

Version 3.0



**General Certificate of Education
June 2010**

Accounting ACCN1

**Unit 1: Introduction to Financial
Accounting**

Final

Mark Scheme

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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ACCN1

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.

NOTE FOR TEACHERS

Please note that this mark scheme contains very detailed information for the benefit of examiners, which is designed to guide them when deciding what are acceptable responses and what are not.

Inevitably some of this guidance for examiners recommends the acceptance of candidates' responses which are only valid in the context of this particular examination. Centres are advised that these responses should not necessarily be seen as good practice.

1

Total for this question: 18 marks

Mark Bentley used £20 000 from his personal savings to start a new business. For additional finance, he obtained a £20 000 bank loan.

REQUIRED

1 (a) Explain **two** reasons why Mark should keep accounting records.

- To record what has happened in the past (1) and to enable the production of an income statement (profit and loss account) (1) and a balance sheet (1).
- To enable the production of forecasts for the future (1), using data from previous year(s) (1) in order to predict likely future outcomes (1).
- To monitor actual performance (1) comparing actual events with expected events (1) and to take corrective action where necessary (1).
- To enable enough information (1) for HM Revenue and Customs (1) to collect all amounts due to them in respect of taxes (1).
- To record amounts due from receivables (debtors) (1) and due to payables (creditors) (1) and take appropriate action (1).
- To help reduce the risk (1) of fraud (1) by keeping detailed records maintained by several individuals (1).

Max 3 marks for each reason

max 6 marks

Quality of written communication (QWC)

For using good English, spelling, punctuation and grammar: plus 1 mark.

Overall max 7 marks

1 (b) Identify **three** external stakeholders in Mark's business. State the interest they will have in the accounting records.

- **Bank (1): to ensure that they are repaid amounts due (1).**
- **Suppliers (1): to check that they will be paid amounts due (1).**
- **Customers (1): to check that they will be supplied with orders made (1).**
- **Government (1): to confirm the amount of taxes due (1).**
- **Local Community (1): to provide jobs in the local area (1).**
- **Trade Unions (1): to ensure that Mark is offering his employees good terms and conditions (1).**
- **Competitors (1): to compare the performance of their business against Mark's (1).**
- **Potential Investors (1): to check whether the business is worth investing in (1).**

Max 2 marks each stakeholder

1 mark for identification, 1 mark for development

max 6 marks

Quality of written communication (QWC)

For using good English, spelling, punctuation and grammar: plus 1 mark.

Overall max 7 marks

1 (c) Explain the meaning of each of the following terms in relation to Mark's bank account.

1 (c) (i) Direct debit

Where authority is granted by the business (1) to a third party for fixed (1) or variable payments (1) to be made at the request of that third party (1).

max 2 marks

1 (c) (ii) Standing order

Where a fixed (1) payment (1) is made at regular intervals (1) by the bank, on the instructions of the business (1).

max 2 marks

2

Total for this question: 14 marks

The following information has been extracted from the books of Samina Miah for the month of May 2010.

	£
Purchases ledger balances at 1 May 2010	26 128
Purchase day book total	57 107
Cash purchases	8 841
Payments to trade payables (creditors)	61 340
Receipts from trade receivables (debtors)	42 003
Returns inwards	1 425
Returns outwards	1 949
Discounts allowed	1 270
Discounts received	2 445
Debit balance on sales ledger offset against purchases ledger	846
Cheque paid to a trade creditor, cancelled on 31 May 2010	1 560

REQUIRED

2 (a) Prepare a purchases ledger control account for the month of May 2010.

Dr				Purchases Ledger Control Account				Cr	
Date	Details	£		Date	Details	£			
31 May	Cash book	61 340	(1)	1 May	Balances b/d	26 128			(1)
31 May	Returns outwards	1 949	(1)	31 May	Purchase day book	57 107			(1)
31 May	Discounts received	2 445	(1)	31 May	Cash book	1 560			(1)
31 May	Contra	846	(1)						
31 May	Balances c/d *	18 215							
		84 795				84 795			
				1 June	Balances b/d *	18 215			(10F *for both)

8 marks

- 2 (b) Explain how the purchases ledger control account can be used to verify the balances in the purchases ledger.

The balance on the purchases ledger control account should agree (1) with the total of the individual account balances (1).

2 marks

- 2 (c) Explain **one** limitation of the purchases ledger control account and give **one** example.

The purchases ledger control account verifies the arithmetical accuracy (1) of the ledger, but does not prove that each individual account balance is correct (1).

Examples:

- **Error of omission: where a transaction has been completely omitted from the records.**
- **Compensating error: where equal and opposite errors cancel each other out.**
- **Error of commission: where an amount is posted to an incorrect account of the correct type.**
- **Error of original entry: where an error is made transferring an amount from the source document into the book of original entry.**

1 mark for identifying an error, 1 mark for development.

4 marks

3

Total for this question: 33 marks

Aaron Stein owns a business selling garden furniture. He has prepared the following draft income statement (trading and profit and loss account) for the year ended 30 April 2010.

	£
Sales	214 600
Cost of sales	<u>(124 800)</u>
Gross profit for the year	89 800
Expenses	<u>(53 800)</u>
Profit for the year	<u><u>36 000</u></u>

After completion of the draft income statement (trading and profit and loss account), the following balances remain in the books of account.

	£
Accruals	410
Bank overdraft	1 120
Capital at 1 May 2009	15 720
Drawings	26 850
Inventory (stock) at 30 April 2010	20 640
Loan (repayable 31 December 2010)	4 500
Motor vehicles - cost at 1 May 2009	18 400
- provision for depreciation at 1 May 2009	7 360
Prepaid expenses	600
Trade payables (creditors)	6 490
Trade receivables (debtors)	5 110

Aaron has been told that the following items have not yet been accounted for.

- (1) Wages owing at 30 April 2010 amounted to £1210.
- (2) Rates paid in advance at 30 April 2010 amounted to £1600.
- (3) Depreciation is to be provided on motor vehicles at 20% per annum using the straight-line method.
- (4) The value of inventory (stock) at 30 April 2010 has been overstated by £3000.
- (5) A loan repayment of £500 appeared on the bank statement on 30 April 2010, but has not been recorded in the accounting records.
- (6) A cheque for £1200 received from a trade debtor on 30 April 2010 has not been recorded in the accounting records.
- (7) A debtor balance of £400 is to be written off.

REQUIRED

3 (a) Calculate the adjusted profit for the year ended 30 April 2010 by completing the table below.

	Effect on profit £	£	
Profit for the year		36 000	
1. Wages owing	(1 210)		(1)
2. Rates paid in advance	1 600		(1)
3. Motor vehicle depreciation	(3 680)		(2 or 0)
4. Inventory (stock) overstated	(3 000)		(1)
5. Loan repayment	No effect		(1)
6. Cheque received from trade debtor	No effect		(1)
7. Debtor balance written off	(400)		(1)
Adjusted profit for the year		29 310	(2 CF) (1OF)

*Items 5 and 6 must make a clear response to be awarded a mark.

CF = correct figure

10 marks

Alternative response

	Effect on profit £	£	
Profit for the year		36 000	
1. Wages owing	34 790		(1)
2. Rates paid in advance	36 390		(1)
3. Motor vehicle depreciation	32 710		(2 or 0)
4. Inventory (stock) overstated	29 710		(1)
5. Loan repayment	29 710		(1)
6. Cheque received from trade debtor	29 710		(1)
7. Debtor balance written off	29 310		(1)
Adjusted profit for the year		29 310	(2 CF) 1OF)

Where a candidate adopts this method, it will be necessary to check for own figures following an error.

- 3 (b) Prepare a balance sheet at 30 April 2010, taking into account all of the information on pages 8 and 10.

Aaron Stein
Balance sheet at 30 April 2010

	£		£	
<u>Non Current (Fixed) Assets</u> *				
Motor vehicles at cost	18 400	(1)		
Motor vehicles provision for depreciation W1	<u>11 040</u>	(2OF)	7 360	
<u>Current Assets</u> *				
Inventory (stock) W2	17 640	(2OF)		
Trade receivables (debtors) W3	3 510	(3OF)		
Prepaid expenses W4	<u>2 200</u>	(2OF)		
	<u>23 350</u>			
<u>Current Liabilities</u> *				
Bank overdraft W5	420	(3OF)		
Loan W6	4 000	(2OF)		
Trade payables (creditors)	6 490	(1)		
Accruals W7	<u>1 620</u>	(2OF)		
	<u>12 530</u>			
Net current assets/Working capital			<u>10 820</u>	(1OF must be labelled)
			<u>18 180</u>	
<u>Financed by / Capital*</u>				
Balance at 1 May 2009			15 720	
Net profit for the year			<u>29 310</u>	(1OF)
			45 030	
Drawings			<u>26 850</u>	(1)
			<u>18 180</u>	

W1 Provision for depreciation	7360 (0) + 3680 (1OF) = 11 040 (1OF)
W2 Inventory	20 640 (0) – 3000 (1) = 17 640 (1OF)
W3 Trade receivables	5110 (0) – 400 (1) – 1200 (1) = 3510 (1OF)
W4 Prepaid expenses	600 (0) + 1600 (1) = 2200 (1OF)
W5 Bank overdraft	(1120) (0) – 500 (1) + 1200 (1) = 420 (1OF)
W6 Loan	4500(0) – 500 (1) = 4000 (1OF)
W7 Accruals	410 (0) + 1210 (1) = 1620 (1OF)

21 marks

Quality of presentation (QWC)

For quality of presentation for all four sub headings (*): plus 1 mark

For correct placement of loan in current liabilities: plus 1 mark

Overall max 23 marks

4

Total for this question: 15 marks

Fabrique is a wholesale business. At 1 April 2010, Joe Shaw owed Fabrique £918. During April 2010 the following transactions took place:

3 April	Fabrique sold goods to Joe Shaw for £455.
15 April	Joe Shaw returned goods valued at £137 to Fabrique.
20 April	Joe Shaw sent a cheque, after deducting a discount of £46, to Fabrique to clear the balance owing at 1 April.

REQUIRED

4 (a) Identify the source document used by Fabrique to record each of the above transactions.

Transaction	Source document
Fabrique sold goods to Joe Shaw for £455.	(Sales) invoice (1)
Joe Shaw returned goods valued at £137 to Fabrique.	(Sales) credit note (1)
Joe Shaw sent a cheque, after deducting a discount of £46, to Fabrique to clear the balance owing at 1 April.	Paying-in slip (counterfoil) (1)

3 marks**REQUIRED**

4 (b) Complete the account of Joe Shaw in the books of Fabrique for the month of April 2010.

Dr			Joe Shaw			Cr		
Date	Details	£	Date	Details	£			
1 April	Balance b/f	918 (1)	15 April	Sales returns day book	137 (1)			
3 April	Sales day book	455 (1)	20 April	Cash book	872 (1)			
			20 April	Cash book	46 (1)			
			30 April	Balance c/d *	318			
		<u>1 373</u>			1 373			
1 May	Balance b/d *	318 (1OF *for both)						

6 marks

The bookkeeper of Fabrique has extracted a trial balance at 30 April 2010. The totals do not agree and the following errors have been discovered.

- (1) The credit balance on the discounts received account has been brought down as £434. It should be £443.
- (2) The sales account has been undercast by £100.
- (3) Carriage inwards of £120 has been entered to the credit of the carriage inwards account.

REQUIRED

- 4 (c) Make any necessary entries in the suspense account to correct these errors. Clearly show the opening balance on the suspense account and balance the account.

Dr	Suspense Account		Cr
Details	£	Details	£
Discount received	9 (1)	Carriage inwards	240 (2)
Sales	100 (1)		
Balance (difference in trial balance totals)	131 (2 CF) (1 OF)		
	<u>240</u>		<u>240</u>

6 marks