

GCE 2005  
*January Series*



# Mark Scheme

## Accounting

ACC3 Financial Accounting:  
Determination of Income

---

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.

---

Further copies of this Mark Scheme are available to download from the AQA website:  
[www.aqa.org.uk](http://www.aqa.org.uk)

Copyright © 2005 AQA and its licensors. All rights reserved.

**COPYRIGHT**

AQA retains the copyright on all its publications. However, registered centres for AQA are permitted to copy material from this booklet for their own internal use, with the following important exception: AQA cannot give permission to centres to photocopy any material that is acknowledged to a third party even for internal use within the centre.

Set and published by the Assessment and Qualifications Alliance.

The Assessment and Qualifications Alliance (AQA) is a company limited by guarantee registered in England and Wales 3644723 and a registered charity number 1073334. Registered address AQA, Devas Street, Manchester, M15 6EX. *Dr. Michael Cresswell Director General*

**January 2005****ACC3****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. **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.

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

- (a) Daniel has included £720 sales to Bill Brown in October 2004 in the total sales for the year ended 31 December 2004. Bill has yet to pay for the goods.

This is an example of the **Realisation (2) Accruals (1)** concept.

**2 marks**

- (b) Daniel owns a delivery van which belonged to his grandfather and has great sentimental value. He recently refused an offer of £4000 for it from a heritage museum. Daniel shows the van on his balance sheet at cost £650.

This is an example of the **Objectivity (2) Cost (2)** concept.

**2 marks****2****Total for this question: 4 marks****REQUIRED**

As part of her closing stock, Martha has an electrical generator. It cost £342 some months ago and would normally sell for £600. The generator was damaged in a recent flood. It could now be sold for £400 after being repaired. The repairs will cost £120.

- (a) Martha should value the generator at **£280**.

**3 marks****Workings**

$$\text{£400 (1)} - \text{120 (1)} = \text{280 (1)}$$

- (b) In valuing the generator Martha should use the concept of **Prudence**.

**1 mark**

**3****Total for this question: 21 marks**

Thomas Salmon provides the following information for his business for the year ended 30 November 2004.

	<b>£</b>
Wages	26 320
Drawings	18 560
Bad debts	340
Rent and rates	4 630
Other expenses	21 435
Discount allowed	286
Discount received	119
Rent receivable	720
Gross profit for the year	68 772

**Additional information**

	<b>As at 1 December 2003</b>	<b>As at 30 November 2004</b>
	£	£
Provision for depreciation of fixed assets	27 000	30 000
Provision for doubtful debts	890	1 120

During the year ended 30 November 2004, a delivery van which had originally cost £8000 had been sold for £1900. The depreciation on the van was £6000.

(3)

**REQUIRED**

Prepare a profit and loss account for the year ended 30 November 2004.

**Thomas Salmon**  
**Profit and Loss Account for the year ended 30 November 2004 (1)**

		£	£	
	<b>Gross profit</b>		<b>68 772</b>	<b>(1)</b>
	<b>Rent receivable</b>		<b>720</b>	<b>(1)</b>
	<b>Discount received</b>		<b>119</b>	<b>(1)</b>
			<u><b>69 611</b></u>	
	<b>Less expenses</b>			
<b>W<sub>1</sub></b>	<b>Wages</b>	<b>26 320</b>		<b>(1)</b>
<b>1 120</b>	<b>Bad debts</b>	<b>340</b>		<b>(1)</b>
<b>(890)</b>	<b>Rent and rates</b>	<b>4 630</b>		<b>(1)</b>
	<b>Other expenses</b>	<b>21 435</b>		<b>(1)</b>
<b>W<sub>2</sub></b>	<b>Discount allowed</b>	<b>286</b>		<b>(1)</b>
<b>30 000</b>	<b>Provision for doubtful debts W<sub>1</sub></b>	<b>230</b>		<b>(2)</b>
<b>(27 000)</b>	<b>Provision for depreciation W<sub>2</sub></b>	<b>9 000</b>		<b>(3)</b>
<b>6 000</b>	<b>Loss on sale of van W<sub>3</sub></b>	<b>100</b>		<b>(4)</b>
<b>W<sub>3</sub></b>			<u><b>62 341</b></u>	<b>(1) OF</b>
<b>8 000</b>	<b>Net profit (1)</b>		<u><b>7 270</b></u>	<b>(1) OF</b>
<b>(6 000)</b>				
<b>(1 900)</b>				
<u><b>100</b></u>				

**If shown as profit 3 marks**

**21 marks**

4

**Total for this question: 47 marks**

The following trial balance has been extracted from the books of Inthics plc **after** the preparation of the profit and loss account and the appropriation account.

**Trial balance as at 31 December 2004**

	£	£
Issued ordinary shares of £1 each		240 000
Fixed assets at cost	900 000	
Provision for depreciation of fixed assets		320 000
Trade debtors	22 000	
Trade creditors		7 000
Accrued expenses		11 000
Prepaid expenses	8 000	
Bank balance		7 620
Provision for corporation tax		9 700
Proposed dividends		18 000
Share premium account		120 000
General reserve		60 000
Profit and loss account		174 680
Closing stock at 31 December 2004	38 000	
	<u>968 000</u>	<u>968 000</u>

**REQUIRED**

(a) Prepare a balance sheet as at 31 December 2004.

**Inthics plc**  
**Balance Sheet as at 31 December 2004 (1)**

	£	£	£	
<b>Fixed assets at cost</b>			<b>900 000</b>	<b>(1)</b>
<b>Less depreciation</b>			<b>320 000</b>	<b>(1)</b>
			<u><b>580 000</b></u>	
<b>Current assets</b>				
<b>Stock</b>		<b>38 000</b>		<b>(1)</b>
<b>Trade debtors</b>		<b>22 000</b>		<b>(1)</b>
<b>Prepayments</b>		<b>8 000</b>		<b>(1)</b>
		<u><b>68 000</b></u>		
<b>Creditors: amounts falling due in less than one year</b>				
<b>Trade creditors</b>	<b>7 000</b>	<b>(1)</b>		
<b>Bank overdraft</b>	<b>7 620</b>	<b>(1)</b>		
<b>Accrued expenses</b>	<b>11 000</b>	<b>(1)</b>		
<b>Proposed dividend</b>	<b>18 000</b>	<b>(1)</b>		
<b>Provision for taxation</b>	<b>9 700</b>	<b>(1)</b>	<b>53 320</b>	
			<u><b>14 680</b></u>	<b>(1) OF</b>
			<u><b>594 680</b></u>	<b>(1) OF</b>
<b>Share capital and reserves</b>				
<b>Ordinary share capital</b>			<b>240 000</b>	<b>(1)</b>
<b>Share premium account</b>			<b>120 000</b>	<b>(1)</b>
<b>General reserve</b>			<b>60 000</b>	<b>(1)</b>
<b>Profit and loss account</b>			<b>174 680</b>	<b>(1)</b>
			<u><b>594 680</b></u>	<b>(1) OF</b>

**All assets and liabilities must be under correct heading**

**18 marks**

(4)

(b) Explain **each** of the following terms used in the **balance sheet** of Inthics plc.

(i) Accrued expenses

**Revenue expenditure (1) that remains unpaid (1) at the financial year end (1). 3 marks**

(ii) Share premium account

**Arises when shares are issued (1) at a price that is higher than the nominal value (1). It is a capital reserve (1). 3 marks**

(iii) Profit and loss account

**Retained earnings (1) from ‘normal’ activities (1) ploughed back into the company (1) usually for expansion (1). It is a revenue reserve (1). max 3 marks**

(iv) Proposed dividends

**Dividends recommended (1) by the directors (1). Need to be ratified (1) by shareholders (1).**

**max 3 marks**

(c) In most trial balances, closing stock is not included but is shown as an additional note. Explain why closing stock has been included in the trial balance given at the start of Question 4.

**Stock is an asset (1); the double entry has already been completed (1), credited in trading account (1), debited in stock account (1).**

**Entered once in trading account (1), but entry yet to be shown (1) as an asset in the balance sheet (1). max 4 marks**



(4)

(d) The directors of Inthics plc wish to raise £500 000 in order to expand the business. They are unsure whether to issue:

200 000 ordinary shares at £2.50 each

**or**

£500 000 6% debentures.

Write a brief report addressed to the directors of Inthics plc discussing these two options and advising them which one they should choose.

### Report

**To: Directors of Inthics plc**

**From: A student**

**Date: As examination**

**Subject: Advice on raising additional capital**

**Report headings: 1 mark**

#### Ordinary shares

**Advantages -** will raise required amount (1)  
 permanent capital (1)  
 no need to pay dividends if low or zero profits (1)  
 dividends only paid on 200 000 shares (1)

**Disadvantages -** dilution of power for existing shareholders (1)  
 existing directors may not be new shareholders' choice (1)  
 could lead to takeover (1)

**All + 1 for development  
 max 6 marks**

#### Debentures

**Advantages -** will raise the required amount  
 no dilution of shareholders' power (1)  
 can be repaid in the future (1)  
 can budget for interest (1) - £30 000 per annum (1)  
 interest becomes less of a burden with passage of time – inflation (0-2).

**Disadvantages -** interest must be paid (1)  
 if not paid – danger of holders taking action (1) – more risky than ordinary shares (1).  
 increased borrowings (1) may lead to borrowing restrictions in the future (1)

**Development marks must be relevant to company**

**All + 1 for development  
 max 6 marks  
 Overall max 10 marks**

**Advice based on discussion**

**0-2 marks**

**Total for part (d): 13 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.