



**General Certificate of Education (A-level)
January 2012**

Accounting

ACCN2

(Specification 2120)

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 events which all examiners participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for standardisation each examiner analyses a number of students' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, examiners encounter unusual answers which have not been raised 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 students' 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 students, 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 students 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 student'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 student'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, students may set out their accounts in either a vertical or horizontal format. Both methods are acceptable.

Own Figure Rule

In cases where students are required to make calculations, arithmetic errors can be made so that the final or intermediate stages are incorrect. To avoid a student being penalised repeatedly for an initial error, students 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 students 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.

<p>AO1: Knowledge and Understanding</p>	<p>Demonstrate knowledge and understanding of accounting principles, concepts and techniques.</p>
<p>AO2: Application</p>	<p>Select and apply knowledge and understanding of accounting principles, concepts and techniques to familiar and unfamiliar situations.</p>
<p>AO3: Analysis and Evaluation</p>	<p>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.</p>
<p>Quality of Written Communication (QWC)</p>	<p>In GCE specifications which require students to produce written material in English, students must:</p> <ul style="list-style-type: none"> • 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. <p>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.</p>

1

Total for this question: 8 marks

1 (a) Define the term 'capital expenditure'. (2 marks)

Capital expenditure is spending on the purchase or improvement (1) of non-current (fixed) assets (1).

Expenditure benefiting the business beyond 1 year (1).

Max 2 marks

1 (b) Calculate the amount of revenue expenditure to be included in the income statement (trading and profit and loss account) for the year ended 31 December 2011. Ignore depreciation. Show your workings. (6 marks)

	£	
Purchase of computers (120 000 – 20 000)	100 000	(1)
Wages (84 860 – 8 400)	76 460	(1)
Training costs	6 840	(1)
Insurance (see W1)	400	(2) OF
	183 700	(1) OF

6 marks

W1 (2 400 (1) – 2 000 (1))

2

Total marks for this question: 29 marks

- 2 (a)** Prepare a corrected income statement (trading and profit and loss account) for the year ended 30 September 2011. Take into account the additional information. (25 marks)
(includes 2 marks for quality of presentation)

Harry Knight
Income statement for the year ended 30 September 2011*

		£	£	
Revenue (sales)			104 896	(1)
Purchases	W1	60 073		(3) OF
Closing inventory	W2	<u>14 502</u>		(5) OF
Cost of sales #			<u>45 571</u>	
Gross profit #			59 325	(1) OF
Less expenses				
Wages	W3	21 147		(2) OF
Rent		5 200		(1)
Insurance	W4	2 992		(2) OF
Depreciation	W5	7 000		(4) OF
Provision for doubtful debts	W6	938		(2) OF
General expenses		<u>2 786</u>		(1)
			<u>40 063</u>	
Profit for the year #			<u><u>19 262</u></u>	(1) OF

W1 Purchases

		£		
Original purchases		72 468		(1)
Less purchase of fixtures		(8 500)		(1)
Less goods for own use		<u>(3 895)</u>		(1)
		<u>60 073</u>		

W2 Inventory valuation

14 682 **(1)** – 180 **(3)** = 14 502 **(1) OF**
 14 682 **(1)** + 400 **(2)** = 15 082 **(1) OF**

		£		
Realisable value		3 200		(1)
Expenses		<u>(580)</u>		(1)
Net realisable value		2 620		
Cost		<u>2 800</u>		(1)
Adjustment		<u>(180)</u>		

OR

	£		£
Closing Inventory	14 682	(1)	14 682 (1)
Cost	(2 800)	(1)	OR (2 800) (1)
Realisable value	3 200	(1)	2 620 (2)
Expenses	<u>(580)</u>	(1)	
Adjustment	<u>14 502</u>	(1) OF	<u>14 502</u> (1) OF

W3 Wages

	£
Original wages	20 748 (1)
Add accrual	<u>399</u> (1)
	<u>21 147</u>

If accrual shown separately on income statement award 1 mark.

If accrual deducted, eg £20 349 award 1 mark.

W4 Insurance

	£
Original insurance	3 481 (1)
Less prepayment	<u>(489)</u> (1)
	<u>2 992</u>

If prepayment shown separately on income statement award 1 mark.

If prepayment added, eg £3 970 award 1 mark.

W5 Depreciation

	£
Fixtures at cost	12 500 (1)
Transfer from purchases	<u>8 500</u> (1)
	21 000
Depreciation rate	<u>33¹/₃%</u> (1)*
Depreciation for year	<u>7 000</u> (1) OF

W6 Provision for doubtful debts

	£
Trade receivables	18 760
Provision for doubtful debts	<u>5%</u> (1)
Income statement	<u>938</u> (1)

23 marks

Quality of presentation: plus 2 marks

Quality of presentation marks:

***1 mark for title, including name and date in full, no abbreviations but accept trading and profit loss account.**

#1 mark for labelling: cost of sales (cost of goods sold); gross profit; profit (net profit) for the year. Do not accept abbreviations.

2 (b) Calculate the business's capital at 30 September 2011. (4 marks)

	£	
Capital introduced	21 000	
Add profit for the year	19 262	(1) OF
Less drawings	(22 560)	(1)
Less goods for own use	(3 895)	(1)
Capital at 30 September 2011	<u>13 807</u>	(1) OF

4 marks

3

Total marks for this question: 32 marks

3 (a) Calculate the interest to be paid each year if the debentures are issued. (2 marks)

£20m x 7.5% (1) = £1 500 000 (1)

2 marks

3 (b) Calculate the gearing ratio if the debentures are issued. State the formula used. (4 marks)

$$\frac{\text{Non-current liabilities} \times 100}{\text{Capital employed}} \quad (1) \quad \frac{20\,000\,000 \times 100}{35\,087\,595} \quad (1) = 57\% \quad (1)$$

or

$$\frac{\text{Non-current liabilities} \times 100}{\text{Equity}} \quad (1) \quad \frac{20\,000\,000 \times 100}{15\,087\,595} \quad (1) = 132.56\% \quad (1)$$

Or 133%

4 marks

$$\frac{\text{Non-current liabilities} \times 100}{\text{Capital employed}} \quad (1) \quad \frac{20\,000\,000 \times 100}{37\,087\,595} \quad (1) = 53.92\% \quad (1)$$

Or 54%

or

$$\frac{\text{Non-current liabilities} \times 100}{\text{Equity}} \quad (1) \quad \frac{20\,000\,000 \times 100}{17\,087\,595} \quad (1) = 117.04\% \quad (1)$$

Or 117%

4 marks

- also accept 0.54:1 or 1.17:1

- 3 (c)** Prepare the equity section of the balance sheet if the directors choose to issue ordinary shares. Assume that the share issue is fully subscribed. (6 marks)

Equity (capital and reserves)

Ordinary shares	W1	18 000 000	(2)	
Share premium	W2	14 500 000	(2)	
Revaluation reserve		585 000		}
Retained earnings		2 002 595		
		35 087 595	(1) OF	

W1 Ordinary shares:

$40\text{m} \times 20\text{p} = 8\text{m (1)} + 10\text{m (1)}$

W2 Share premium

$40\text{m} \times 30 = 12\text{m (1)} + 2.5\text{m (1)} = 14.5\text{m}$

6 marks

- 3 (d)** Calculate the annual dividend to be paid if the directors issue the shares and maintain the dividend at 3p per share. (4 marks)

Shares in issue Dividend payable
 $\text{£}10\text{m} \div 0.2 = 50\text{m (1)} + 40\text{m (1)} = 90\text{m} \times 3\text{p (1)} = \text{£}2.7\text{m (1) OF}$

4 marks

- 3 (e)** Analyse the impact on the liquidity and profitability of Cranston plc if the directors choose:
- (i) Option 1 Issue £20 million of 7.5% debentures repayable between the years 2032 and 2034
- (ii) Option 2 Issue 40 million ordinary shares at an issue price of 50p per share. (16 marks)
(includes 2 marks for quality of written communication)

Option 1

Debentures

Impact on liquidity

- in the short run* (1) there will be an initial improvement (1) as the debentures will raise £20m (1) – assuming they are fully subscribed (1)
- in the long run* (1) between 2032 and 2034 (1) the debenture will have to be repaid (1) so the directors will have to ensure there are sufficient funds available (1) – this could impact on liquidity as funds will need to be set aside (1), however the fixed repayment will make this easier to plan the impact on liquidity (1)
- each year the company will have to pay interest (1) of £1.5m (1) **OF** reducing liquidity (1).

Impact on profitability

- funds generated from a debenture issue do not affect profit (1)
- profit will be reduced (1) as the interest payments must be made each year (1) whatever the level of profit (1) this will reduce profit by £1.5m or (1) **OF**. Based on current profitability the company could cover this payment (1).

Max 9 marks

Option 2

Share issue

Impact on liquidity

- improve liquidity (1) in the short run as the share issue will raise £20m (1) if fully subscribed (1)
- in the long run there will be no further effect as the shares are not repaid (1)
- the directors will want to pay dividends (1) to the shareholders and if the current dividend is continued (1) this would reduce liquidity each year by £2.7m (1)
- however, dividends do not have to be paid (1) and can be varied (1), eg a lower dividend will improve liquidity/a higher dividend will decrease liquidity (1) so planning may be more difficult (1).

Impact on profitability

- the issue of shares does not affect profit (1)
- dividends are not deducted in the calculation of profit for the year (1) and therefore would not reduce profit for the year (1).

Max 9 marks – share issue

Overall max – 14 marks

Quality of written communication: plus 2 marks

To award 2 marks the candidate must:

Write about both debentures and ordinary shares; use accounting terminology appropriately; have no more than **three** spelling/grammatical errors.

Award **0 marks** where the quality of communication makes understanding difficult or the response is very limited, eg 1 sentence.

4

Total for this question: 11 marks

4 (a) Calculate the receivable days ratio (debtor collection period). State the formula used. (2 marks)

$$\frac{\text{Trade receivables} \times 365}{\text{Credit sales}} \quad (1) \quad \frac{265\,090}{2\,150\,175} \times 365 = 45 \text{ Days } (1)$$

2 marks

4 (b) Calculate the payable days ratio (creditor payment period). State the formula used. (2 marks)

$$\frac{\text{Trade payables} \times 365}{\text{Credit purchases}} \quad (1) \quad \frac{82\,067}{998\,500} \times 365 = 30 \text{ Days } (1)$$

2 marks

4 (c) Compare the ratios you calculated in 4 (a) and 4 (b) with those for the year ended 31 December 2010 and explain what impact this will have on the business. (7 marks)

The receivable days has fallen (1) by 7 days (1) **OF** meaning they are collecting their debts quicker (1) possibly reducing the likelihood of bad debts (1) or possibly causing customers to look elsewhere (1).

The payable days have increased (1) by 9 days (1) **OF** meaning that they are taking longer to pay trade payables (1) this could result in a poorer relationship with suppliers (1).

The receivable days ratio is higher than the payable days (1). This means that the business is paying its trade payables before it receives the money from its trade receivables (1). However, this has improved from the previous year, ie the gap is reduced (1) by 16 days (1).

Comment on impact on liquidity/cash flow (1).

Max 7 marks