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General Certificate of Education (A-level)
June 2013

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 2013 **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: 22 marks**

01	*Prepare the partnership capital accounts for Jack, Henry and Len at 1 May 2013 after items (1) to (4) have been implemented.* *(9 marks)*

Capital accounts

	Jack	Henry	Len		Jack	Henry	Len
	£	**£**	**£**		**£**	**£**	**£**
Current account			5 774	Bal b/d	102 000	84 000	36 000 **(1)**
Goodwill **W2**	20 250	6 750 **(1)**		Goodwill **W1**	12 000	9 000	6 000 **(1)**
Loan account			39 226 **(1) OF**	Revaluation **W3**	6 000	4 500	3 000 **(3) OF**
Bal c/d	99 750	90 750					
	120 000	97 500	45 000		120 000	97 500	45 000
				Bal b/d	99 750 **(1)**	90 750 **(1) OF**	

Workings

W1

Goodwill old ratio **(1) CF for all 3 figures**

Jack £27 000 x 4/9 = £12 000

Henry £27 000 x 3/9 = £9 000

Len £27 000 x 2/9 = £6 000

W2

Goodwill new ratio **(1) CF for both figures**

Jack £27 000 x 3/4 = £20 250

Henry £27 000 x 1/4 = £6 750

W3

		£	
Revaluation			
Non-current assets		19 000	**(1)** (£235 000 - £216 000)
Inventory		(5 500)	**(1)** (£17 444 - £22 944)
		13 500	
Jack	£13 500 x 4/9	£6 000	**(1)* OF**
Henry	£13 500 x 3/9	£4 500 *	
Len	£13 500 x 2/9	£3 000 *	

9 marks

Alternative layout (netted goodwill accounts)

Capital accounts

	Jack	Henry	Len			Jack		Henry		Len	
	£	**£**	**£**			**£**		**£**		**£**	
Current account			5 774		Bal b/d	102 000		84 000		36 000	**(1)**
Goodwill **W2**	8 250 **(1)**				Goodwill **W1**			2 250		6 000	**(1)**
Loan account			39 226	**(1) OF**	Revaluation **W3**	6 000		4 500		3 000	**(3) OF**
Bal c/d	99 750	90 750									
	108 000	90 750	45 000			108 000		90 750		45 000	
					Bal b/d	99 750	**(1)**	90 750	**(1)**	**OF**	

Alternative layout (combined goodwill and revaluation)

Capital accounts

	Jack	Henry		Len			Jack		Henry		Len	
	£	**£**		**£**			**£**		**£**		**£**	
Current account				5 774		Bal b/d	102 000		84 000		36 000	**(1)**
Goodwill **W2**	20 250	6 750	**(1)**			Revaluation	18 000		13 500		9 000	**(4) OF**
Loan account				39 226	**(1) OF**							
Bal c/d	99 750	90 750										
	120 000	97 500		45 000			120 000		97 500		45 000	
						Bal b/d	99 750	**(1)**	90 750	**(1)**	**OF**	

02	*Assess **two** sources of finance that could be used to fund the proposed expansion. Recommend and justify the most appropriate finance method. (13 marks) (includes 2 marks for quality of written communication)*

A bank loan **(1)** could be negotiated to expand the business which might be long term and so would create a long term liability to the business **(1)**. The loan would have to be repaid **(1)** with interest at either a fixed or variable rate **(1)** and this is would be an expense to reduce future profits **(1)**. A loan may have other costs including an arrangement fee **(1)** and could require a cash budget to be produced to demonstrate an ability to repay the amount borrowed **(1)**.

A bank loan would also require security/collateral against business assets in case of loan default **(1)**. A bank loan would increase risk and gearing **(1)**. **Max 6 marks**

A mortgage **(1)** could be negotiated with, for example, a bank or building society. However, this would only apply to the purchase of additional non-current assets in the form of land and buildings **(1)**. The mortgage would usually be repaid over a long period of time such as a 25 year duration and so would represent a non-current liability to the business **(1)**.
The property itself would provide the collateral in case of loan default **(1)**. Interest would again be paid at a fixed, variable or tracker rate **(1)** and would reduce profits **(1)**.
Interest rates would tend to be lower than for a bank loan **(1)**. The mortgage would again increase gearing and risk **(1)** in the same way as a loan arrangement. **Max 6 marks**

The business could introduce a new partner **(1)**. This partner would have to invest a capital lump sum **(1)** which would increase the long term funding for the business. This new partner could possibly provide new skills to the business **(1)**. This would give the business the potential to specialise and so increase future revenue earning potential **(1)**. However, the new partner would have to share the profits **(1)** this could include a combination of having a salary and being paid interest on capital **(1)**. Also, the partner could take drawings which would impact on the cash flow of the business **(1)**. A partnership agreement would need to be created but despite this, disagreements could still occur about how the business should be managed **(1)**.

Max 6 marks

The business could introduce a business angel or venture capitalist **(1)**. They would invest a lump sum of cash to the business **(1)**. In return they would have a stake in the business or a percentage of the ownership **(1)**. They would be able to take a share of the future profits **(1)**. They would be able to support in the running of the business **(1)** and so share their expertise and management skills **(1)**. They may also be able to provide some useful business connections such as potential customers or suppliers **(1)**.

Max 6 marks

The business could convert into a private limited company **(1)**. It could sell shares to family and friends **(1)** to raise more capital and these would be ordinary shares **(1)**. The new shareholders would expect to be paid an annual dividend based on the profits of the business **(1)**. However, these dividends are variable **(1)** and so risk is lower and gearing is decreased **(1)**. The shareholders are entitled to vote at the AGM and so can participate in important decision making **(1)**. This would therefore dilute the ownership of the business **(1)**.

Max 6 marks
Overall max 9 marks

Recommendation **1 mark** with justification **1 mark**. **2 marks**

2 marks for quality of written communication:
Award quality of written communication marks even for a brief relevant response.
2 marks for no more than 3 spelling, punctuation or grammar errors.
1 mark for no more than 4 spelling, punctuation or grammar errors.
0 marks where it is difficult to understand the prose response.

<u>13 marks</u>
Includes 2 marks for quality of written communication

Task 2 **Total for this task: 15 marks**

03	*Identify the relevant international accounting standard to be applied to **each** of the situations (1) to (3).* *(3 marks)*

(1) IAS 37/Provisions, contingent liabilities and contingent assets **(1)**
(2) IAS 2/Inventories **(1)**
(3) IAS 36/Impairment of assets **(1)**.

<u>3 marks</u>

04	*Explain, with reference to the relevant international accounting standard, how **each** of the situations (1) to (3) should be treated in the financial statements.* *(12 marks)*

(1) IAS 37:

The unresolved legal proceedings represent a provision **(1)** which is a liability of uncertain timing and amount **(1)**. As a liability, it represents a present obligation as a result of past events **(1)** where settlement is expected to result in the future outflow of economic benefits **(1)**. It is probable that the proceedings will result in a loss and there is more than a 50% likelihood of this happening **(1)**. The damages of £65 000 need to therefore be included in the financial statements as an expense in the income statement **(1)** and as a liability in the balance sheet **(1)**.

<u>Max 4 marks</u>

Alternative:

IAS 10:

The legal proceedings would be an adjusting event **(1)** of they existed at the year end and the outcome was known before the financial statements were approved **(1)**. In this case, the financial statements would be altered **(1)** to show the financial impact such as the legal costs and compensation amounts **(1)**. The legal proceedings would be a non-adjusting event **(1)** if the situation arose after the year end but the outcome was still known before the financial statements were approved **(1)**. In this case, the outcome would be disclosed in the notes to the financial statements only **(1)**.

<u>Max 4 marks</u>

(2) IAS 2:

Inventory should be valued at the lower of cost and net realisable value **(1)** in accordance with the concept of prudence **(1)**. The net realisable value is the selling price less any conversion costs into a saleable condition **(1)**. The selling price would be £75 000 (£60 000 x 100/80) **(1)**. The net realisable value would therefore be £52 250 (£75 000 – £22 750) **(1)**. As this is lower than the cost, then the inventory would need to be reduced by £7750 **(1)** in both the income statement under cost of sales **(1)** and the balance sheet under current assets **(1)**.

<u>Max 4 marks</u>

(3) IAS 36:

Impairment of an asset exists when the recoverable amount is less than the carrying amount **(1)**. The recoverable amount is the higher of the fair value (NRV) and the value in use (future cash flows) **(1)**. The recoverable amount is therefore £34 750 **(1)** and the asset is impaired because this is lower than £42 500 **(1)**. £7750 will therefore be written off as an expense to the income statement **(1)** and also deducted from non-current assets in the balance sheet **(1)**.

Max 4 marks

Alternative:

IAS 16:

The IT equipment will be shown in the balance sheet at the carrying amount or net book value **(1)**. It will then usually be depreciated each year **(1)** using either the straight line or reducing balance method **(1)** over the estimated useful life **(1)**. However, in this situation the recoverable amount is lower than the carrying amount **(1)** and so the asset has incurred an impairment loss **(1)**. The £7750 **(1)** will be written off as an expense **(1)** in the income statement **(1)** and deducted from the NBV **(1)** in the balance sheet **(1)**.

Max 4 marks

Alternative (applied to any of the three situations):

IAS 1:

Award appropriate comments about how the items are treated in the financial statements **(1)** including the income statement **(1)** and the balance sheet **(1)**.
Award appropriate comments about the application of accounting concepts **(1)** including, eg going concern **(1)** accruals **(1)** consistency **(1)** and prudence **(1)**.
Award appropriate comments about being comparable **(1)** relevant **(1)** reliable **(1)** and understandable **(1)**.

Award any other valid comment relating to IAS 1 framework.

Max 4 marks

Overall max 12 marks

Task 3 **Total for this task: 31 marks**

05	*Prepare a balance sheet for Eve Huffer's business at 31 March 2013.*	*(31 marks)*

Balance sheet for Eve Huffer at 31 March 2013

Non-current assets	**£**		**£**	
Current assets W1			65 120	**(4)**
Inventory	6 365	**(1)**		
Trade receivables **W2**	14 470	**(3)**		
Insurance prepaid **W3**	1 100	**(3)**		
Rent prepaid **W4**	2 500	**(2)**		
Bank	7 322	**(1)**		
	31 757			
Current liabilities				
Trade payables **W5**	13 700	**(5)**		
Wages accrued **W6**	2 520	**(3)**		
	16 220			
Net current assets			15 537	
			80 657	
Financed by				
Capital **W7**			116 392	**(3)**
Loss for the year **W8**			(15 235)	**(4)**
			101 157	
Drawings **W9**			(20 500)	**(2)**
			80 657	

W1

NBV:	**£**	
Net book value b/d	95 800	
Disposed asset NBV (13 800 **(1)** + 600 **(1)**)	(14 400)	**OF**
	81 400	
Depreciation (81 400 x 20%)	(16 280)	**(1) OF**
NBV c/d	65 120	**(1) OF**

W2

Trade receivables:	**£**	
Bal b/d	19 670	
IS	153 400	**(1)**
Bank	(158 600)	**(1)**
Bal c/d	14 470	**(1) OF**

W3

Insurance:	**£**	
Bal b/d	920	
IS	(3 520)	**(1)**
Bank	3 700	**(1)**
Bal c/d	1 100	**(1) OF**

W4

Rent:	**£**	
IS	10 000	
Bank	(12 500)	**(1)**
	2 500	**(1) OF**

W5

Trade payables:	**£**	
Bal b/d	(6 750)	
Purchases *	(93 250)	**(3) OF**
Bank	86 300	**(1)**
Bal c/d	13 700	**(1) OF**

* Cost of sales: 153 400 x 100/160 **(1)** = 95 875 **OF**
Purchases: 95 875 **OF** + (6 365 + 3 000 – 11 990) **(1)** for all three adjustments **=** 93 250 **(1) OF**

W6

Wages	**£**	
Bal b/d	(2 800)	
Bank	35 000	**(1)**
IS	(34 720)	**(1)**
Bal c/d	2 520	**(1) OF**

W7

Capital	**Assets**	**Liabilities**
	£	**£**
Non-current assets	95 800	
Trade receivables	19 670	
Insurance	920	
Inventory	11 990	
Bank		2 438
Trade payables		6 750
Wages		2 800
	128 380	11 988

128 380 **(1) CF** – 11 988 **(1) CF** = 116 392 **(1) OF**

W8

Loss for the year	**£**	
Gross profit: 153 400 x 60/160 **(1)** =	57 525	**OF**
Less expenses (excluding depreciation)	(56 480)	**(1)**
Depreciation	(16 280)	**(1) OF**
	(15 235)	**(1) OF**

W9

	£	
Drawings 17 500 **(1)** + 3 000 **(1)**	20 500	**OF**

Alternative workings:

W1: NBV	**£**			**£**	
NBV bal b/d	95 800		Disposal NBV	14 400	**(2)**
			Depreciation	16 280	**(1)**
			NBV bal c/d	65 120	**(1)**
	95 800			95 800	

W2: Trade receivables	**£**			**£**	
Bal b/d	19 670		Bank	158 600	**(1)**
IS	153 400	**(1)**	Bal c/d	14 470	**(1)**
	173 070			173 070	

W3: Insurance	**£**			**£**	
Bal b/d	920		IS	3 520	**(1)**
Bank	3 700	**(1)**	Bal c/d	1 100	**(1)**
	4 620			4 620	

W4: Rent	**£**			**£**	
Bank	12 500	**(1)**	IS	10 000	
			Bal c/d	2 500	**(1)**
	12 500			12 500	

W5: Trade payables	**£**			**£**	
Bank	86 300	**(1)**	Bal b/d	6 750	
Bal c/d	13 700	**(1)**	IS	93 250	**(3)**
	100 000			100 000	

W6: Wages	**£**			**£**	
Bank	35 000	**(1)**	Bal b/d	2 800	
Bal c/d	2 520	**(1)**	IS	34 720	**(1)**
	37 520			37 520	

The completed income statement is as follows:

	£	£
Revenue		153 400
Cost of sales		
Opening inventory	11 990	
Purchases	**93 250**	
Goods for own use	(3 000)	
Closing inventory	(6 365)	**95 875**
Gross profit		**57 525**
Insurance	3 520	
Wages	34 720	
General expenses	7 640	
Loss on sale of non-current assets	600	
Depreciation	**16 280**	
Rent	10 000	**72 760**
Loss for year		**15 235**

Task 4 **Total for this task: 22 marks**

06	*Prepare a schedule of non-current assets at 30 April 2013 (a total column is **not** required).* *(22 marks)* *(includes 2 marks for quality of presentation)*

Schedule of non-current assets – Property plant and equipment

	£ Land and Buildings			£ Motor vehicles			£ Furniture and fittings		
Cost									
At 1 May 2012	187 500			112 500			50 000	**(1)**	**for row**
Additions				24 950	**(1)**		5 200	**(1)**	
Disposals				(32 800)	**(3)**	**W1**			
Revaluation	72 500	**(1)**							
At 30 April 2013	260 000			104 650			55 200		
Depreciation									
At 1 May 2012	56 250			49 200			13 500	**(1)**	**for row**
Charge for the year	10 400	**(1)**	**W2**	17 450	**(5)**	**W3**	8 280	**(1)**	**W4**
Eliminated on disposal				(14 350)	**(1)**	**W5**			
Revaluation	(56 250)	**(1)**							
At 30 April 2013	10 400			52 300			21 780		
Net book value at 30 April 2013	249 600	**(1) OF**		52 350	**(1) OF**		33 420	**(1) OF**	
Net book value at 30 April 2012	131 250			63 300			36 500		

<u>20 marks</u>

W1

Motor vehicle disposal cost:	**£**	
Year 2: NBV 18 450 x 100/75* **(1)**	24 600	**(1) OF**
Year 1: NBV 24 600 **OF** x 100/75*	32 800	**(1) OF**

* mark awarded if applied to both years

W2

Land and buildings depreciation:	**£**	
260 000 x 4%	10 400	**(1)**

W3

Motor vehicle depreciation:	**£**	
NBV b/d (112 500 – 49 200)	63 300	**(1)**
Additions	24 950	**(1)**
Disposal NBV (32 800 – 14 350)	(18 450)	**(1)**
	69 800	
Depreciation 69 800 x 25% **(1)**	17 450	**(1) OF**

W4

Fixtures and fittings depreciation:	**£**	
55 200 x 15%	8 280	**(1)**

W5
Depreciation on disposal:
32 800 **(OF)** – 18 450 = 14 350 **(1) OF**

Quality of presentation - Max 2 marks

- 1 mark for a title for the non-current assets schedule (date, name of company and property, plant and equipment are **not** required) – the title should not include any abbreviations
- 1 mark for the sub titles in the schedule (cost, depreciation and both net book value headings).

Includes 2 marks for quality of presentation
22 marks