



**General Certificate of Education (A-level)
January 2013**

Accounting

ACCN2

(Specification 2120)

Unit 2: Financial and Management Accounting

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: 20 marks

1 (a) Calculate the net current asset (current) ratio at 31 December 2012. State the formula used. (4 marks)

$$\frac{\text{Current assets}}{\text{Current liabilities}} \text{ (1)} = \frac{£29\,760 \text{ (1)}}{£19\,840 \text{ (1)}} = 1.5:1 \text{ (1) OF}$$

Current assets	£	Current liabilities	£
Inventory	9 972	Bank overdraft	8 818
Trade receivables	19 788	Trade payables	11 022
	29 760		19 840

4 marks

1 (b) Calculate the liquid capital (acid test) ratio at 31 December 2012. State the formula used. (3 marks)

$$\frac{\text{Current assets – inventory}}{\text{Current liabilities}} \text{ (1)} = \frac{£19\,788 \text{ (1)}}{£19\,840 \text{ (1) OF*}} = 0.997:1 \text{ or } 1:1 \text{ (1) OF}$$

3 marks

1 (c) Calculate the rate of inventory turnover for the year ended 31 December 2012. State the formula used. (4 marks)

$$\frac{\text{Cost of sales}}{\text{Average inventory}} \text{ (1)} = \frac{£112\,860 \text{ (1)}}{£11\,286 \text{ (1)}} = 10 \text{ times (1) OF}$$

Cost of sales	£	Average inventory	
Inventory at 1 Jan 2012	12 600	£12 600 + £9 972	= £22 572 = £11 286
Purchases	110 232		= $\frac{£22\,572}{2}$
Inventory at 31 Dec 2012	9 972		
	112 860		

Alternative answer:

$$\frac{\text{Average inventory} \times 365}{\text{Cost of sales}} \text{ (1)} = \frac{11\,286 \text{ (1)}}{112\,860 \text{ (1)}} \times 365 = 37 \text{ days (1) OF}$$

4 marks

- 1 (d)** *Assess the extent to which Munaf is using his business's net current assets (working capital) more efficiently in 2012 compared with 2011. Use the ratios that you calculated in Questions 1 (a), (b) and (c) and the ratios in the table above to support your answer. (9 marks)*

The comparable ratios for the year ended 31 December 2011 were:

Net current asset (current) ratio	2:1
Liquid capital (acid test) ratio	0.8:1
Rate of inventory turnover	8 times (46 days)

Assessing the current ratio 0-3 marks

The business now has £1.50 of current assets for every £1 of current liabilities (1). This could be an improvement (1) as the business is now operating with a reduced level of current assets compared with current liabilities (1), Munaf is still able to pay his current liabilities when they are due using his current assets (1).

It could mean that the business could struggle to pay its liabilities when they are due (1), if current assets are mainly inventory or receivables (1).

Assessing the acid test ratio 0-3 marks

The business now has £1 of liquid assets for every £1 of current liabilities (1).

This could mean that the business has more liquid assets (1) than it needs and it therefore less efficient (1).

It could mean that the business' liquidity has improved (1) and is more able to pay its debts when they become due (1).

Inventory turnover 0-3 marks

The business is now selling its inventory on average 10 times a year (or every 37 days) (1). This is an improvement (1) and means that the business is selling its inventory more quickly (1).

However, the improved inventory turnover could be achieved by reducing the selling price in order to generate more sales and this could impact on the profitability of the company (1).

Alternatively, the improvement could be achieved by reducing the average inventory and maintaining cost of sales (1).

Overall assessment 0-3 marks

For making an overall assessment of efficiency, eg the business has improved/more efficient/declined/less efficient (1 plus 0-2 for development). Example: It is difficult to make an overall assessment of the efficiency of the business based on the ratios (1), as the ratios are moving in opposite directions (1), and because there are no industry averages available (1).

(If the student simply repeats comments about individual ratios already stated above rather than attempting an overall assessment do not award any further marks for justification of assessment).

Overall max 9 marks

2

Total for this question: 24 marks

2 Prepare an income statement for Omnisport for the year ended 30 November 2012. Space for workings is provided on page 8. (24 marks)
(includes 2 marks for quality of presentation)

Omnisport
Income statement for the year ended 30 November 2012

	£		£	
Revenue			200 500	(2) W1
Opening inventory	12 780			
Purchases	100 212	(2) W2		
	112 992			
Closing inventory	13 380	(6) OF W3		
Cost of sales			99 612	
Gross profit			100 888	(1) OF must include opening inventory and no alien item
Other income				
Interest received	600	(2) OF W4		
Bad debt recovered	378	(1)	978	
			101 866	
Less expenses				
Wages	67 895	}		(1) for both
General expenses	23 000			
Provision for doubtful debts	260	(3) OF W5		
Depreciation	6 000	(3) OF W6		
			97 155	
Profit for the year			4 711	(1) OF and no alien item

W1 Revenue

Revenue – goods on sale or return at selling price

£208 900 **(1)**

£200 500 **(2)** (ie £208 900 – £8 400)

£204 700 **(1)** (£208 900– £4 200) (ie deduction of sale or return at cost)

For other answers please check workings. If the workings contain alien items but start with £208 900 award 1 mark.

W2 Purchases

Purchases – goods for own use

£100 212 **(2)**

£100 800 **(1)**

For other answers please check workings. If the workings contain alien items but start with £100 800 award 1 mark.

W3 Inventory

	£
Closing inventory	9 560
Add goods on sale or return	<u>4 200 (1)</u>
	13 760
Adjustment for damaged stock	<u>(380) (4) OF</u>
	<u>13 380 (1) OF</u>

Inventory Valuation

	£	£
Cost		2 600 (1)
Realisable value	2 850 (1)	
Cleaning and repair costs	630 (1)	
Net realisable value		<u>2 220</u>
		<u>380 (1)</u>

Alternative approach to inventory valuation

	£
Original inventory	9 560
Less cost	(2 600) (1)
Add realisable value	2 850 (1)
Cleaning and repair costs	<u>(630) (1)</u>
	<u>9 180 (1)</u>

W4 Interest receivable

	£
Interest	480 (1)
Interest due	<u>120 (1)</u>
Cleaning and repair costs	<u>600</u>

W5 Provision for doubtful debts

Trade receivables	£18 800	
Closing provision	x 5%	
		940 (1)
Less opening provision		680 (1)
		<u>260 (1) OF</u>

If student includes the provision in the income statement, eg £940 or £680 award 1 mark.
 If student adds the increase in the provision to gross profit maximum 2 marks.

If a student deducts the goods on sale or return from trade receivables – the provision for doubtful debts will be:

Trade receivables	18 800	
Less sale or return	8 400	
		<u>10 400</u>
Closing provision	x 5%	
		<u>520 (1)</u>
Less opening provision		680 (1)
		<u>(160)(1) OF</u>

Please reward this with 3 marks.

This could be shown as other income or as a deduction from expenses.

W6 Depreciation

Cost	27 000	
Less provision	9 000	
Net book value		18 000 (1)
	x 33 ¹ / ₃ %	(1)
Charge for year		<u>6 000 (1) OF</u>

22 marks

Quality of presentation (QWC)

1 mark for title: this must include the business name, eg Omnisports; for the year ended and the date in full, no abbreviations. Accept Trading and Profit and Loss Account.

1 mark for correctly labelling: cost of sales (cost of goods sold) gross profit + profit for the year (net profit) (not profit); not CoS, GP etc. Do not accept profit/loss.

Total 24 marks

3

Total for this question: 14 marks

3	<p><i>Advise Lorraine on whether or not she should enter into a partnership with Carol.</i></p> <p><i>(14 marks)</i></p> <p><i>(includes 2 marks for quality of written communication)</i></p>
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General factors	Application
Additional capital is available (1)	Carol can invest £50 000 (1) which is permanent/does not have to be repaid (1)
Sharing profit/losses (1) In a partnership the profits are shared whereas a sole trader will keep all the profits (1)	The forecast profit is £40 000 (1) this will have to be shared and Lorraine's share may be less than the profit for last year of £24 000 (1) If Carol's share of the profit is £25 000 then Lorraine's share will be reduced (1) and may affect her drawings of £18 000 (1)
Decision making (1) This could be improved as more people are involved in the process (1) This could take longer as they may disagree (1)	Carol has experience of managing shops and this could bring increased expertise (1) Carol does not have experience as an owner of a business and this may affect her ability to make decisions (1) Partners may not get on well together (1)
Control/Ownership (1) Both partners will expect to have a say in the running of the business (1)	Lorraine has previously made all the decisions; she will now have to share this process (1)
Greater expertise/ideas (1) Having more partners means that there may be more expertise/ideas and they may have different skills (1)	Carol could be a better administrator or sales person than Lorraine (1)
Sharing workload (1) A sole trader does not have anyone to share the work load with, this makes it difficult to take holidays or have someone to cover if you are unwell (1)	Having Carol as a partner would enable Lorraine to take holidays (1) without having to either close the business/pay for a replacement manager (1)
Unlimited liability (1) This means that if the business fails the owners could lose their investment and personal possessions (1)	Lorraine could lose her capital investment of £60 000 (1) and could be responsible for the total liabilities of the partnership (1)
Max 6 marks for general factors	Max 4 marks for application

Advice 0-3 marks

1 mark for clear advice + 0-2 marks for justification

- students should give clear advice (1 mark for clear decision, ie should or should not). This must be supported by the numerical information (1) and other information from the case study (1)
- for example, she should not go into partnership (1) because in the first year the projected profit figures would not provide the same level of profit (1) or drawings for Lorraine if Carol takes £25 000 (1).

Overall max 12 marks

Quality of written communication

- award 2 marks where the student makes no more than 2 spelling or grammatical errors
- award 0 marks where communication hinders understanding.

Total 14 marks

4

Total for this question: 22 marks

4 (a) Calculate the dividend paid in February 2012. (3 marks)

February dividend

Value of shares in issue	number of shares in issue	dividend per share	Total dividend
1 250 x 5 (1) =	6 250 x	£1.50 (1) =	£9 375 (1) OF
			<u>3 marks</u>

4 (b) Calculate the value of the bonus issue of shares. (2 marks)

Issue of shares

£1 250 shares in issue x 50 (1) = £62 500 (1)

OR

£1 250 x 5 = 6 250 shares x 50 (1) = 312 500 x 0.2 = £62 500 (1)

2 marks

4 (c) Calculate the dividend paid in September 2012. (5 marks)

September dividend

Value of shares in issue	number of shares in issue	dividend per share	
	£		
1 250 x 5 =	6 250 (1)		
62 500 x 5 =	<u>312 500 (1) OF*</u>		
	318 750 (1) OF	x 30p (1)	= £95 625 (1) OF

* own figure is based on calculation in 4(b)

5 marks

4 (d) Prepare a statement of changes in equity for the year ended 31 December 2012. Use the table below. (12 marks)

Angton Ltd
Statement of changes in equity for the year ended 31 December 2012

	Ordinary shares		Share premium		Revaluation reserve		Retained earnings
	£		£		£		£
At 1 January	1 250		25 000				851 725 (1) for row
Revaluation					150 000 (1)		
Issue of shares	62 500 (1) OF		(25 000)	(1) OF for both	(37 500)		
Profit for the year							285 472 (2) OF
Dividends							(105 000) (2) OF#
At 31 December	63 750 (1) OF		0 (1) OF		112 500 (1) OF		1 032 197 (1) OF

Workings:

Profit for the year

Profit: £356 840 – tax £71 368 (1) = £285 472 (+ 1 mark for correct treatment in statement).

If tax shown as a separate item in the statement award (1) mark for profit and no mark for tax.

Award 2 marks if student enters one figure for dividends. If dividends are shown separately award 1 mark.

12 marks