

Version 1



**General Certificate of Education
January 2011**

Accounting ACCN2

**Unit 2: Financial and Management
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.

Assessment Objectives (AOs)

The Assessment Objectives are common to AS and A Level. The assessment units will assess the following Assessment Objectives in the context of the content and skills set out in Section 3 (Subject Content) of the specification.

AO1: Knowledge and Understanding	Demonstrate knowledge and understanding of accounting principles, concepts and techniques.
AO2: Application	Select and apply knowledge and understanding of accounting principles, concepts and techniques to familiar and unfamiliar situations.
AO3: Analysis and Evaluation	Order, interpret and analyse accounting information in an appropriate format. Evaluate accounting information, taking into consideration internal and external factors to make reasoned judgements, decisions and recommendations, and assess alternative courses of action using an appropriate form and style of writing.
Quality of Written Communication (QWC)	In GCE specifications which require candidates to produce written material in English, candidates must: ensure that text is legible and that spelling, punctuation and grammar are accurate so that meaning is clear select and use a form and style of writing appropriate to purpose and to complex subject matter• organise information clearly and coherently, using specialist vocabulary when appropriate. In this specification, QWC will be assessed in all units. On each paper, two of the marks for prose answers will be allocated to 'quality of written communication', and two of the marks for numerical answers will be allocated to 'quality of presentation'. The sub questions concerned will be identified on the question papers.

1

Total for this question: 12 marks

1 (a) Explain the following two accounting concepts.	<i>(6 marks)</i>
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1 (a) (i) Prudence

The prudence concept is about taking a conservative or pessimistic view **(1)**.
The concept states that in any situation where there is doubt **(1)**

- profit should never be overstated **(1)**
- losses should be anticipated **(1)**
- assets should not be overstated **(1)**
- liabilities should not be understated **(1)**
- losses should be recognised and written off immediately **(1)**.

Plus 1 mark for example

eg valuing inventory at the lower of cost or net realisable value.

Marker note:

Please do not reward comments such as “figures should be understated rather than overstated” – the candidate must make it clear that assets or profit should be understated to gain the marks.

Max 3 marks

1 (a) (ii) Consistency

The consistency concept requires that businesses apply the same accounting procedures/methods/ policies **(1)** from one financial period to another **(1)** and treat similar items in the same way within an accounting period **(1)**.

Marker note:

Candidates can be rewarded for stating that a business can change methods provided this will provide a true and fair view or referring to a relevant accounting standard **(max 1 mark)**.

Plus 1 mark for example.

Eg depreciation

Max 3 marks**Marker note****Do not reward in 1(a) application of the concepts which should be in part (b).**

1 (b) Explain the importance of applying these two accounting concepts when preparing the financial statements of a business.	<i>(6 marks)</i>
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The prudence concept means that users* **(1)** of the financial statements can be confident that the profits shown are ‘real’ (true and fair) **(1)**, and this will affect decision-making **(1)** – such as taking drawings **(1)** or paying dividends **(1)**.

Plus 0- 1 mark for examples of the application of prudence eg stock valuation, depreciation.

The consistency concept enables users to compare **(1)** financial statements over time with confidence **(1)** as they know that they have been prepared in similar ways **(1)** and are reliable **(1)**. This will enable users to make decisions with confidence **(1) plus** for an example of a decision **(1)**
Plus 1 mark for example of the application of consistency eg depreciation, provision for doubtful debts.

Max 6 marks

Marker Note:

Do not reward definitions of the two concepts in **1(b)**.

To gain **6 marks** in **1(b)**, both concepts must be discussed. If only one concept is discussed then candidates can gain a maximum of **4 marks**.

*Candidates who give specific users eg investor/bank/tax inspector – should be rewarded with the “user” mark.

Accept importance of compliance with international accounting standards **(1)** plus **(1)** for development (eg quoting the number/title of a relevant standard – IAS1)

Identification of more than one user should only be rewarded if the benefits of the application of the concept are clearly applied.

Candidates may adopt a general approach to answering the question. This can be rewarded as follows: Users **(1)** will have confidence **(1)** in the accounting statements **(1)** (plus explain why **(1)**) as they provide a reliable basis for decision making **(1)** (plus example of decision**(1)**) because of the comparability **(1)** of the information.

2

Total for this question: 30 marks

Prepare the income statement (profit and loss account) for Yim Yee's business for the year ended 31 December 2010. (30 marks)

Yim Yee
Income Statement (profit and loss account) for the year ended 31 December 2010

	£	£	
Gross profit		49 624	(4) W1
Other income			
Provision for doubtful debts		59	(5)W5
Profit on disposal		562	(4)W8
Rent received		<u>5 920</u>	(2) W2
		56 165	
Less expenses:			
Operating expenses	30 087		(3) W3
Wages	18 815		(2) W4
Bad debts	740		(1)
Depreciation – fixtures and fittings	4 620		(3) W6
Depreciation – Motor Van	<u>2 592</u>		(3) W7
		<u>56 233</u>	
Loss for the year		<u>(689)</u>	(10F)

Marker note

Accept fragmented answers – on the income statement for example if operating expenses and the prepayment are shown separately.

In some situations candidates do several workings for one answer, in this case you must look for the workings that support the answer used in the final question and reward these.

Alternative answer**Yim Yee****Income Statement (profit and loss account) for the year ended 31 December 2010**

	£	£
Gross profit		49 624 (4) W1
Other income		
Rent received		<u>5 920 (2) W2</u>
		55 544
Less expenses		
Operating expenses	30 087 (3) W3	
Wages	18 815 (2) W4	
Bad debts	740 (1)	
Provision for doubtful debts	(59) (5) W5	
Depreciation – fixtures and fittings	4 620 (3) W6	
– motor van	2 592 (3) W7	
Profit on disposal of motor van	<u>(562) (4) W8</u>	
		<u>56 233</u>
Loss for the year		<u><u>(689) (1)</u></u>

28 marks*Workings***W1**

	£
Gross profit	49 767 (1)
Damaged stock	(1 000) (1)
Goods for own use	<u>857 (1)</u>
Adjusted gross profit	<u>49 624 (1OF)</u>

Marker Note:

Reward the following answers (without workings) the candidate has arrived at these answers by:

£48767 (3)	Gross profit – damaged stock
£51624 (3)	Gross profit + damaged stock + goods own use
£49910 (2)	Gross profit + damaged stock- goods own use
£47910 (3)	Gross profit – damaged stock – goods own use

W2 Rent

	£
Rent received	5460 (1)
Amount owing	<u>460 (1) for adding</u>
	<u>5920</u>

W3 Operating expenses

	£
Operating expenses	35 476 (1)
Fixtures	(5 000) (1)
Prepayment	<u>(389) (1)</u>
	<u>30 087</u>

Marker note

You can reward the following answers with marks shown below, even if candidate does not show workings

£35 087 **(2)**

£30 476 **(2)**

Any other response should be marked by referring to workings.

W4 Wages

	£	
Wages	18 460	(1)
Accrual	<u>355</u>	(1)
	<u>18 815</u>	

£18 105 (1) if workings shown

W5 Provision for doubtful debts

	£	
Provision for doubtful debts	810	(2)
Opening provision	<u>869</u>	(1)
Reduction in provision	<u>(59)</u>	(1OF)

Plus 1 mark for correct treatment in the income statement eg deducted from expenses or added in other income.

Marker note:

If the candidate nets off the bad debt and the provision to arrive at **£681 award 5 marks** (this is the marks for calculation of change in provision + bad debt mark, but not the correct treatment mark)

If candidate deducts the bad debt before calculating the provision then apply mark as below..

	£	
Provision for doubtful debts	791.50	(1)
Opening provision	<u>869.00</u>	(1)
Reduction in provision	<u>(77.50)</u>	(1OF)

Award 3 marks

Plus 1 mark for correct treatment in the income statement eg deducted from expenses or added in other income.

If candidate shows:

£810 as income: award **3 marks**

£810 as an expense: award **2 marks**

For any other answers please apply the marks by referring to workings.

W6 Depreciation of fixtures

	£	
Fixtures at cost	25 800	(1)
Add error	5 000	(1)
	30 800	x 15% (1) = 4620

Marker note:

The answers below are worth 2 marks (without workings)

£ 3120 (2) Candidate deducts £5000 in error

£3870 (2) Candidate omits £5000 error

W7 Depreciation on Motor Vehicle

	£	
Cost	18 000	
Provision	11 520	
NBV at 1 January	6 480	(1)
	x 40%	(1) for multiplying NBV by 40%
Depreciation to 31 Dec	2 592	(1)OF

Marker note:

If candidate adds depreciation for Fixtures and Motor Vehicle together:

£7212 award 6 marks

W8 Profit on disposal

	£	
Net book value 1 Jan	6480	(From working 7)
Depreciation	(2592)	
Net book value	3888	(1OF)
Proceeds	4450	(1)
Profit on disposal	562	(1OF)

Plus 1 mark for correct treatment of the candidate's calculation in the income statement eg reducing expenses/adding to income.

Marker note

Alternative answer: the candidate may not depreciate the asset in which case the Loss on disposal would attract the following marks.

Loss on disposal

NBV £6480 (1)

Less £4450 (1)

£2030 (1)

Plus a further mark for correct treatment on the income statement eg as an expense.

Plus 2 marks for quality of presentation

1 mark for title: this must include "Yim Yee"; for the year ended; and the date in full.

(No abbreviations permitted)

1 mark for showing final figures for each item in the income statement item – rather than fragments eg for showing a total for wages rather than an the expense and a separate accrual.

2 marks
Max 30 marks

3**Total for this question: 13 marks**

Prepare a statement of changes in equity for the year ended 30 September 2010.
(13 marks)

Bharat plc
Statement of changes in equity for the year ended 30 September 2010

	Share Capital £	Share premium £	Retained earnings £	Total £
At 1 October 2009	900 000	40 000	1 318 000	2 258 000
Issue of shares	300 000 (3OF)	150 000 (4OF)		450 000
Profit for the year	W1	W2	926 000 (1)	926 000
Equity dividends authorised in the year			(690 000) (1)	(690 000)
At 30 September	<u>1 200 000 (1OF)</u>	<u>190 000 (1OF)</u>	<u>1 554 000 (1OF)</u>	<u>2 944 000 (1OF)</u>

13 marks*Workings:***W1**

Issue of shares: $900\,000 \div 3$ **(1)** = 300 000**(1)** plus 1 mark for correct treatment eg shown as issued shares.

Or

W2

Share premium: $300\,000$ **(1OF)** x 10 **(1)** = 3 000 000 shares issued x 5p **(1)** premium = £150 000 plus 1 mark for correct treatment eg shown as share premium.

Marker note:

Alternative answer: $900\,000 \times 10 = 9\,000\,000$ shares and then divide 3**(1)** = $3\,000\,000 \times 10p = £300\,000$ **(1)**

Do not reward OF figures for totals if an alien item is present.

4

Total for this question: 25 marks

4 (a) Calculate the gross profit margin. State the formula used. (3 marks)

$$\frac{\text{Gross profit} \times 100}{\text{Revenue (Sales)}} \quad (1)$$

$$\frac{60\,000 \times 100}{150\,000} \quad (1) \quad 40.0\% \quad (1)$$

3 marks

4 (b) Calculate the profit in relation to revenue ratio (net profit margin). State the formula used. (3 marks)

$$\frac{(\text{Net}) \text{ Profit for the year} \times 100}{\text{Revenue (Sales)}} \quad (1) \quad \text{OR} \quad \frac{\text{Profit from operations (Operating profit)}}{\text{Revenue (Sales)}} \quad (1)$$

$$\frac{7\,500 \times 100}{150\,000} \quad (1) \quad 5.0\% \quad (1) \quad \text{OR} \quad \frac{14\,850 \times 100}{150\,000} \quad (1) \quad 9.9\% \quad (1)$$

Marker note:

Please accept either formula and answer eg net profit formula with 9.9%

3 marks

4 (c) Calculate the rate of inventory (stock) turnover. State the formula used. (4 marks)

$$\frac{\text{Cost of sales}}{\text{Average inventory (stock)}} \quad (1)$$

$$\text{Average inventory (stock)} = \frac{13\,000 + 17\,000}{2} = 15\,000$$

$$\frac{90\,000}{15\,000} \quad (1) \quad 6 \text{ times} \quad (1)$$

4 marks

Marker Note:

Accept:

$$\frac{\text{Average inventory (stock) x 365}}{\text{Cost of sales}} \quad (1)$$

$$\text{Average inventory (stock)} \quad \frac{13\,000 + 17\,000}{2} = 15\,000 \quad (1)$$

$$\frac{15\,000 \times 365}{90\,000} \quad (1) \quad 61 \text{ Days} \quad (1)$$

(accept 60.83)

Marker note:

Statement of formula must include x100 (or %) and in the third ratio 365 (if candidate uses the days version of rate of inventory turnover).

Accept alternative answer for 4(b) where the candidate uses the operating profit (rather than profit for the year):

$$14\,850/150\,000\% = 9.9\% \text{ (accept 10\%)}$$

Do not accept 60 days for inventory turnover in days.

4 (d) Discuss the actions which the directors of Stevo Ltd could take to improve each of the ratios calculated in **4(a)** to **4(c)**. Explain any problems that these actions might cause the business. (15 marks)

Gross profit margin:

This could be improved by: **1 mark for action + 1 for development**

Increasing selling price **(1)** with cost of sales remaining the same **(1)**

or

Reducing cost of sales **(1)** with selling price remaining the same **(1)**

or

Combination of both **(1)**.

Just in time stock management **(1)** development must relate to savings due to reduced waste to be rewarded.

If candidate states: 'increase sales', no marks awarded.

Problems: **Award 1 mark for each problem plus 1 mark for development**

Increasing the selling price could reduce sales and overall profitability **(1)**.

Reducing cost of sales could reduce the quality of the product **(1)**.

Reward any appropriate problem.

Profit (net profit) margin:

This could be improved by **1 mark for action + 1 for development**

Increase gross profit margin **(1)** (explanation of how this achieved should be rewarded under gross profit margin, therefore no reward here)

Find other sources of income **(1)**

and/or

Reduce expenses **(1)** in relation to sales **(1)** .

Problems: **Award 1 mark for each problem plus 1 mark for development**

Reducing expenses may be difficult to achieve eg trying to reduce wages **(1)**.

The reduction may impact on sales eg reducing advertising **(1)**.

Rate of inventory turnover:

This could be improved by: **1 mark for action + 1 for development**

Reduce stock levels **(1)** plus development eg

Increase sales **(1)** but without increasing stock level **(1)**

Introduce Just in time stock control **(1)**

Problems: **Award 1 mark for each problem plus 1 mark for development**

This could lead to problems with stock-outs **(1)** which could reduce overall profitability **(1)**. It could be achieved by introducing a stock control system **(1)** but again this may increase expenses initially **(1)**.

Max 13 marks

Marker Note:

For each recommendation there is the possibility of 1 development mark for explaining how to carry out the proposal (eg reduce cost of sales by finding cheaper supplier would gain 1 development mark for the reference to cheaper supplier).

Improving gross profit margin: accept 'just in time inventory control' **(1)** but the only acceptable development of this idea is a reduction in wastage **(1)**

Candidates should be rewarded for identifying a problem (1) and a further mark for development. If a candidate identifies two different problems associated with their suggestion these should be rewarded as separate points. If a candidate suggests reducing wages and then identifies and explains that this could reduce output due to poor motivation **and** could cause increased labour turnover – these should be rewarded as separate problems.

The maximum marks for each ratio is 6 – only award this if the candidate has identified a problem.

If a candidate only identifies remedies for a ratio and makes no reference to potential problems, maximum 4 for that ratio.

Award **2 marks** for QWC if the candidate has used complete sentences, with no more than 2 spelling or grammatical errors and the candidate has written about 2 ratios.

Award **no marks** if communication hinders understanding.

2 marks
Overall max 15 marks