) **Two** sources of trial balance entries.

Source: Account balances(1) from the ledgers(1).

Or Sales ledger (1) Purchase Ledger (1) General Ledger (1) Cash Book(1)

max 2 marks

(d) Why the trial balance totals should agree if the bookkeeping has been carried out correctly.

Explanation: Every transaction has two entries(1) one debit (1) and one credit(1) which are equal(1)

3 marks

4

Total for this question: 9 marks

The balance sheet of Highfield Products Ltd shows capital reserves and revenue reserves.

REQUIRED

Explain the nature of these reserves, giving **one** example of each.

(a) Capital reserves

Explanation: A reserve earned from non trading activities(1)

Non distributable reserves(1) They cannot be used for dividends(1)

They are a part of the equity funds(1)

Some can be used for bonus issues(1)

3 marks

Example: Any suitable example(1) e.g. Revaluation Reserve, Share Premium A/c

1 mark

(b) Revenue reserves

Explanation: Earned from trading activities(1)

Distributable(1) as dividends to shareholders(1)

or as bonus issues(1)

Part of the equity funds(1)

3 marks

Example: Any suitable example(1) e.g. Retained profit (1) Profit and Loss A/c (1)

1 mark

(c) Will reserves be shown on the debit or credit side of the general ledger accounts?

Credit

1 mark

5

Total for this question: 12 marks

REQUIRED

From the following figures, complete the balance sheet for A to Z Engineering Supplies Ltd as at 31 March 2003. Clearly show the fixed and current assets and long-term and current liabilities. To complete the balance sheet, calculate the issued share capital.

	£
Profit and loss account at 31 March 2003	19 031
Stocks at 31 March 2003	14 905
Debtors	6 500
Creditors	4 590
Premises	50 000
Motor vehicles	14 560
Bank overdraft	3 400
Petty cash	56
Dividends proposed	13 000
10% Debentures (2020)	25 000

**A to Z Engineering Supplies Ltd
Balance Sheet as at 31 March 2003 (1)**

	£	£	£
Fixed Assets			
Premises			(1)50 000
Motor Vehicles			(1)14 560
			<hr/> 64 560
Current Assets			
Stock		(1)14 905	
Debtors		(1)6 500	
Petty Cash		(1)56	
		<hr/> 21 461	
Current Liabilities			
Dividends Proposed	(1)13 000		
Creditors	(1) 4 590		
Overdraft	(1) 3 400	(20 990)	471
			<hr/> 65 031
Long Term Liabilities			
10% Debentures			(1) (25 000)
			<hr/> 40 031
Share Capital			(1)21 000 o/f
Profit			(1)19 031
			<hr/> 40 031

No mark for any item in the wrong sub section.

12 marks

6

Total for this question: 8 marks

Barbara Smith is proposing to use a computer for the accounting functions of her business.

REQUIRED

Why will this contribute to greater speed and accuracy in the accounting process?

Speed:

- **When the entry is typed in it automatically(1) enters the amount(1) in every account saving time(1)**
- **The totals are done automatically(1)**
- **Accounts can be reproduced by printing(1)**
- **The trial balance, final accounts etc are prepared by the program(1)**
- **Error correction is speedier(1)**

max 4 marks

Accuracy:

- **Only one entry is made(1) and so there are less copying errors(1)**
- **The automatic totalling(1) is accurate(1)**
- **The entries can be batch controlled(1)**

max 4 marks

7

Total for this question: 4 marks**REQUIRED**

Explain briefly the value of the published report and accounts to:

(a) potential shareholders;

They can use them to assess the profitability(1) stability(1) returns(1)

They can also see details of environmental policies(1) future plans(1)

They can use it as means to compare to other investments (0-2)

2 marks

(b) potential debenture holders.

They can look at the stability(1) other long term loans(1) Ability to pay interest(1)

Future plans(1)

2 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.