



ASSESSMENT and
QUALIFICATIONS
ALLIANCE

Mark scheme January 2004

GCE

Accounting

Unit ACC2

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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. **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.

Asterisks (*)

An asterisk indicates a point worthy of one mark.

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: 22 marks

The following balances have been extracted from the books of Positive Advertising plc at 31 December 2003:

	£000
Issued share capital:	
Ordinary shares of £1 each fully paid	2000
6% Preference shares of £1 each fully paid	500
Profit and loss account balance as at 1 January 2003	65
Revaluation reserve	70
Trade creditors and accrued expenses	35
Profit before tax for the year ended 31 December 2003	694
Taxation for the year ended 31 December 2003	208

The directors propose the following:

- a full year's dividend on the preference shares;
- an ordinary share dividend of 4 pence per share.

REQUIRED

- (a) Prepare the profit and loss appropriation account for the year ended 31 December 2003.

Positive Advertising plc			
Profit and loss appropriation account for the year ended 31 December 2003*			
		£000	£000
Profit before tax			694*
Less tax			<u>208*</u>
Profit after tax			486
Dividends proposed:			
Preference shares	(6% x 500 000)* workings	30*OF	
Ordinary shares	(4p x 2 million)* workings	80*OF	<u>110</u>
Net profit retained			<u>376*OF labelled</u>

8 marks

- (b) Prepare the capital and reserves section of the balance sheet.

Positive Advertising plc			
Balance sheet extract as at 31 December 2003			
		£000	£000
Capital and reserves			
Issued share capital:			
Preference shares		500*	
Ordinary shares		<u>2 000*</u>	2 500
Revaluation reserve		70*	
Profit and loss account balance	(376* OF + 65*)	<u>441**</u>	<u>511</u>
			3 011

5 marks

- 1 (c) Prepare the current liabilities section of the balance sheet.

Positive Advertising plc
Balance sheet extract as at 31 December 2003

Current liabilities			
Trade creditors		35 *	
Taxation		208 *	
Dividends proposed	(80*+30*)	110 ** OF	353

4 marks

When preparing a balance sheet it is important to distinguish between long-term and current liabilities.

- (d) Give **one** example of a long-term liability.

Bank loan repayable after more than 1 year, Mortgage, Debentures

1 mark

- (e) Explain why it is important to distinguish between long-term and current liabilities.

Distinction is important as errors in identification will lead to incorrect management decisions.

(0-4)

Long-term liabilities are amounts owing due to be paid after more than one year. Current liabilities are amounts owing due to be paid in less than one year.

max 3 marks

max 4 marks

2

Total for this question: 13 marks

The following balances were extracted from the ledgers of The Agricultural Supplies plc for the month of December 2003.

	£
Carriage outwards	450
Purchases	12 467
Rent and rates	1 300
Returns inwards	596
Returns outwards	367
Sales	26 579
Stock at 1 December	4 502
Stock at 31 December	3 692
Sundry expenses	3 200
Wages	5 600

REQUIRED

Prepare the trading and profit and loss account for the month ended 31 December 2003.

The Agricultural Supplies plc
Trading and profit and loss account for the month ended 31 December 2003*

	£	£
Sales		26 579 *
Less returns inwards		<u>596 *</u>
		25 983
Less cost of sales		
Opening stock	4 502 *	
Add purchases	12 467 *	
Less returns outwards	<u>367 *</u>	
	16 602	
Less closing stock	<u>3 692 *</u>	<u>12 910</u>
Gross profit		13 073 * (labelled OF no aliens)
Less expenses		
Carriage outwards	450 *	
Wages	5 600 *	
Rent and rates	1 300 *	
Sundry expenses	<u>3 200 *</u>	<u>10 550</u>
Net profit		<u>2 523</u> * (labelled OF no aliens)

13 marks

3

Total for this question: 15 marks

REQUIRED

- (a) Complete the following table to show on which side of a trial balance the items would be entered.

An example has been given.

ITEM	DEBIT or CREDIT
<i>Debtors</i>	<i>Debit</i>
Sales	Credit*
Bank overdraft	Credit*
Motor vehicles	Debit*
Carriage out	Debit*
Creditors	Credit*

5 marks

- (b) Even where a trial balance is drawn up using a computer there can be similar errors to a manual system.

Describe **two** such errors.**Omission, commission, principle, original entry, compensating, reversal of entries.**Error 1 **E.g. Commission* where an amount has been entered in the wrong account* of the same type*.****OR a clear example e.g. The sales invoice* to J Jones has been entered in the account of J Jones and Son* instead of the correct one*.**

3 marks

Error 2 **As above.**

3 marks

- (c) Describe briefly
- two**
- uses of a trial balance.

To check the arithmetical* accuracy of the accounts*.**To be used for drawing up the final accounts* quickly* and/or easily*.****To show if there are other errors* in the accounts*.**

max 4 marks

4

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

The managing director of Supermarket Supreme plc has asked you to prepare a short report explaining to shareholders the purpose of producing a cash flow statement each year.

To **Shareholders or managing director**

From **A student**

Date **As exam**

Subject **The purpose of cash flow statements** **heading: 1 mark**

They deal with cash not profits* and show cash change* for the year*.

They show the source of cash inflow* and the uses of cash outflow*.

They link the profit and loss account* and balance sheet*.

They will show the shareholder if there is a cash inflow/outflow* during the year*.

As most business failures* are due to shortage of cash*, the shareholder will have a better view* of the stability of the business*.

They show the amount of cash generated from profits* or from other activities*.

report: max 7 marks

5

Total for this question: 12 marks

In the books of Jones and Simpson Ltd the following errors have been discovered after preparing the draft accounts for the year ended 31 October 2003.

1. The purchase of a machine costing £4 000 has been included in the total for purchases.
2. Returns inwards of £640 have been omitted completely from the accounts.
3. The sales day book was undercast by £7 800.
4. The wages were incorrectly stated as £89 000. The correct figure was £98 000.

The draft profit calculated was £67 000.

REQUIRED

- (a) Calculate the corrected net profit for the year ended 31 October 2003.

**Jones and Simpson Ltd
Corrected Net Profit for the year ended 31 October 2003**

	£	
Draft profit given	67 000	*
1. Add fall in purchases	4 000	*
2. Less returns inwards omitted	(640)	*
3. Add sales undercast	7 800	*
4. Less wages understated	(9 000)	*
	69 160	* OF

6 marks

- (b) State any changes, as a result of these corrections, which will have to be made to the balance sheet. Identify **each** sub-heading, item and amount involved.

Fixed assets*	}	(1) for both items	
Machinery			+£4000 *
Current assets	}	* (1) for both items	- £640 *
Debtors			
Reserves*	}	(1) for both items	
Profit and loss account			+ £2160*OF (from (a))

6 marks

6

Total for this question: 6 marks

REQUIRED

Both directors and auditors have duties with regard to the accounts of limited companies. Explain what their duties are.

(a) Directors' duties are:

**To prepare the accounts* in accordance with company law* and accounting standards*.
To have used appropriate accounting policies* that give a true and fair view* of the state of affairs of the company*.** **max 3 marks**

(b) Auditors' duties are:

**To verify the accounts* in accordance with law* and regulations*.
To report* their opinion* as to whether the accounts give a true and fair view*.
To state if the Director's report is inconsistent with the accounts*
or if the Company has not kept proper records*.** **max 3 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.