Version 2

General Certificate of Education (A-level)
June 2012

Accounting ACCN3

(Specification 2120)

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 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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June 2012 **ACCN3**

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.

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 students to produce written material in English, students 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.

Task 1 **Total for this task: 16 marks**

01	*Identify the relevant accounting standard to be applied to the information shown in (1) and (2) above. (2 marks)*

Transaction 1: IAS 2: Inventories **(1)**

Transaction 2: IAS 10: Events after the reporting period **(1)**

2 marks

02	*Calculate the amount to be included in the published accounts for closing inventory (stock) and proposed dividends. (10 marks)*

Transaction 1

Include inventory (stock) at £82 250.50 (lowest value) **(1) OF** (83 500 – 12 495 **(1) (W1)** + 11 245.50 **(3) (W2)**)

W1

Inventory (stock) cost price	500 x £24.99	=	£12 495.00 **(1)**

W2

Inventory (stock) selling price	500 x £24.99 x 1.2	=	£14 994.00 **(1)**
Inventory (stock) conversion costs	500 x £24.99 x 30%	=	(£3 748.50) **(1)**
Inventory (stock) Net realisable value			£11 245.50 **(1) OF**

Alternative working

Unit selling price:	£24.99 x 1.2	=	£29.99
Unit cost price	£24.99 x 0.3	=	£7.50
Net realisable value	£29.99 - £7.50	=	£22.49
Total realisable value	£22.49 x 500	=	£11 245 - **3 marks**

Transaction 2

Dividend payment at 28 February 2011 1 600 000 **(3) W1** x 4p **(1)** = £64 000 dividends **(1)OF**

W1

Ordinary shares at 28 February 2012 480 000 x 4 = 1 920 000 shares **(1)**
Ordinary shares at 28 February 2011 1 920 000 x 5/6 **(1)** = 1 600 000 shares **(1) OF**

10 marks

03	*Explain, with reference to the relevant accounting standard, how closing inventory (stock) and proposed dividends should be treated in the published accounts.* *(4 marks)*

Transaction 1: Inventory (stock) is disclosed in the financial statements at the lower of cost and net realisable value **(1);** treated as a current asset **(1)** on the published balance sheet; it is used in the calculation of cost of sales **(1)** in the income statement

Max 2 marks

Transaction 2: They will be disclosed as a note to the financial statements **(1)**; they will not be shown in the balance sheet **(1)** as a current liability; dividends are only shown in published accounts/statement of changes in equity after they have been paid **(1)** Paid dividends are shown in the statement of cash flows **(1).**

Max 2 marks

overall max 4 marks

Task 2 **Total for this task: 20 marks**

04	*Prepare the schedule of non-current (fixed) assets for the year ended 31 May 2012. A total column is **not** required.* *(16 marks)*

Schedule of non-current (fixed) assets for the year ended 31 May 2012

Plant and machinery:			
Cost:			
Bal b/d	175 000		
Additions at cost	49 500	**(1)**	
Disposals	(34 500)	**(1)**	
Bal c/d	190 000		
Depreciation:			
Bal b/d	56 750		
Charge for the year	36 250	**(7)**	**W2**
Eliminated on disposal	(15 525)	**(6)**	**W1**
Bal c/d	77 475		
Net book value at 31 May 2011	118 250		
Net book value at 31 May 2012	112 525	**(1) OF for both**	

16 marks

W1

		£	
Depreciation on disposed asset:			
Year 1:	£34 500 **(1)** x 20% **(1)** x 8/12 **(1)**	4 600	**OF**
Year 2:	£34 500 x 20%	6 900	**CF**
Year 3	£34 500 x 20% x 7/12 **(1)**	4 025	**OF**
		15 525	**(1)* OF**

Plus 1 mark for calculating depreciation for 3 years
***mark only awarded if OF used in schedule**
The mark for 20% is for using 20% in all calculations used
The mark for £34 500 is for using £34 500 in all calculations used

W2

Depreciation charge for the year:			
Original assets	(£175 000 - £34 500) **(1)** x 20% **(1)**	28 100	**CF**
Disposed assets	£34 500 **(1)** x 20% x 7/12 **(1)**	4 025	**OF**
Asset purchased	£49 500 **(1)** x 20% x 5/12 **(1)**	4 125	**OF**
		36 250	**(1)* OF**

***Mark only awarded if OF used in schedule**
The mark for 20% is for using 20% in all calculations done

05	*Explain **one** benefit and **one** limitation of publishing a schedule of non-current (fixed) assets.*	*(4 marks)*

Benefits of schedule:

The schedule of non-current (fixed) assets assists in the reporting of the financial position/financial performance **(1)**. It shows a break down of the net book value between the cost and depreciation components **(1).**

The schedule can be used by different user stakeholder groups to interpret the business **(1)** such as analysing the impact of non-current (fixed) assets on profitability and cash flow **(1)**.

It complies with the requirements of the regulatory framework **(1)** and thus supports showing a true and fair view **(1)**.

The schedule satisfies various criteria in that it is understandable (can be interpreted) **(1)**, is relevant (to make decisions) **(1)**, is reliable (is objective and contains no errors or bias) **(1)** and is comparable (due to consistency) **(1)**. **Max 2 marks for one benefit**

Limitations of schedule:

The schedule contains historical information from the previous year **(1)** and may not reflect the current position of the business **(1)**.

The schedule is in a summarised format **(1)**. Even in the notes, there is not a detail break down of the cost for individual asset addition and disposals **(1)**.

The schedule could be used to window dress the financial statements through creative accounting **(1)**. For example, revaluation could be used to boost the asset worth **(1)**. Also, there are elements of the depreciation policy which are subjective and so could again be used to improve the worth of the asset base **(1)**.

Max 2 marks for one limitation

Overall max 4 marks

Task 3 **Total for this task: 28 marks**

06	*Prepare a balance sheet for Kevin Greenslade's business at 30 April 2012. Prepare detailed calculations of missing figures for assets, liabilities and capital.* *(28 marks)* *(includes 2 marks for quality of presentation)*

Balance sheet for Kevin Greenslade at 30 April 2012 (*)

	£			£	£		
Non-current (fixed) assets (**)					54 450	**(3)**	**W1**
Current assets (**)							
Inventory (stock)	8 356	**(5)**	**W2**				
Trade receivables (debtors)	9 280	**(3)**	**W3**				
Prepaid expenses	1 500	**(3)**	**W4**				
				19 136			
Current liabilities (**)							
Bank overdraft	2 340	**(1)**					
Trade payables (creditors)	5 355	**(3)**	**W5**				
Accrued expenses	405	**(3)**	**W6**				
				8 100			
Net current assets (**)					11 036		
					65 486		
Capital (**)							
Opening capital					86 850	**(3)**	**W7**
Loss for the year (net loss)					(6 774)	**(1)**	**OF**
Drawings					(14 590)	**(1)**	
					65 486		

<u>28 marks</u>
<u>includes 2 marks for quality of presentation</u>

W1

Non-current (fixed) assets

Depreciation for the year: £72 600 x 25% **(1)** = £18 150 **(1) OF**

Net book value: £72 600 - £18 150 = £54 450 **(1) OF**

W2

Inventory (stock)

Cost of sales: Sales £87 840 x 60% **(1)** = £52 704 **(1) OF**	**£**	
Cost of sales	52 704	
Opening inventory (stock)	(8 570)	**(1)**
Purchases	(52 490)	**(1)**
Closing inventory (stock)	8 356	**(1)* OF**

W3

Trade receivables (debtors):	**£**	
Sales	87 840	
Receipts	(85 700)	**(1)**
Bal b/d	7 140	**(1)**
Bal c/d	9 280	**(1)* OF**

W4

Prepaid expenses (rent):	**£**	
Income Statement (P&L a/c)	14 100	
Payments	(14 400)	**(1)**
Bal b/d	(1 200)	**(1)**
Bal c/d	1 500	**(1)* OF**

W5

Trade payables (creditors):	**£**	
Income Statement (P&L a/c)	52 490	
Payments	(51 420)	**(1)**
Bal b/d	4 285	**(1)**
Bal c/d	5 355	**(1)* OF**

W6

Accrued expenses (telephone):	**£**	
Income Statement (P&L a/c)	3 980	
Payments	(3 900)	**(1)**
Bal b/d	325	**(1)**
Bal c/d	405	**(1)* OF**

***Only award if correctly recorded in the correct section of the balance sheet**

W7
Statement of affairs:

	Assets	Liabilities
	£	**£**
Non-current (fixed) assets	72 600	
Trade receivables (debtors)	7 140	
Trade payables (creditors)		4 285
Prepaid expense	1 200	
Accrued expense		325
Inventory (stock)	8 570	
Bank	1 950	
Capital		86 850
	91 460	91 460

£91 460 **(1)** - £4 610 **(1)** = £86 850 **(1) OF**

Marks for quality of presentation:
(*****) 1 mark for title (in full with no abbreviations)
(******) 1 mark for all 5 sub headings in balance sheet

Task 4 **Total for this task: 26 marks**

07 *Prepare the partner's appropriation account for the year ended 31 March 2012, showing clearly the appropriation of profit for the periods:*
- *1 April 2011 – 31 July 2011*
- *1 August 2011 – 31 March 2012.* *(14 marks)*

Calculation of adjusted profit

	4 months ended 31 July 2011		8 months ended 31 March 2012	
	£		£	
Profit for the year (net profit)	13 800	**(1) W1**	27 600	
Less: Interest on loan	200	**(2) OF W2**	320	**(2) OF W3**
Adjusted profit for the year (net profit)	13 600		27 280	

Kelly and Roche
Appropriation account for the year ended 31 March 2012

		4 months ended 31 July 2011		8 months ended 31 March 2012	
Adjusted profit for the year (net profit)		13 600		27 280	
Add: Interest on drawings	Kelly			592	**(1)**
	Roche			472	**Both**
		13 600		28 344	
Interest on capital	Kelly			(3 940)	**(4) OF W4**
	Roche			(3 152)	**Both**
Less: Salary (Kelly)				(10 600)	**(1) W5**
Remaining profit		13 600		10 652	
Profit split	Kelly	6 800	**(1) W6**	7 989	**(1) OF W7**
	Roche	6 800	**Both**	2 663	**(1) OF**

<u>14 marks</u>

W1
Net profit
£41 400 x 4/12 = £13 800 **(1) for both**
£41 400 x 8/12 = £27 600

W2
Interest on loan:
£12 000 x 5% **(1)** x 4/12 **(1)** = £200 **OF**

W3
Interest on loan
£12 000 x 4% **(1)** x 8/12 **(1)** = £320 **OF**

W4
Interest on capital
Kelly: £98 500 **(1)** x 6% **(1)***x 8/12* **(1)** = £3 940 **OF**
Roche: £78 800 **(1)** x 6% x 8/12 = £3 152 **OF**

***Mark is for using 6% and 8/12 for both calculations**

W5
Partner salary
£15 900 x 2/3 = £10 600 **(1)**

W6
Split profit
£13 600 / 2 = £6 800 **(1)**

W7
Split profit
Kelly: £10 652 x 75%   = £7 989 **(1) OF**
Roche: £10 652 x 25% = £2 663 **(1) OF**

08	*Recommend to Kelly and Roche whether or not they should introduce Boardman as a new partner. Make reference to both financial and non-financial considerations to justify your recommendation.* *(12 marks)* *(includes 2 marks for quality of written communication)*

Benefits of introducing a new partner:
Extra capital introduced of £50 000 **(1)** which would improve the cash flow and worth of the business **(1)**.
Shared workload **(1)** and increased duty cover for the partnership during holidays or illness **(1)**.
Increased specialisation **(1)** and new ideas/expertise being injected **(1)**.
The goodwill valuation adjustment will redistribute capital away from Boardman **(1)** by £6000 (£30 000 x 2/10) **(1)** as the new partner to the existing partners **(1)**. In this case, Kelly would benefit **(1)** by £7500 (£30 000 x ¾ - £30 000 x 5/10) **(1)** and Roche would lose out **(1)** by £1500 (£30 000 x ¼ - £30 000 x 3/10) **(1)**.
New partner could reduce the risk of unlimited liability **(1)** since liability for debts is joint and several **(1)**. **<u>Max 6 marks</u>**

Drawbacks of introducing a new partner:
There would be an increased risk of disagreements **(1)** as decision-making would be more complex **(1)**, unless the new partner was a sleeping partner/investor only **(1)**.
Profits would have to be shared between more partners **(1)**
However there will be 30% of more profit available **(1)**
More drawings for personal use **(1)** could adversely affect the cash flow of the business **(1)** or lead to fewer goods being available for sale in the short term **(1)**.
The business would have to pay an extra £3000 of interest on capital **(1)** and this may be more expensive than obtaining the cash from other sources such as a loan **(1)**.
<u>Max 6 marks</u>

<u>Overall max 8 marks</u>

Up to 2 marks for a decision/judgement **<u>2 marks</u>**

Quality of written communication:
2 marks for no more than 2 spelling, punctuation or grammar errors
1 mark for more than 2 spelling, punctuation or grammar errors
0 marks where it is difficult to understand the prose response.
<u>2 marks</u>

<u>12 marks</u>