



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

Accounting

ACCN3

(Specification 2120)

Unit 3: Further Aspects of Financial 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>

Task 1

Total for this task: 14 marks

01 Calculate the value of closing inventory at 31 October 2012. (7 marks)

	£	
Closing inventory at 12 November 2012	31 300	
Purchases returns	3 100	(1)
Purchases	(39 500)	(1)
Sales (W1)	101 200	(2)
Sales returns (W2)	(1 550)	(2)
Closing inventory at 30 October 2012	94 550	(1) OF

(W1) Sales:

$£121\,440 \times 100/120^* \text{ (1)} = £101\,200 \text{ (1) CF}$

(W2) Sales Returns:

$£1\,860 \times 100/120^* \text{ (1)} = £1\,550 \text{ (1) CF}$

* or equivalent arithmetical process (example divide by 1.2)

CF = correct figure only mark is only awarded if used correctly in the calculation of the closing inventory.

7 marks

02 Calculate the gross profit for the period from 1 to 12 November 2012 using the AVCO method. (3 marks)

	£	
Gross profit using FIFO	9 240	
Closing inventory using FIFO	(31 300)	(1)
Closing inventory using AVCO	31 100	(1)
Gross profit using AVCO	9 040	(1) OF

3 marks

03 Explain **two** reasons why the directors should **not** change from the FIFO method to the AVCO method. (4 marks)

FIFO values inventory on the assumption that the oldest items of stock are issued before the most recent items of stock (1) unlike AVCO which issues stock from a total quantity (1).

FIFO values inventory at actual cost prices paid to purchase the stock (1) unlike AVCO which uses an average price (1).

FIFO is an easier method to calculate (1) than AVCO because it doesn't require the calculation of average costs after each receipt of inventory (1). More complicated AVCO calculations could lead to errors (1).

To change method would be against the concept of consistency (1) and IAS 8 (1) unless it leads to a more true and fair view (1) and lead to a loss of comparability (1).

FIFO shows a higher profit (1) in the short term (1) where prices are rising (1) and higher inventory valuation (1) which is against the concept of prudence (1) so it is not as likely to show a more true and fair view (1).

In the longer term (1) changing methods of inventory valuation will have no effect on profits (1).

A change of method would be time consuming (1) because the inventory would need to be re-valued in the previous financial statements (1).

4 marks

Task 2

Total for this task: 20 marks

04 Prepare the partnership capital accounts for Evans, Schleck and Voeckler at 1 January 2013 to record the dissolution. (12 marks)

Capital Accounts

	Evans	Schleck	Voeckler		Evans	Schleck	Voeckler
	£	£	£		£	£	£
Current account			18 350 (1)	Bal b/d	105 000	70 000	25 000 (1) *
Dissolution loss	23 000	17 250	11 500 (4) (W1)	Current account	23 600	15 425	(1) *
Capital V	2 910	1 940	(2) (W3)	Capital (W2)			4 850 (1) OF
Cash	102 690	66 235	(2) OF				
	128 600	85 425	29 850		128 600	85 425	29 850

(W1) Dissolution loss

	£				
Assets		225 000	Evans	$£51\,750 \times \frac{4}{9}$ (1) = £23 000	OF
		23 750	Schleck	$£51\,750 \times \frac{3}{9}$ (1) = £17 250	OF
		15 950	Voeckler	$£51\,750 \times \frac{2}{9}$ (1) = £11 500	OF
Liabilities:		(24 700)			
Total value		240 000			
Price		(188 250)			
Loss		(51 750)			(1) CF

Alternative workings:

Realisation account

	£		£
Non-current assets	225 000	Trade payables	24 700
Inventory	23 750	Bank	188 250
Trade receivables	15 950	Evans capital	23 000
		Schleck capital	17 250
		Voeckler capital	11 500
	264 700		264 700

(W2) Voeckler capital

	£			
Bal b/d		25 000		
Current		(18 350)		
Dissolution		(11 500)		
Deficiency		4 850		(1) OF

(W3) Capital split using the rule in Garner v Murray

Evans £4 850 x 105/175 **(1)** = £2 910 **OF**

Schleck £4 850 x 70/175 **(1)** = £1 940 **OF**

12 marks

05 *Assess the suitability of a share issue to raise the start-up capital required by Evans and Schleck.* (8 marks)

Share issue being suitable:

Shares are permanent capital which doesn't have to be repaid to the shareholders (1).

Dividend amounts can be varied depending on profit levels (1), which is good as they are projected to be lower (1).

Ordinary shares are a lower risk form of funding to the company (1) which also reduces gearing and debt exposure (1).

Share issues not being suitable:

Potential shareholder investors may not be found (1) as the projected profits are expected to be low for the first year of trading (1).

Dividends may have to be paid to shareholders (1) which could adversely affect both retained earnings and cash flows (1).

Shareholders can influence decision making and control (1) by voting at the AGM (1).

New shareholders would have 60% of the share capital (1) and so would be majority owners (1). This means that there will be a significant dilution of ownership and control (1).

It may be difficult to raise £150 000 of share capital (1) because the investors in private companies are limited to family, friends and employees (1).

Student suggests a suitable alternative source (accept one alternative source max 4 marks):

Preference shares (1)

No loss of control (1) because no voting rights (1).

Fixed dividend (1) allows the business to plan and forecast more accurately (1).

Debentures/bank loans/other forms of long-term finance (1)

No loss of control (1) because no voting rights (1).

Fixed interest (1) allows the business to plan and forecast more accurately (1).

Max 8 marks

Task 3

Total for this task: 22 marks

06 Complete the statement of cash flows for the year ended 30 September 2012 in accordance with the requirements of IAS7. Start with the cash used in operating activities. (18 marks)
(includes 2 marks for quality of presentation)

Merckx and Indurain Ltd
Statement of cash flows for
Year ended 30 September 2012

	£	£
Cash used in operating activities		(31 225)
Interest paid (W1)		(3 975) (2)
Taxes paid		(6 500) (1)
Net cash used in operating activities		<u>(41 700)</u>
Cash flow from investing activities (*)		
Purchase of non-current assets (W2)	(38 250) (4)	
Proceeds from sale of non-current assets (W3)	18 125 (2)	
Net cash used in investing activities		<u>(20 125)</u>
Cash flow from financing activities (*)		
Proceeds from the issue of share capital (W4)	30 000 (2)	
Dividends paid (W5)	(6 000) (2)	
Proceeds from long term borrowing (W6)	25 000 (1)	
Net cash flow from financing activities		<u>49 000</u>
Net decrease in cash		<u>(12 825)</u>
Cash and cash equivalents at the beginning of the year (W7)		<u>(15 600) (1)</u>
Cash and cash equivalents at the end of the year (W7)		<u><u>(28 425) (1)</u></u>

Quality of presentation:

1 mark: Full title for the statement of cash flows to include business name, statement title and date reference, all with no abbreviations.

1 mark: both sub headings should include the words 'investing activities' and 'financing activities'. This mark is not rewarded however where an alien item exists in the section.

(W1)	Interest paid	£	
	Original loan 60 000 x 6%	3 600	(1)
	New loan 25 000 x 1.5%	375	(1)
		<u>3 975</u>	OF

(W2) Non-current assets

	£	
NBV c/d	262 900	
NBV b/d	(247 800)	(1)
NBV asset sold	14 500	(1)
Depreciation	26 150	(1)
Revaluation	(17 500)	(1)
Cost of assets purchased	<u>38 250</u>	OF

Alternative workings:

Non-current assets

	£			£
Bal b/d	247 800	(1)	NBV disposal	14 500 (1)
Purchases	38 250	OF	Depreciation	26 150 (1)
Revaluation	<u>17 500</u>	(1)	Bal c/d	<u>262 900</u>
	<u>303 550</u>			<u>303 550</u>

(W3) Sale of non-current assets

	£	
NBV	14 500	(1)
Profit on disposal	3 625	(1)
Sale proceeds	<u>18 125</u>	OF

(W4) Issued share capital

	Share Capital	Share premium
	£	£
Bal c/d	144 000	66 000
Bal b/d	(120 000)	(60 000)
Increased	<u>24 000</u> (1)	<u>6 000</u> (1)
	24 000 + 6 000 = 30 000 CF	

(W5) Dividends paid

$(£120\,000 / 1.5) \text{ (1)} \times 7.5\text{p} \text{ (1)} = £6\,000 \text{ OF}$

(W6) Long term borrowing

	£	
Debenture loans		
Bal b/d	60 000	
Bal c/d	85 000	
New loan	<u>25 000</u>	(1) CF

(W7) Cash and cash equivalents

	Beginning of year	End of year
	£	£
Cash	1 550	1 375
Bank overdraft	(17 150)	(29 800)
Total	<u>(15 600)</u> (1)	<u>(28 425)</u> (1)

18 marks

(includes 2 marks for quality of presentation)

07 Explain **two** reasons why the statement of cash flows would be useful to a debenture holder of Merckx and Indurain Ltd. (4 marks)

To find out if any loans have either been advanced or repaid **(1)**. £25 000 of extra loans have been taken out this year **(1)** which increases borrowing/debt **(1)** and therefore risk **(1)**. Gearing has risen **(1)** from 21% to 28% **(1)**.

Debenture holders would be able to assess how their loans are being used in the business **(1)**.

To determine the amount of interest paid on the borrowing **(1)**. £3 975 of interest has been paid **(1)** which is a return on the loan to the debenture holders **(1)**. However, it is also an expense **(1)** and so reduces the profits of the business **(1)**. The interest is at a fixed rate **(1)** and so increases the risk **(1)** especially if profits are declining or a loss is made **(1)**.

A debenture holder would also be interested in determining the ability of the company to repay their loan in the future **(1)**. This business has made an operating loss of £48 700 **(1)** and has also experienced a decrease in cash of £12 825 **(1)** which may cause some concerns **(1)**.

The statement of cash flows in general shows the business's ability to manage liquidity **(1)** by identifying all of the main movements of cash inflows and outflows for the financial year **(1)**. It also reconciles profitability and cash flow **(1)** which may be especially useful for a business where there is a discrepancy between being profitable and having healthy cash flow **(1)**.

Max 4 marks

Task 4

Total for this task: 34 marks

08 Prepare an extract from the income statement for the year ended 30 November 2012 as far as the gross profit. Clearly show the figures for both purchases and goods for own use. (11 marks)

**Income Statement for Alberto
Year ended 30 November 2012**

	£	£
Revenue (W1)		52 200 (3)
Cost of sales:		
Opening inventory	6 160	
Purchases £36 795 (3) (W2) – £1 265 (2) (W4)	35 530 OF	
Closing inventory	<u>(2 540) (1)</u>	<u>39 150 (1) CF (W3)</u>
Gross profit		<u>13 050 (1) OF</u>

(W1) Revenue

	£	
Bal c/d	4 060 (1)	
Received	51 570 (1)	
Bal b/d	<u>(3 430) (1)</u>	
Revenue	<u>52 200 OF</u>	

Alternative

Revenue:

	£			£
Bal b/d	3 430 (1)	Received		51 570 (1)
Revenue:	<u>52 200 OF</u>	Bal c/d		<u>4 060 (1)</u>
	<u>55 630</u>			<u>55 630</u>

(W2) Purchases

	£	
Bal c/d	1 685 (1)	
Paid	37 685 (1)	
Bal b/d	<u>(2 575) (1)</u>	
Purchases	<u>36 795 OF</u>	

Alternative

Purchases:

	£			£
Paid	37 685 (1)	Bal b/d		2 575 (1)
Bal c/d	<u>1 685 (1)</u>	Purchases		<u>36 795 OF</u>
	<u>39 370</u>			<u>39 370</u>

(W3) Cost of sales

£52 200 x 75% **(1)** = £39 150 **OF**

(W4) Goods for own use

£39 150 **(1)** + (£2 540 – £36 795 – £6 160) **(1)** **OF** £1 265 **OF**

11 marks

09 Prepare statements of affairs to calculate the profit for the year ended 30 November 2012. (7 marks)

Profit for the year

	£	
Opening capital (W1)	34 675	(2) OF
Profit for the year (W4)	5 920	(1) OF
Drawings (W3)	(16 265)	(2) OF
Closing capital (W2)	24 330	(2) OF

(W1) Opening capital

Assets	Liabilities	Capital
£	£	£
4 835	695	42 190 (1) CF
6 160	2 575	(7 515) (1) CF
610	4 245	
3 430		
26 715		
440		
42 190	7 515	34 675 OF

(W2) Closing capital

Assets	Liabilities	Capital
£	£	£
3 870	870	31 025 (1) CF
2 540	1 685	(6 695) (1) CF
760	4 140	
4 060		
18 900		
895		
31 025	6 695	24 330 OF

(W3) Drawings

	£	
Cash	15 000	(1)
Goods for own use	1 265	(1) OF from question 8
Total	16 265	OF

(W4) Profit

	£	
Closing capital	24 330	
Drawings	16 265	
Opening capital	(34 675)	
Profit for the year	5 920	(1) OF

7 marks

10 *Recommend to Alberto whether or not he should introduce a double entry bookkeeping system of accounting records. Justify your decision. (16 marks)*
(includes 2 marks for quality of written communication)

Benefits include:

- less errors **(1)** due to each transaction having a debit and a credit entry **(1)**
- verify accuracy **(1)** via trial balances **(1)** and control accounts **(1)**
- more detailed **(1)** and accessible **(1)** information such as totals for trade receivables **(1)** and trade payables **(1)**
- helps to provide information for tax purposes **(1)**, eg for payment to HMRC **(1)**
- assists with the preparation of financial statements **(1)** including the income statement **(1)** and the balance sheet **(1)**
- reduces the chances of fraud **(1)** such as stolen cash **(1)**
- supports a loan application **(1)** by showing business liquidity/cash flow **(1)**
- to aid decision making **(1)** and potentially lead to improved business performance **(1)**
- with specialist accounting software **(1)**, it would be inexpensive and easy to prepare accounting records **(1)**
- reduce fees paid to accountants **(1)** if he is able to prepare the accounting records **(1)**.

1 mark for each valid point
Max 10 marks for benefits

Drawbacks include:

- Alberto may lack the knowledge **(1)** to keep double entry records if he is not an accountant or book keeper **(1)**
- the accounting system is costly **(1)** to set up including possibly training **(1)** and wage costs **(1)** there is no statutory requirement for a sole trader to keep books of accounts
- it is time consuming **(1)** to process transactions **(1)** which will leave less time to run the business **(1)**
- the system will not reveal all errors **(1)** for example error of commission **(1 mark only for an example)**.

1 mark for each valid point
Max 6 marks for drawbacks

Overall max 13 marks

1 mark for valid decision

Quality of Written Communication

2 marks: no more than 3 spelling, punctuation or grammar errors. It must refer to both benefits and drawbacks.

Award quality of written communication marks even for a brief relevant response.

1 mark: 4 or more spelling, punctuation or grammar errors.

0 marks: the level of communication makes it difficult to understand the response.

16 marks