

Version 3



**General Certificate of Education  
June 2010**

**Accounting ACCN3**

**Unit 3: Further Aspects of 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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**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.

**Task 1****Total for this task: 13 marks**

Dave Nixon was unable to carry out a stock take at his year end on the 28 February 2010. However, he was able to physically count his inventory (stock) on 9 March 2010 and to value it at £11 025. Dave applies a mark-up of 50% on all the goods he sells.

The following transactions took place between 1 March 2010 and 9 March 2010 inclusive.

	£
Sales	3 300
Purchases	1 740
Sales returns	690
Purchases returns	150

Included in the inventory (stock) valuation were damaged goods at a cost of £300. These goods will need to be repaired at a cost of £40 and will then be sold for £320.

**REQUIRED**

**0 1** Calculate the value of inventory (stock) held at 28 February 2010.

	£		
<b>Inventory (stock) at valuation</b>	<b>11 025</b>	<b>(1)</b>	
<b>Sales</b>	<b>2 200</b>	<b>(3)</b>	<b>W1</b>
<b>Purchases</b>	<b>(1 740)</b>	<b>(1)</b>	
<b>Sales returns</b>	<b>(460)</b>	<b>(3OF)</b>	<b>W2</b>
<b>Purchases returns</b>	<b>150</b>	<b>(1)</b>	
<b>Damaged goods</b>	<b>(20)</b>	<b>(3OF)</b>	<b>W3</b>
<b>Corrected valuation</b>	<u><b>11 155</b></u>	<b>1OF</b>	

**W1**     $3\,300 (1) \times \frac{2}{3} (1) = 2\,200 (1OF)$

**W2**     $690 (1) \times \frac{2}{3} (1OF) = 460 (1OF)$

**W3**     $(300) (1) - [320 (1) - 40 (1)] = 20$

**13 marks**

**Task 2****Total for this task: 24 marks**

Jennifer Lucas suspects that a dishonest casual worker had stolen cash some weeks before the end of the financial year.

Jennifer did not keep a full set of accounting records. However, she is able to provide the following information for the year ended 31 March 2010.

**Summary of bank account**

	£		£
Balance at 1 April 2009	1 798	Business expenses	212 430
Cash banked	359 026	Drawings	14 000
Receipts from credit customers	17 061	Payments to credit suppliers	148 639
		Balance at 31 March 2010	2 816
	<u>377 885</u>		<u>377 885</u>

Jennifer's till rolls showed that her takings for the year were £423 280. Before takings were banked Jennifer made the following cash payments.

	£
Wages	37 440
Rent	15 600
Cash purchases	3 480

She also withdrew £6864 cash for her own personal use.

Jennifer provides the following additional information.

	£
Cash in hand at 1 April 2009	634
Cash in hand at 31 March 2010	126

**REQUIRED**

**0 2** Calculate the amount of cash stolen.

**If shown as a calculation:**

	£	
<b>Balance at 1 April 2009</b>	<b>634</b>	<b>(1)</b>
<b>Takings</b>	<b>423 280</b>	<b>(1)</b>
<b>Wages</b>	<b>(37 440)</b>	} (1)
<b>Rent</b>	<b>(15 600)</b>	
<b>Purchases</b>	<b>(3 480)</b>	
<b>Drawings</b>	<b>(6 864)</b>	<b>(1)</b>
<b>Cash banked</b>	<b>(359 026)</b>	<b>(1)</b>
<b>Balance at 31 March 2010</b>	<b>(126)</b>	<b>(1)</b>
<b>Cash stolen</b>	<b>1 378</b>	<b>(10F)</b>

**7 marks**

<b>Cash summary</b>					
	£		£		
<b>Balance 1 April 2009</b>	634	(1)	<b>Wages</b>	37 440	} (1)
<b>Takings</b>	423 280	(1)	<b>Rent</b>	15 600	
			<b>Purchases</b>	3 480	
			<b>Drawings</b>	6 864	(1)
			<b>Cash banked</b>	359 026	(1)
			<b>Cash stolen</b>	1 378	(1OF)
			<b>Balance at 31 March 2010</b>	126	(1)
	<u>423 914</u>			<u>423 914</u>	

Jennifer's insurance company has agreed to pay £1250 on 14 June 2010 as compensation for the stolen cash.

- 0 3** State how **all** the transactions arising from the theft of the cash will be shown in **all** the financial statements (final accounts).

**On the income statement as an expense (1) of £128 (2OF) W1.**

**W1 [£1 378 (1OF) – 1250 (1)]**

**On the balance sheet the insurance claim £1250 (1) as part of trade and other receivables (current assets) (1) and cash and cash equivalents (cash in hand) is less than it should have been (1) - maximum 2 marks**

**Max 5 marks**

Jennifer is now concerned that her accounting records are inadequate. She is considering introducing a system of double-entry bookkeeping.

**0 4** Assess the impact on Jennifer's business of the introduction of a system of double-entry bookkeeping.

**Award 1 mark for positive/negative impacts + 0-2 for development**

<b>Positive impacts</b>	
<b>Fewer errors (1)</b>	Jennifer will record all entries as recorded as debit and credit (1). There should be fewer errors than in a single entry system (1).
<b>Verification of accuracy (1)</b>	If Jennifer prepares trial balances and control accounts (1) it will enable the accuracy of the bookkeeping to be checked (1).
<b>More information available (1)</b>	Jennifer will have a record, for example, of how much she is owed (1) and owes (1) for stakeholders (1).
<b>Easier to prepare final accounts (1)</b>	All the balances are gathered in the trial balance and the entries have been checked (1) so this makes the accounts easier for Jennifer to prepare and they will balance (1).
<b>Reduce the likelihood of fraud/theft (1)</b>	Jennifer is likely to detect missing cash and similar problems more quickly (1) which may reduce the chances of fraud (1).
<b>Evidence for loan applications (1)</b>	If Jennifer applies for a bank loan, the bank would expect evidence of liquidity (1).

**Maximum 6 marks for positive impact**

<b>Negative impacts Lack of expertise (1)</b>	Jennifer may not have the knowledge of double-entry bookkeeping (1) and may need to take a training course (1) or employ a bookkeeper or accountant (1).
<b>Cost (1)</b>	Jennifer may need to either employ a bookkeeper (1), or be trained (1).
<b>Time (1)</b>	If Jennifer decides to do the bookkeeping herself (1) then this may distract her from other parts of her business (1).

**Maximum 6 marks for negative impact**

**Overall Max 7 marks**

**Assessment 0-3 marks**

**Award 1 mark for assessment + 2 for justification/explanation.**

**The assessment could be:**

**Introducing double-entry bookkeeping will benefit Jennifer as she will have more accurate and organised records and this could improve her decision making.**

**Or**

**Introducing double-entry bookkeeping will bring advantages but will not prevent cash being stolen.**

**Max 3 marks for assessment**

**Max 10 marks**

**Quality of written communication (QWC)**

**For using good English, spelling, punctuation and grammar: plus 2 marks.**

**Overall max 12 marks**



**Task 3****Total for this task: 20 marks**

Bedi, Chaudry and Dhillon are in partnership, sharing profits and losses equally. From 1 January 2010, the partners have agreed to share profits and losses in the ratio 3 : 2 : 1 respectively.

The summarised balance sheet at 31 December 2009 was as follows.

	£	£
Non-current (fixed) assets		170 000
Current assets	30 000	
Current liabilities	<u>(20 000)</u>	<u>10 000</u>
		<u>180 000</u>
Capital accounts		
Bedi	70 000	
Chaudry	60 000	
Dhillon	<u>50 000</u>	
	180 000	

With effect from 1 January 2010, the partners agreed the following valuations.

	£
Non-current (fixed) assets	130 000
Current assets	28 000
Goodwill	90 000

The partners have also agreed the following.

- A goodwill account will not be maintained in the books of account.
- The total capital of the partnership will be £150 000 and will reflect the new profit sharing ratios. Each partner will contribute or withdraw capital in order to achieve this requirement.

**REQUIRED**

**0 5** Prepare detailed partners' capital accounts to show the changes that took place on 1 January 2010.

<b>Capital Accounts</b>									
	<b>B</b>	<b>C</b>	<b>D</b>		<b>B</b>	<b>C</b>	<b>D</b>		
	<b>£000</b>	<b>£000</b>	<b>£000</b>		<b>£000</b>	<b>£000</b>	<b>£000</b>		<b>£000</b>
Loss on revaluation	14 (1)	14 (1)	14 (1)	Balance b/d	70	60	50	(1) for row	
Goodwill	45 (1)	30 (1)	15 (1)	Goodwill	30	30	30	(1) for row	
Cash			26 (1OF)	Cash	34 (1of)	4 (1of)			
Balance c/d	75	50	25						
	134	94	80		134	94	80		
				Balance b/d	75	50	25	(1) for row	

**12 marks**

*\*Workings for loss on revaluation if not correct:  
 FA £40 000 (1) add CA £2000 (1) divide by 3 = £14 000.  
 With no workings award 1 mark for £14 000 for partner C only.*

**Marker note**

In this version of the answer, if candidates record a net figure for goodwill the marks will be allocated as follows:

<b>B</b>	<b>C</b>	<b>D</b>	
<b>£000</b>	<b>£000</b>	<b>£000</b>	
45	30	15	(3) marks
(30)	(30)	(30)	(1) mark
15	-	(15)	ie (4) marks for correct answer

**Alternative answer if candidates net off goodwill and loss on revaluation:**

		Capital Accounts									
		B	C	D			B	C	D		
		£000	£000	£000			£000	£000	£000		
							Balance b/d	70	60	50	(1) for row
<b>Goodwill</b>	45 (1)		30 (1)		15 (1)		Profit on revaluation	16	16	16	(4) if correct
<b>Cash</b>					26 (1OF)		Cash	34 (1OF)	4 (1OF)		
<b>Balance c/d</b>	<u>75</u>		<u>50</u>		<u>25</u>			<u>120</u>	<u>80</u>	<u>66</u>	
	<u>120</u>		<u>80</u>		<u>66</u>		Balance b/d	75	50	25	(1) for row

**Workings for profit on revaluation if not correct:**

**Goodwill £90 000 (1) less FA £40 000 (1) less CA £2000 (1) = £48 000 (divide by 3)  
= £16 000 (1) (must be credited to the capital accounts). With no workings, award 1 mark for  
£16 000 for partner C.**

**12 marks****Alternative answer where candidate enter one figure per partner for revaluation and goodwill:**

		Capital Accounts									
		B	C	D			B	C	D		
		£000	£000	£000			£000	£000	£000		
							Balance b/d	70	60	50	(1) for row
<b>Revaluation</b>	29		14				Revaluation			1	(7) for row
<b>Cash</b>					26 (1of)		Cash	34 (1of)	4 (1of)		
<b>Balance c/d</b>	<u>75</u>		<u>50</u>		<u>25</u>			<u>104</u>	<u>50</u>	<u>51</u>	
	<u>104</u>		<u>64</u>		<u>51</u>		Balance b/d	75	50	25	(1OF) for row

- 0 6** Prepare a summarised balance sheet at 1 January 2010 after the changes have taken place.

**Summarised Balance Sheet at 31 December 2009**

	£		£
Non-current (fixed) assets			130 000 (1)
Current assets	40 000	(5OF) W1	
Current liabilities	<u>(20 000)</u>	(1)	<u>20 000</u>
			<u>150 000</u>
<b>Capital accounts:</b>			
Bedi	75 000		
Chaudry	50 000	(1OF) for own capital balances	
Dhillon	<u>25 000</u>		
			<u>150 000</u>

W1 £28 000 (1) + 34 000 (1OF) + 4 000 (1OF) – 26 000 (1OF) = 40 000 (1OF)

**8 marks**

**Alternative Response:**

**Summarised Balance Sheet at 31 December 2009**

	£		£
Non-current (fixed) assets			130 000 (1)
Current assets	28 000	(1)	
Current liabilities	<u>(8 000)</u>	(5 OF)W1	<u>20 000</u>
			<u>150 000</u>
<b>Capital accounts:</b>			
Bedi	75 000		
Chaudry	50 000	(1 OF) for own capital balances	
Dhillon	<u>25 000</u>		
			<u>150 000</u>

W1 (£20 000) (1) + 34 000 (1OF) + 4 000 (1OF) – 26 000 (1OF) = (£8000) (1OF)

**8 marks**

**Task 4****Total for this task: 33 marks**

The following information is given for Ncube and Aamer plc.

Extracts from the financial statements (final accounts) for the year ended 31 December 2009.

**Income statement (Trading and profit and loss account)**

	£000
Profit from operations	882
Debenture interest	(66)
Profit before taxation	<u>816</u>
Taxation	(310)
Profit for the year	<u>506</u>

**Statement of changes in equity**

	Share capital	Share premium	Retained earnings	Total
	£000	£000	£000	£000
Balance at 1 January 2009	500	170	588	1 258
Ordinary shares issued	200	150		350
Profit for the year			506	506
Dividends paid			(300)	(300)
Balance at 31 December 2009	<u>700</u>	<u>320</u>	<u>794</u>	<u>1 814</u>

**Additional information**

- Non-current (fixed) assets were sold for £200 000; the profit on the sale was £35 000. There were no additions to non-current (fixed) assets during the year.
- Taxation paid during the year was £412 000.
- Depreciation of non-current (fixed) assets charged to the income statement (trading and profit and loss account) was £135 000.
- £60 000 debentures were redeemed at par on 30 June 2009.
- The following changes took place during the year:

	£000
Increase in inventories (stock)	392
Increase in trade receivables (debtors)	149
Decrease in trade payables (creditors)	83

- Cash and cash equivalents (bank and cash):

	£000
1 January 2009	113
31 December 2009	183

**REQUIRED**

- 0 7** Prepare a statement of cash flows (cash flow statement) for the year ended 31 December 2009 in accordance with IAS 7.

**Ncube and Aamer plc**  
**Statement of cash flows for the year ended 31 December 2009. \***

	£000	
<b>Profit before interest and income taxes</b>	<b>882</b>	<b>(1)</b>
<b>Adjustments for:</b>		
<b>Depreciation for the year</b>	<b>135</b>	<b>(1)</b>
<b>Gain on sale of non-current assets</b>	<b>(35)</b>	<b>(1)</b>
<b>Increase in inventories</b>	<b>(392)</b>	<b>(1)</b>
<b>Increase in trade receivables</b>	<b>(149)</b>	<b>(1)</b>
<b>Decrease in trade payables</b>	<b>(83)</b>	<b>(1)</b>
<b>Interest paid</b>	<b>(66)</b>	<b>(1)</b>
<b>Income taxes paid</b>	<b>(412)</b>	<b>(1)</b>
	<b>£000</b>	<b>£000</b>
<b>Cash flows from investing activities</b>		
<b>Proceeds from sale of non-current assets</b>	<b>200</b>	<b>(1)</b>
<b>Net cash from investing activities</b>	<hr/>	<b>200 (1) with label</b>
<b>Cash flows from financing activities</b>		
<b>Proceeds from issue of share capital at a premium</b>	<b>350*</b>	<b>(1)</b>
<b>Redemption of debenture stock</b>	<b>(60)</b>	<b>(1)</b>
<b>Dividends paid</b>	<b>(300)</b>	<b>(1)</b>
<b>Net cash used in financing activities</b>	<hr/>	<b>(10) (10F) with label</b>
<b>Net increase in cash and cash equivalents</b>		<hr/> <b>70</b> <hr/>
<b>Cash and cash equivalents at beginning of year **</b>		<b>113 (1)</b>
<b>Cash and cash equivalents at end of year **</b>		<hr/> <b>183 (1)</b> <hr/>
<b>Net cash used in operating activities</b>		<hr/> <b>(120) (10F)</b> <hr/>

**17 marks**

\*Can be shown separately as £200 share capital and £150 share premium.

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Accept alternative layout for cash and cash equivalents section:

Net increase in cash and cash equivalents	<u>70</u>
Cash and cash equivalents at beginning of year **	113 (1)
Cash and cash equivalents at end of year **	<u>183 (1)</u>
Net increase in cash and cash equivalents	<u>70</u>

Quality of presentation (QWC)

For quality of presentation: plus 2 marks - 1 mark for both cash and cash equivalents and 1 mark for title.

**Overall max 19 marks**

**0 8** Discuss the benefits that a shareholder in Ncube and Aamer plc might gain from the publication of the statement of cash flows (cash flow statement).

**Maximum 8 for generic benefits:**

The statement of cash flows enables shareholders to assess the performance of the business (1) because it focuses on cash (1) where it comes from and on what it has been spent (1) which is essential for short-term survival of business (1) and could affect the company's ability to pay dividends (1).

Highlights key decisions made by directors (1).

It provides shareholders with information not shown in the income statement /balance sheet (1) + (1) for example such as cash generated from operations.

It enables shareholders to distinguish between internally and externally generated finance (1).

The statement of cash flows focuses on cash which is a more certain figure than profit which is open to estimation (1).

Useful for comparing with previous years (1) and other similar companies (1).

**Maximum 8 marks for application to the cash flow statement in task 07**

Allocate marks for quoting specific relevant information from cash flow statement, for example:

There has been a significant increase in cash (1) of £70,000 (1OF).

However, there was a net cash outflow from operating activities of £120,000 (OF).

The increase in cash is mainly from the sale of non-current assets (1) and the issue of shares (1) which shareholders may be concerned about (1) because of implications for future profitability (1) and for future dividend payments (1).

Significant changes in elements of working capital: increase in inventories, increase in receivables, decrease in payables (1).

Shareholders can see that internally generated funds include negative operating activities £120,000 (1) etc; externally generated funds include share issue of £350,000 (1) etc.

The shareholder could see that risk has been lessened (1) because debentures have been redeemed (1) reducing the gearing (1).

**Maximum 13 marks for generic + application elements**

**Maximum 3 marks for negative points**

However, shareholders are also interested in other aspects of the business performance which are not shown in the statement of cash flows (1) such as:

Non-financial factors (1) that influence shareholders' decisions (1) and the performance of the business (1) example (1).

Profit and the long-term survival of the business (1).

Efficiency in the use of all resources (ie all assets) (1).

**Overall max 14 marks**