



General Certificate of Education

Accounting 5121

ACC2 Financial Accounting: Introduction to Published Accounts of Limited Companies

Mark Scheme

2006 examination - June series

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.

June 2006

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. **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: 29 marks

The following list of balances was taken from the books of Pann Ltd at 31 December 2005.

	£
Audit fees	6 750
Sales	125 000
Carriage outwards	3 000
Returns inwards	2 000
Motor vehicle	38 250
Trade debtors	25 000
Rent received	5 000
Purchases	65 000
Directors' fees	24 250
Stock at 1 January 2005	22 000
Trade creditors	8 000
Carriage inwards	2 500
Bank overdraft	4 500
VAT – amount owed	2 250
Returns outwards	4 000

REQUIRED

- (a) Produce a trial balance at 31 December 2005 and calculate the value of the issued share capital.

Pann Ltd
Trial Balance at 31 December 2005

	Debit £		Credit £
Audit fees	6 750 (1)		
Sales		125 000 (1)	
Carriage outwards	3 000 (1)		
Returns inwards	2 000 (1)		
Motor vehicle	38 250 (1)		
Trade debtors	25 000 (1)		
Rent received		5 000 (1)	
Purchases	65 000 (1)		
Directors' fees	24 250 (1)		
Stock at 1 January 2005	22 000 (1)		
Trade creditors		8 000 (1)	
Carriage inwards	2 500 (1)		
Bank overdraft		4 500 (1)	
VAT - amount owed		2 250 (1)	
Returns outwards		4 000 (1)	
Issued share capital		40 000 (1) OF	
Totals	<u>188 750</u>		<u>188 750</u>
Alternative treatment of VAT			
VAT – amount owed	2 250 (1)		
Issued share capital		44 500 (1) OF	
	<u>191 000</u>		<u>191 000</u>

OF for capital if totals are equal.

16 marks

(1)

Additional information

At 31 December 2005, the closing stock was valued at £12 500.

REQUIRED

- (b) Prepare the trading and profit and loss account for Pann Ltd for the year ended 31 December 2005.

Pann Ltd
Trading and Profit and Loss Account for the year ended 31 December 2005

Sales			125 000	
Less returns inwards			<u>2 000</u>	(1)
			123 000	
Less cost of goods sold				
Opening stock		22 000		(1)
Purchases	65 000	(1)		
Carriage inwards	<u>2 500</u>	(1)		
	67 500			
Less returns outwards	<u>4 000</u>	(1)	<u>63 500</u>	
			85 500	
Less closing stock		<u>12 500</u>	(1)	
Gross profit			<u>73 000</u>	
Plus rent received			50 000	(1) OF (must be labelled)
			<u>5 000</u>	(1)
			55 000	
Less expenses				
Directors' fees		24 250		(1)
Audit fees		6 750		(1)
Carriage outwards		<u>3 000</u>	(1)	
Net profit			<u>34 000</u>	
			<u>21 000</u>	(1) OF (must be labelled)

13 marks

2

Total for this question: 8 marks

REQUIRED

Explain **each** of the following terms.

(a) Tangible fixed assets

Physical (1) assets owned by the company for more than one year (1)

Bought to be used (1) rather than resold (1)

Valid example (1).

max 2 marks

(b) Intangible fixed assets

Non-physical (1) assets owned by the company. Example: goodwill (1).

max 2 marks

(c) Capital reserves

A statutory (1) reserve which arises from non-trading activities (1) which cannot be used for the payment of dividends (1).

Example: share premium, revaluation reserve. Any one example (1).

max 2 marks

(d) Revenue reserves

Retained trading profits (1) which can be used to finance the payment of dividends (1)

Example (1).

max 2 marks

Overall max 8 marks

3

Total for this question: 19 marks

A trainee accountant produced a draft profit and loss account which showed a net profit for the year ended 31 March 2006 of £17 690. Her supervisor subsequently discovered the following errors.

- (1) The purchases day book had been undercast by £520.
- (2) The cost of repairs to a delivery van of £450 had been entered in the motor vehicles account.
- (3) A payment of £500 for audit fees had been completely omitted from the accounts.
- (4) A cheque for £2300 received from B Harrison, a debtor, had been entered in the account of B Harris.
- (5) Discount received of £1300 had been charged as an expense in the profit and loss account.
- (6) The closing stock had been recorded in the trading account as £3000. The correct figure was £300.

REQUIRED

- (a) Calculate the correct net profit. Show clearly whether **each** adjustment is added, subtracted or has no effect on the profit calculation.

Correction (1) has been completed as an example.

Corrected Net Profit for the year ended 31 March 2006

		£	
Net profit as given		17 690	
1. <i>Purchases undercast</i>	<i>subtract</i>	<u>520</u>	
		17 170	
2. Vehicle repairs	subtract	450	(1)
3. Audit fees omitted	subtract	500	(1)
4. Error of commission	no effect		(1)
5. Discount received	add	2 600	(2)
6. Closing stock overstated	subtract	2 700	(1)
Corrected net profit		<u>16 120</u>	(1) OF

7 marks

- (b) Explain the difference between an error of commission and an error of principle.

Error of commission is where an amount has been entered in the wrong account of the same type (1), example (1), and this will not result in incorrect final accounts (1). max 2

Error of principle is where an amount has been entered in a wrong class of account (1), example (1), and will result in incorrect final accounts (1). max 2

max 4 marks

- (c) Explain the purpose of a suspense account.

When the totals of a trial balance do not agree (1), a suspense account is opened and entered on the appropriate side to make the totals balance (1). This indicates that there is an error in the double entry accounts (1). When the errors are found and corrected, the suspense account is entered accordingly. When all errors have been found, the suspense account will be closed (1). max 3 marks

(3)

- (d) Evaluate the extent to which the use of computer accounting software can eliminate errors in accounting.

Computerised accounting has the advantage of automatically posting to both ledger accounts affected by a transaction (1), and therefore should eliminate some types of error (1), including arithmetical ones (1). max 3 marks

However, there will still be the possibility of errors of omission (1) and errors of original entry (1) due to incorrect data inputting (1). max 3 marks

Overall max 5 marks

4

Total for this question: 10 marks

REQUIRED

- (a) Explain **two** reasons why the employees of a limited company would find the published accounts useful.

Reason 1:

To assess the financial stability of the company (1) which affects job security (1).

Reason 2:

To compare the wages paid with the profits earned (1) to assess whether they are being adequately rewarded for their efforts (1).

Other suitable answers accepted.

4 marks

- (b) Explain the following terms and state why they are relevant to the ordinary shareholders of a company.

Earnings per share:

Explanation

It represents the profit after tax for the year divided by the number of shares issued (1).

Relevance:

An important assessment of the performance of the company (1) which can be compared with other forms of investment (1). An assessment of the return being generated by the company for each share issued (1). **max 3 marks**

Dividend per share:

Explanation

The amount of the profit for the year paid to shareholders for each share owned (1).

Relevance:

Can help determine the actual return on the shareholders' investment for the year (1) if compared with the price they paid for the share (1). Also, if compared with the eps, it gives an indication of the amount the company has retained for reinvestment (1). May influence their decision to retain or sell their shares (1). **max 3 marks**

Overall max 6 marks

5

Total for this question: 10 marks

The following balances remained in the accounts of TS plc after the trading and profit and loss account for the year ended 31 March 2006 was prepared.

This was the company's first year of trading.

	£000
Net profit after interest but before tax	65
Share premium	50
Issued share capital:	
Ordinary shares of 50p each, fully paid	50
10% Preference shares of £1 each, fully paid	20
12% Debentures (2015)	40
Trade creditors	9

The directors propose the following:

- (1) provision for corporation tax of £21 000;
- (2) the payment of the preference dividend for the year;
- (3) an ordinary dividend of 10p per share.

REQUIRED

- (a) Prepare the profit and loss appropriation account for the year ended 31 March 2006.

TS plc			
Profit and Loss Appropriation Account for the year ended 31 March 2006			
		£000	
Net profit before tax		65	(1)
Less tax		<u>21</u>	(1)
Net profit after tax		44	
Less proposed dividends: preference shares	2		(1)
ordinary shares	<u>10</u>		<u>12</u>
Retained profit		<u><u>32</u></u>	(1) OF (must be labelled)

5 marks

- (b) Prepare a balance sheet extract at 31 March 2006 to show the share capital and reserves section.

TS plc			
Balance Sheet Extract at 31 March 2006			
Share capital and reserves			
100 000 50p ordinary shares, fully paid	50 000		(1)
20 000 10% £1 preference shares, fully paid	<u>20 000</u>		(1)
	70 000		
Share premium	50 000		(1)
Retained profit	<u>32 000</u>		(1) OF
	<u><u>152 000</u></u>		(1) OF

5 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.