

GCE 2004

June Series



Mark Scheme

Accounting

Unit ACC5

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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June 2004**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. **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.

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.

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: 9 marks**

The following extract has been taken from the receipts and payments account of the Ropley Rugby Club for the year ended 31 December 2003.

Receipts	£
Annual subscriptions	9160
Life membership subscriptions	3000

Additional information

- (1) At 1 January 2003 annual subscriptions received in advance amounted to £120.
- (2) At 31 December 2003 subscriptions received in advance for the year ending 31 December 2004 amounted to £200. Subscriptions accrued and unpaid amounted to £40.
- (3) At 1 January 2003 the balance on the life membership fund was £18 600.
- (4) It is club policy to transfer 10% of the total in the life membership fund, at the financial year-end, to the club's income and expenditure account.

REQUIRED

Calculate the amounts to be shown in the club's income and expenditure account for:

- (a) annual subscriptions;

		Subscriptions						
£9120	(5) OF	9 120	(1)	120	(1)	OR	9 160	(1)
		200	(1)	9 160	(1)		120	(1)
		40	(1)	40	(1)		(200)	(1)
		40		200			40	(1)
							9 120	(1)

5 marks

- (b) life membership subscriptions.

$$\text{£2 160} \quad (4) \text{ OF} \quad \text{18 600} \quad (1) \quad + \quad \text{3 000} \quad (1) \quad \times \text{1/10} \quad (1)$$

4 marks

2

Total for this question: 14 marks

Gordon McGuire does not keep a full set of accounting records for his business. On Saturday 29 May 2004, two days before his financial year-end, an amount of cash was stolen from the business.

Gordon provides you with the following information.

	£	
Cash balance at 1 June 2003	229	
Cash balance at 31 May 2004	160	
Cash sales for the year	219 941	
Cash paid into bank during the year	165 640	
Expenses paid by cash	49 600	

REQUIRED

- (a) Prepare a summarised cash account showing clearly the amount of cash stolen on 29 May 2004.

Cash account					
Balance b/d	229	(1)	Banked	165 640	(1)
Cash sales	219 941	(1)	Expenses	49 600	(1)
			Balance c/d	160	(1) or 0
			Stolen	4 770	(1) OF
	<u>220 170</u>			<u>220 170</u>	
Balance b/d	160				

**If shown as calculation, max mark 4
6 marks**

- (b) Advise Gordon on **two** measures he could use to prevent such a loss occurring in the future.

- Cash transactions accurately recorded (1) + (1) for development**
- Collect takings from tills frequently (1) + (1) for development**
- Bank cash regularly (1) + (1) for development**
- Make as many payments as possible by cheque (1) + (1)**
- Division of duties (1) + (1) for development**
- Authorisation of payments by staff (1) + (1)**
- Improve security measures (1) + (1) for development.**

max 4 marks

- (c) Advise Gordon on **two** ways to maintain accurate records of cash transactions.

Keep detailed cash book (0-2)
Keep all receipts (1)
Number all receipts (1) and invoices (1)
File and use bank statements (0-2)

Identification 1, plus 1 mark for development or example
4 marks

3

Total for this question: 77 marks

Part A (20 marks)

Mary Cox and Bernard Box have been in partnership for a number of years.

The following trial balance was extracted from their business books of account at 31 March 2004 **after** a trading and profit and loss account had been prepared.

	£	£
Net profit for the year (profits have accrued evenly throughout the year)		75 860
Fixed assets at net book value	80 000	
Net current assets other than bank balance	6 387	
Bank balance	1 400	
Capital accounts – balances at 1 April 2003		
Mary		50 000
Bernard		30 000
Current accounts – balances at 1 April 2003		
Mary		1 100
Bernard		900
Drawings - for the year		
Mary	40 000	
Bernard	30 000	
Suspense account	73	
	157 860	157 860

Additional information

After preparing the trial balance the following errors were discovered.

- (1) The purchase of a computer for £1500, on 1 April 2003, has been debited to the office expenses account. (The computer has an estimated useful life of 3 years and will have no scrap value.)
- (2) The total of discount allowed £230 has been credited to the discount received account.
- (3) Receipt of £198 from A. Shocker, a customer, has been correctly entered in the cash book but has been debited to A. Shocker's account as £189.
- (4) A credit sale to Jack Smith of £73 has been debited to the account of Zack Smith.

REQUIRED

- (a) Prepare journal entries to correct the errors (1) – (4) above.
(Narratives are not required)

Journal			
Computer, office equipment, etc		1 500	(1)
Office expenses or P&L a/c			1 500 (1)
P&L a/c		500	(1)
Provision for depreciation			500 (1)
Discount allowed	} or P&L a/c	230	(1)
Discount received		230	(1)
Suspense			460 (1) OF
Suspense		387	(1) OF
A. Shocker			387 (1)
Jack Smith		73	(1)
Zack Smith			73 (1)

11 marks

- (b) Prepare a suspense account showing the corrections made.

Suspense Account			
Balance from TB	73	(1)	
A. Shocker	387	(1) OF	
	460		
			460
			230 (1) OF
			230 (1) OF

4 marks

- (c) Prepare a detailed calculation showing any adjustments to the net profit.

Draft net profit	75 860		
Office expenses	1 500	(1) OF	} If 1000 (1)
Depn on computer	(500)	(1) OF	
Disc allowed	(230)	(1) OF	} If 460 (1)
Disc received	(230)	(1) OF	
Net profit	76 400	(1) OF	

5 marks

Part B (39 marks)

Additional information

Mary and Bernard’s partnership agreement provided that:

- Bernard should be credited with a partnership salary of £800 per annum;
- partners should be credited with interest on capital at 4% per annum;
- residual profits and losses should be shared in the ratio 3:2.

The partners agreed that from 1 October 2003:

- profits and losses would be shared equally;
- partners would be charged interest on drawings.

Interest on drawings from 1 October 2003 until 31 March 2004 was

Mary	£86
Bernard	£20.

On 30 September 2003 the tangible assets of the business were revalued.

The resulting surplus on revaluation was £27 000.

Goodwill was valued at £60 000.

It was agreed by the partners that a goodwill account should not remain in the books of the business.

REQUIRED

- (d) Prepare capital accounts showing any changes that may have occurred due to the change in profit sharing ratios.

Capital Accounts					
	Mary		Bernard		
Goodwill	30 000	(1)	30 000	(1)	Balance b/d
Balance c/d	72 200	(1) OF	34 800	(1) OF	Revaln W1
	<u>102 200</u>		<u>64 800</u>		Balance b/d
					Mary
					50 000 (1)
					Bernard
					30 000 (1)
					34 800 (2) OF
					<u>64 800</u>
					<u>34 800</u>

10 marks

<u>Revaluation</u>		<u>Revaluation</u>		
52 200	(1) OF	27 000	(1)	W 1
<u>34 800</u>	(1) OF	<u>60 000</u>	(1)	OR
		16 200	(1)	Revaluation
		<u>10 800</u>	(1)	27 000
				Goodwill
		36 000	(1)	60 000
		<u>24 000</u>	(1)	

- (e) Prepare appropriation accounts for the year ended 31 March 2004.
 (Your advice should be supported by financial and non-financial factors)

<u>Profit and Loss Appropriation Account for the year ended 31 March 2004</u>					
	Net profit				38 200
800(1) + 2 (1)	Salary Bernard	400	(2)		
	Int on capital Mary	1 000	(3) W2		
	 Bernard	600	(3) W2		
				<u>2 000</u>	
				36 200	(1) OF
	Mary	21 720	(1) OF		
	Bernard	<u>14 480</u>	(1) OF	36 200	
	Net profit			38 200	
	Int on drawings			<u>106</u>	(1)
				38 306	
	Mary	19 153	(1) OF		
	Bernard	<u>19 153</u>		38 306	
	W2				
	50 000	(1)	x 4%	(1)	x ½ (1)
	30 000	(1)	x 4%	(1)	x ½ (1)

13 marks

- (f) Prepare current accounts as at 31 March 2004.

Current Accounts									
	M		B		M		B		
Drawings	40 000	(1)	30 000	(1)	Balances	1 100	(1)	900	(1)
Int on Dwgs	86	(1)	20	(1)	Salary			400	(1) OF
					Int on cap	1 000	(1) OF	600	(1) OF
					Sh of prts	21 720	(1) OF	14 480	(1) OF
Balance c/d	<u>2 887</u>	(1) OF	<u>5 513</u>	(1) OF	Sh of prts	<u>19 153</u>	(1) OF	<u>19 153</u>	(1) OF
	42 973		35 533			<u>42 973</u>		<u>35 533</u>	
					Balance b/d	2 887	(1) OF	5 513	

16 marks

Part C (18 marks)

Mary and Bernard are the sole importers of “bijogs”, a very sweet chocolate bar manufactured in Asia. It retails at £1.35 per bar. The partnership purchases the chocolate bars directly from the manufacturer at a cost of 65 pence each.

Recently, Hans Upp, a retailer in Germany, has expressed an interest in placing one large order for 10 000 “bijogs”. Hans will pay £8500, but would expect Mary and Bernard to pay freight charges that would amount to £560.

The partners are unsure whether or not they should accept the German order.

REQUIRED

- (g) Advise Mary and Bernard whether or not they should accept the German order.
(Your advice should be supported by financial and non-financial factors.)

Might lead to more orders (1) both from Hans and possibly others in Germany (2). It will give Mary and Bernard experience in exporting (2) and this could lead to further expansion due to extra confidence in this new field (2).

On the other hand, do they want the extra problems associated with exporting? (1) e.g. transport arrangements, currency problems etc. (up to 2 marks for examples of problems). Can their present staff cope (1)? Will they have to employ someone with the experience? (1) Importance of market segregation (1) + (1) development.

Marginal cost of order	6 500	
Freight charges	560	
	<u>7 060</u>	(2)
Marginal revenue	8 500	(1)
Contribution	<u>1 440</u>	(1)

Accept (1)

max 10 marks

Additional information

A tabloid newspaper has recently reported that “bijogs” is suspected of causing severe stomach irritation.

REQUIRED

- (h) Advise the partners on the actions they could take.

**They could – ignore the reports (0-2)
remove the product from the market (0-2)
look for alternative supplier (0-2)
look for other products (0-2).**

Any other reasonable reactions.

1 mark for identification plus 1 for development

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.

