



ASSESSMENT and  
QUALIFICATIONS  
ALLIANCE

# Mark scheme

# June 2003

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## GCE

## Accounting

### Unit ACC5

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**June 2003****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. 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: 13 marks**

**REQUIRED**

- (a) Calculate the value of closing stock to be included in Raymond’s final accounts as at 30 April 2003.

	<b>£</b>				
<b>Stock as per stock-take</b>	<b>7 415</b>	<b>(4)</b>		<b>W<sub>1</sub></b>	<b>7 420 (1)</b>
					<b>(65) (1)</b>
<b>Add sales</b>	<b>1 060</b>	<b>(2)</b>		<b>W<sub>2</sub></b>	<b>60 (2)</b>
<b>sale or return goods</b>	<b>300</b>	<b>(2)</b>		<b>W<sub>3</sub></b>	
<b>purchase returns</b>	<b>110</b>	<b>(1)</b>			<b>W<sub>2</sub></b>
<b>Value of closing stock</b>	<b>8 885</b>				<b>1378 (1) ÷ 1.3 (1)</b>
					<b>W<sub>3</sub></b>
					<b>390 (1) ÷ 1.3 (1)</b>

**9 marks**

- (b) Explain **two** reasons why the closing stock as shown by a computer print-out may differ from that shown by a physical stock-take.

**Stealing (1) not recorded on stock records (1) but ‘missing’ at stock-take (1)**  
**‘Natural causes’ (1) breakages (1) other examples (1) e.g. evaporation, deterioration etc. Not recorded on stock records (1) but ‘missing’ at stock-take (1)**  
**Incorrect entries on stock records (1) plus (1) for example**  
**Incorrect physical stock-take (1) plus (1) for example**

**Overall max 4 marks**

2

Total for this question: 11 marks

**REQUIRED**

Prepare the trading account for the year ended 31 March 2003.

**Kath Phillips**  
**Trading account for the year ended 31 March 2003**

		£			£
W <sub>1</sub>	67 350	(1)			
	130	(1)	Sales		W <sub>1</sub> 67 395 (5) OF
	4 680	(1)	Less cost of sales		
	<u>(4 765)</u>	(1)	Stock	2 460 \	
	67 395	(1)	Purchases	W <sub>2</sub> <u>21 430</u>	(4) (1) both
				23 890	OF
				<u>5 710</u>	
W <sub>2</sub>	21 080	(1)	Less stock		<u>18 180</u>
	3 450	(1)	Gross profit (must say)		<u>49 215</u> (1) OF
	<u>(3 100)</u>	(1)			
	<u>21 430</u>	(1)			

**11 marks**

3

Total for this question: 12 marks

**REQUIRED**

- (a) Calculate the balances shown in the capital accounts of Annabel and Brad immediately after Christine's retirement.

<b>A capital</b>	<b>200 000</b>	<b>-</b>	<b>40 000</b>	<b>(1)</b>	<b>=</b>	<b>160 000</b>	<b>(1)</b>	<b>OF</b>
<b>B capital</b>	<b>110 000</b>	<b>-</b>	<b>20 000</b>	<b>(1)</b>	<b>=</b>	<b>90 000</b>	<b>(1)</b>	<b>OF</b>

**Overall max 4 marks**

- (b) Advise Annabel and Brad, giving reasons, which option they should use to settle the amount owed to Christine.

[1] Will reduce bank balance (1) by £130, 000 (1) possible incurring overdraft (1) deprives business of liquid resources (1) **3 marks**

[2] Interest charge (1) payments of £32 500 each year (1) for 4 years (1) will have to pay this (1) since Christine will be a creditor (1) **3 marks**

[3] New partner with new ideas (1) etc the partnership can pay Christine off with capital introduced (1) no charges against business (1) only profit share (1) **3 marks**

**max 7 marks**

Advice (1) based on discussion **1 mark**

**Overall max 8 marks**

4

**Total for this question: 8 marks****REQUIRED**

Advise the directors, giving your reasons, which method of raising the required finance they should use.

**Mortgage – interest (1) and capital (1) must be repaid (1) or factory may be repossessed (1).  
After mortgage is repaid ownership rests with Genspec plc (1). Repayments will be  
less onerous as time elapses (1) in real terms (1) max 4 marks**

**Sale and lease back – immediate loss of ownership (1) lessor can impose restrictions on use (1)  
may increase rent (1) can refuse renewal of lease (1)  
Rental may be less than mortgage payments (1)  
Which may have less impact on liquidity (1) and profitability (1) max 4 marks**

**Advice (1) based on discussion**

**max 7 marks****1 mark****Overall max 8 marks**

5

Total for this question: 56 marks

**REQUIRED**

(a) Prepare the club’s income and expenditure account for the year ended 31 May 2003.

**Longwathby Sports and Social Club**  
**Income and expenditure account for the year ended 31 May 2003**

Rates W <sub>2</sub>	2 390	(4)	Bar profit	12 500	(1)
Other expenses	19 400		Subscriptions	W <sub>1</sub> 7 480	(4)
Depreciation of equipment	2 000	(1)	Income for letting	W <sub>3</sub> 4 860	(2)
Surplus	1 210	(1) OF	Dividends	160	(1)
	<u>25 000</u>			<u>25 000</u>	

**14 marks**

<b><u>W<sub>1</sub> Subscriptions</u></b>	<b><u>W<sub>2</sub> Rates</u></b>	<b><u>W<sub>3</sub> Income from letting</u></b>
7 480 (1)   40 (1)	70 (1)   2 390 (1)	4 800 (1)
240 (1)   7 680 (1)	2 400 (1)   80 (1)	60 (1)
<u>7 720</u>	<u>2 470</u>	<u>2 470</u>

(b) Prepare the club’s balance sheet as at 31 May 2003.

**Balance sheet as at 31 May 2003**

**Fixed Assets**

Club house	240 000	(1)	<b><u>Accumulated fund</u></b>	278 674	
Club equipment	35 000	(1)	Add surplus	1 210	(1) OF
Shares (may be CA)	3 200	(1)		<u>279 884</u>	
	<u>278 200</u>				

**Current Assets**

Stock	1 700	(1)	<b><u>Current Liabilities</u></b>		
Bank	300	(1)	Creditors	216	(1)
Lettings due	60	(1)	Subs in advance	240	(1)
Rates prepaid	80	(1)		<u>456</u>	
	<u>2 140</u>			<u>280 340</u>	
	<u>280 340</u>				

**10 marks**

- (c) Explain and give examples of **two** reasons why the club's records show a debit balance at bank of £300, whereas the bank statement shows a credit balance of £450 in the account.

**Difference is £150 (1).**

**Explanations – income entries missing from cash book (1) that are on bank statements (1) only, e.g. credit transfers, BACS receipts or other bankings omitted. (1) max 3 marks**

**Unpresented cheque (1) entered in cash book (1) but not yet on bank statement (1) max 3 marks**

**Errors in cash book (1) e.g. additions (1)**

**Errors in bank statement (1) e.g. crediting other's monies to club account (1). max 3 marks**

**Overall max 5 marks**

- (d) Identify the method that the club treasurer should use to verify the accuracy of the bank balance shown in the club's records.

**Prepare bank reconciliation statement (1) 1 mark**

- (e) Explain the significance, to the club, of the fact that Blinka plc is highly geared.

**Highly geared company has high borrowing (1) borrowing must be serviced (1) whether business is profitable or not (1). Should the company fail to make profits then interest must still be paid (1) this could result in creditors forcing company into liquidation (1).**

**In poor years (years of low or nil profits) (1) the club may not receive a dividend (1).**

**In good years (1) club may receive larger dividends (1).**

**max 3 marks**



- (f) Advise the club treasurer, giving your reasons, whether or not the shares should be sold and the proceeds deposited in a building society account.

**The return is not 40% (1) 3.2% at current value (1) the building society account would yield £250 (1) compared to £160 (1) so building society better at moment (1) but what about in the future ? (1)**

**The club has a potential capital gain (1) this could increase (1) or decrease (1)**

**In the future if the club wants a safe investment (1) then the building society is a better option**

**max 7 marks**

**Advice based on discussion (1)**

**1 mark**

**Overall max 8 marks**

- (g) Calculate the return on capital employed (ROCE). Show the formula used.

$$\frac{\text{Surplus}}{\text{Accumulated Fund}} \text{ (1)} = \frac{1\,210 \text{ (OF)}}{278\,674} = 0.43\% \text{ (1)}$$

**2 marks**

- (h) Analyse the significance of the **two** ratios in order to provide answers to the member's questions.

**Only relevant when compared to 'something' (1)**

**Only valid comparison, here, is with previous year(s) (1)**

**max 2 marks**

**ROCE is low (1) but is not very important for club (1) – not a profit making organisation (1)**

**it only exists for the benefit of the members (1) it should be positive (1) otherwise the club will be using its resources (1)**

**max 3 marks**

**Acid test ratio is low (unable to cover current liabilities) (1) - is also not so important for the club (1) working capital ratio perhaps more important since subscriptions in advance distort the ratio (1) since these are not creditors in the 'real sense' of the word (1) – they would not demand repayment (1)**

**max 3 marks**

**Overall max 5 marks**

- (i) Advise the committee whether they should let the room to the group. Give detailed reasons for your decision.

**Contribution from OAP's**

$$15(1) - 13(1) = £2(1) \text{ per meeting}$$

$$\text{or } 60(1) - 52(1) = £8(1) \text{ per four meetings}$$

**Club would be worse off financially if it did not allow meetings (1) the additional charges are fixed costs (1) and should not be considered (1) when using marginal costing.**

**Advice - positive contribution (1) so allow (1)**

**max 5 marks**

**Other factors – Goodwill gesture (1) good publicity (1) club members may have relatives in the group (1) refusal could cause ill feeling in the club (1)**

**max 3 marks**

**Overall max 8 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.