



A-LEVEL

Accounting

ACCN3 Further Aspects of Financial Accounting
Mark scheme

2120
June 2016

Version 1.0: Final Mark Scheme

Mark schemes are prepared by the Lead Assessment Writer 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 associates 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 associate understands and applies it in the same correct way. As preparation for standardisation each associate 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, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Assessment Writer.

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.

Further copies of this mark scheme are available from aqa.org.uk.

1 (a) Calculate the value of inventory at 30 April 2016 using the AVCO method. **[7 marks]**

Valuation of inventory using AVCO method:

<u>Quantity / unit cost</u>	<u>Valuation</u>	
400 @ £75	30 000	
<u>250 @ £67.20</u>	<u>16 800</u>	1CF
650 @ £72 1CF	46 800	
<u>300 @ £72</u>	<u>(21 600)</u>	1OF
350 @ £72	25 200	
<u>200 @ £83</u>	<u>16 600</u>	1CF
550 @ £76 1OF	41 800	
<u>240 @ £76</u>	<u>(18 240)</u>	1OF
310 @ £76	23 560	1OF

Workings:

$$46\,800 / 650 = £72$$

$$41\,800 / 550 = £76$$

Marker notes:

- (1) Where a student shows an answer of £23 560 (this must be clearly identified as the closing inventory) award 7 marks directly; any other figure, show individual marks.
- (2) If the average inventory cost is not £76 for the 550 units, it is important to check the arithmetical accuracy of the own figure.
- (3) With the exception of the two average costs (£72 and £76) all other marks are for the calculated totals.
- (4) Only award a mark for an OF average cost calculation if the correct method (weighted average) has been used.
- (5) The final closing inventory OF will be only be awarded if it is based on a quantity of 310 units and a valid average cost.

1 (b) Calculate the value of inventory at 30 April 2016 using the FIFO method.

[2 marks]

Valuation of inventory using the FIFO method:

	£	
200 @ £83	16 600	
110 @ £67.20	<u>7 392</u>	1CF
	<u>23 992</u>	1CF

Closing inventory quantity = opening inventory + purchases – sales

$$400 + (250+200) - (300+240) = 310 \text{ units}$$

Marker note:

- (1) Award 2 marks directly for the correct answer of £23 992, otherwise show an individual mark.

1 (c) Discuss whether or not Sifan Girnary should change the inventory valuation method from AVCO to FIFO.

[10 marks]

Benefits of changing (benefits of FIFO compared to AVCO):

Reflects a realistic issue of inventory in which the quantity of oldest stock is used before the most recently purchased or produced stock quantities. **(1)**

Values inventory at actual cost prices paid for inventory rather than at an average across different consignments. **(1)**

The valuation method is easier to compute as no average cost price needs to be calculated. **(1)**

Either method is acceptable in the preparation of financial statements **(1)** (IAS2).

(max 4 marks)

Drawbacks to changing method (benefits of AVCO compared to FIFO):

Doesn't conform to the concept of consistency **(1)** (under IAS 1), unless it can be justified in terms of leading to a fairer representation / true and fair view. **(1)**

Comparability **(1)** would be more difficult to the prior year unless the prior year valuations were re stated in the financial statements. **(1)**

With rising cost prices in the short term, it can lead to higher inventory valuations (and higher profits) **(1)** which is against the concept of prudence. **(1)**

AVCO has the advantage of smoothing fluctuations in prices **(1)** for inventory.

In the long run profits will remain the same **(1)** regardless of the method used. **(1)**

(max 4 marks)

(max 8 for general comments)

Application:

The closing inventory would be increased by £432 from £23 560 to £23 992 **(1OF)**

Profit would increase by £432. **(1OF)**

Current assets / net current assets / net assets would be increased by £432 **(1OF)**

Cost prices have fluctuated/risen from £67.20 to £83 **(1)**

(max 2 marks)

(10 marks)

Marker notes:

- (1) Indicate each mark awarded with a letter: B (for benefit); D (for drawback); A (for application).
- (2) Application marks must clearly refer back to the scenario using specific details (descriptions, figures, changes in figures).
- (3) Only reward each valid point once. For example, a comment that states FIFO is easier to calculate but also states that AVCO is more difficult to calculate would only be awarded one mark.

1 (d) Tick **one** box only to show the correct valuation of inventory?

[1 mark]

	<input checked="" type="checkbox"/>
£8 880	<input type="checkbox"/>
£10 000	<input type="checkbox"/>
£10 224	<input checked="" type="checkbox"/>
£22 320	<input type="checkbox"/>

Workings:

$$15\,600 + 780 - 7\,500 = 8\,880$$

$$15\,600 + 650 - 6\,250 = 10\,000$$

$$15\,600 + 624 - 6\,000 = 10\,224$$

$$15\,600 - 780 + 7\,500 = 22\,320$$

2

Prepare the income statement for Hassan for the year ended 31 March 2016 ..

[22 marks]

Income statement for Hassan for the year ended 31 March 2016

	£	£	
Revenue (W1)		225 000	3OF
Cost of sales			
Opening inventory	16 500		
Purchases (W2)	187 500		3OF
Stolen inventory (W5)	(6 750)		1OF
Closing inventory (W4)	<u>(28 500)</u>		3OF
Cost of sales (W3)		<u>168 750</u>	
Gross profit		56 250	1OF
Less expenses:			
Wages (W6)	16 660		1CF
Rent (W7)	5 545		1CF
Stolen cash (W8)	900		3OF
Stolen inventory	6 750		1OF
Depreciation	8 250		1CF (for depreciation and interest)
Interest payable	340		
General expenses (W9)	6 555	<u>45 000</u>	1OF (for general expenses)
Profit for the year (W10)		<u>11 250</u>	1OF

W1 Revenue

Trade receivables

Bal b/d	16 875	*	Receipts	227 575	1*
Dishonoured	5 125	1	Contra PL	675	1
Sales	<u>225 000</u>	OF	Bal c/d	<u>18 750</u>	*
	<u>247 000</u>			<u>247 000</u>	

*mark is for opening balance, closing balance and receipts

Alternative:

$$(182\ 060 + 45\ 515) = 227\ 575 + 18\ 750 - 16\ 875$$

$$= 229\ 450 (1) - 5125 (1) + 675 (1) = 225\ 000 \text{ OF}$$

W2

Purchases

Trade payables

Paid	185 140	1*	Bal b/d	8 100	*
Contra SL	675	1	Interest	340	1
Bal c/d	<u>10 125</u>	*	Purchases	<u>187 500</u>	OF
	195 940			195 940	

**mark is opening balance, closing balance and payments*

Alternative:

$(173\ 550 + 11\ 590) = 185\ 140 + 10\ 125 - 8\ 100 = 187\ 165$

$(1) + 675 (1) - 340 (1) = 187\ 500$ **OF**

W3 Gross profit

$£225\ 000 \times 25\% = £56\ 250$ **OF** (based on own revenue)

W4 closing inventory

$168\ 750 / 7.5 (1) \times 2 (1) - 16\ 500 (1) = 28\ 500$ **OF**

W5 Stolen inventory

$168\ 750 + 28\ 500 - 187\ 500 - 16\ 500 = 6\ 750(1)$ **OF**

W6 Wages

Wages

Paid	15 665	Bal b/d	4 005
Bal c/d	<u>5 000</u>	IS	<u>16 660</u> 1CF
	20 665		20 665

W7 Rent

Rent

Bal b/d	1 425	IS	5 545 1CF
Paid	<u>5 900</u>	Bal c/d	<u>1 780</u>
	7 325		7 325

W8 Stolen cash

Cash

Bal b/d	150	1	Purchases	11 590
Sales	45 515		Drawings	15 000 1
			Banked	18 000
			Stolen	900 OF
			Bal c/d	<u>175</u> 1
	<u>45 665</u>			<u>45 665</u>

W9 General expenses

$56\,250 - 11\,250 = 45\,000 - (16\,660 + 5\,545 + 900 + 6\,750 + 8\,250 + 340) = 6\,555$ **10F**

W10 Profit for the year

$225\,000 \times 5\% = 11\,250$ **10F** (based on own revenue)

Quality of presentation: 1 mark for title, 1 mark for profit for the year and gross profit sub titles

Marker notes:

- (1) Gross profit OF only awarded if 25% of revenue.
- (2) Profit for the year OF only awarded if 5% of revenue.
- (3) Stolen inventory OF in less expenses section only awarded if same as the stolen inventory figure in cost of sales section unless it is the correct amount of £6 750.
- (4) Stolen inventory OF in cost of sales only awarded if either shown as a separate entry or if clearly adjusted against purchases in a working. For example, a correct net purchases figure of £180 750 would only be rewarded **3 marks** and not 4 marks.
- (5) General expenses OF is only awarded if there are no alien items in the less expenses section (for example, showing a bad debt of £5125).
- (6) Calculations where the workings are not transferred correctly in to the income statements will not be fully awarded. For example, a revenue figure of £225 000 would only be rewarded **2 marks** if only shown in the workings. A wages figure of £16 660 would be awarded zero marks if it is only shown as a working.
- (7) For stolen cash, award **1 mark** for a figure of £925 (not adjusted for o/bal and c/bal) or **2 marks** for a figure of £14 650 (only shown drawings for one month). For any other OF, check workings.
- (8) Presentation marks: title must be shown without any abbreviations; title must say ended and not ending or end; accept net profit (or loss) instead of profit (or loss) for the year; do not accept abbreviations (eg GP, NP) do not accept profit/loss.
- (9) No mark will be awarded if closing inventory is just a balancing figure in the cost of sales section without any supporting working.

3 (a) Prepare the realisation account for the partnership at 1 April 2016.

[7 marks]

Realisation Account				
	£		£	
Non-current assets	185 000	(1) for row	Bank: non-current assets	150 000
		(1)	Capital Pugh: vehicle	22 000
Inventory	31 600	(1) for row	Inventory	25 280
Receivables	14 850	(1) for row	Receivables	11 875
Bank: Payables	8 624	(1) for row	Trade payables	8 900
Bank: Dissolution expenses	1 951	(1)	Capitals: share of loss	
		(1OF) for	Mears	11 985
		entries to	Pugh	7 191
		allocate loss	Stafford	4 794
	<u>242 025</u>			<u>242 025</u>

Alternative working:

Non-current assets	£ 13 000 (2)	Payables	£ 276 (1)
Inventory	6320 (1)	Capitals: share of loss (1OF)	
Receivables	2 975 (1)	Mears	11 985*
Dissolution expenses	1 951 (1)	Pugh	7 191*
	<u>24 246</u>	Stafford	4 794*
			<u>24 246</u>

*mark for all three entries

Marker notes:

- (1) 1 mark OF is for showing a realisation split for all partners. This could be on the debit side if corresponds with other entries posted in to the realisation account. The mark will not be awarded if the balance isn't split in the correct profit sharing ratio. The mark will also not be awarded if there are any alien items in the account such as the bank overdraft figure.
- (2) Marks awarded are for figures only and not for narratives.
- (3) If you see the correct figures for the profit allocation to the partners, award 7 marks.
- (4) If you see a balance (not allocated) of £23 970 award 6 marks
- (5) Reward alternative correct combinations of entries (for example showing the debit entries for receivables as £2350 and £625).

3 (b) Prepare the partnership capital accounts for Mears, Pugh and Stafford at 1 April 2016.

[9 marks]

Capital accounts									
	M	P	S			M	P	S	
Vehicle		22 000		1	Bal b/d	25 000	84 000	56 000	
Current account	19 500			1	Current accounts		31 704	36 136	1
Realisation account: loss	11 985	7 191	4 794	10F	Pugh and Stafford	6 485			1
Bank account		82 622	84 748	10F					
Mears		3 891	2 594	10F					
	<u>31 485</u>	<u>115 704</u>	<u>92 136</u>			<u>31 485</u>	<u>115 704</u>	<u>92 136</u>	

Workings:

Mears settlement:

Pugh: $6485 \times 84 / 140 = \text{£}3891$

Stafford: $6485 \times 56 / 140 = \text{£}2594$

Marker notes:

- (1) Realisation account entries will only be awarded if the amounts correspond with the realisation account from 3(a). The entries therefore could alternatively be on the credit side.
- (2) Bank entries must be the balancing amount to close the capital accounts for both partners. The marks will not be awarded if the entries are described as bal c/d (whether this is then shown as bal b/d or not).
- (3) The entry for Mears must be the balancing amount to close the capital account but cannot be described as bank or cash or bal c/d.
- (4) The entries for Pugh and Stafford in relation to Mears must be in the proportion of the opening capital balances (3:2) to conform to the rule of Garner v Murray.
- (5) The splits for realisation account entries can be awarded even if this hasn't been previously been split in the realisation account, provided that the total amount corresponds.

3 (c) Prepare the partnership bank account at 1 April 2016 to show all transactions relating to the dissolution of the partnership.

[3 marks]

Bank account					
Non-current assets	150 000	1*	Bal b/d	9 210	1
Inventory	25 280	*	Payables	8 624	*
Receivables	11 875	*	Dissolution	1 951	*
			Pugh	82 622	1OF
			Stafford	84 748	both
	187 155			187 155	

1 mark is for three debit entries plus the two credit entries (ie 1 mark for 150 000 and the entries marked *)(CF only)

Marker notes:

- (1) The mark for £9210 is for both the opening balance, no closing balance and for preparing an account which is alien free. Regard current account entries as alien items.
- (2) Amounts either paid to or reimbursed by Pugh and Stafford must correspond with the entries in the capital accounts from 3(b).
- (3) Amounts for receipts from assets or payments to liabilities or expenses must correspond with part 3(a).
- (4) A single combined payment to the partners is not rewarded (for example, based on the above, £167 370).

- 4 (a)** Complete the shaded sections of the Statement of Cash flows for Van Moorsel Ltd for the year ended 29 February 2016 on **page 17**. Clearly show all workings.
[14 marks]

	£	£	
Profit from operations		114 390	
Depreciation for the year (W1)		60 875	3
Increase in inventories		(9 400)	
Increase in trade receivables		(12 600)	
Decrease in trade payables		(7 800)	
Profit or loss on non-current asset disposal (W2)		(375)	3
Cash from operations		145 090	
Interest paid (W3)		(7 600)	2
Income tax paid (W4)		(19 790)	1
Net cash from operating activities		117 700	
Cash flow from investing activities:			
Purchases of non-current assets	(75 000)		
Proceeds from the disposal of non-current assets	16 500		
Net cash used in investing activities		(58 500)	
Cash flow from financing activities:			
Proceeds from the issue of share capital (W5)	112 000		4
Repayment of long term borrowing	(100 000)		
Dividends paid (W6)	(56 000)		1
Net cash used in financing activities		(44 000)	
Net increase in cash		15 200	
Cash at the beginning of the year		(4 200)	
Cash at the end of the year		11 000	

(W1) Depreciation:

Asset sold:

$$22\,500 \times 20\% \times 3/12 = 1\,125 \text{ (1) CF}$$

Asset purchased:

$$75\,000 \times 20\% \times 9/12 = 11\,250 \text{ (1) CF}$$

Other assets held:

$$265\,000 - 22\,500 \times 20\% = 48\,500 \text{ (1) CF}$$

$$\text{Total: } 1\,125 + 11\,250 + 48\,500 = 60\,875 \text{ OF}$$

(W2) Profit or loss on disposal:

Depreciation:

$$\text{Year purchase: } 22\,500 \times 20\% \times 2/12 = 750 \text{ (1) CF}$$

$$\text{Next year: } 22\,500 \times 20\% = 4\,500 \text{ (1) CF}$$

$$\text{Year disposal: } 22\,500 \times 20\% \times 3/12 = \underline{1\,125}$$

$$\underline{6\,375} \text{ OF}$$

Cost	22 500
Depreciation	<u>6 375</u>
NBV	16 125
Proceeds	<u>16 500 (1)</u>
Profit	<u>375 OF</u>

(W3) Interest paid:

$$\text{Loan repaid: } 100\,000 \times 8\% \times 9/12 = 6\,000 \text{ (1) CF}$$

$$\text{Loan not repaid: } 20\,000 \times 8\% = 1\,600 \text{ (1) CF}$$

Or

$$120\,000 \times 8\% \times 9/12 = 7\,200 \text{ (1) CF}$$

$$20\,000 \times 8\% \times 3/12 = 400 \text{ (1) CF}$$

$$\text{Total: } 6\,000 + 1\,600 = 7\,600 \text{ OF}$$

(W4) Income tax paid:

$$16\,250 + 22\,880 - 19\,340 = 19\,790 \text{ (1) CF}$$

(W5) Proceeds from share issue:

$$\text{Existing shares: } 150\,000 \times 4 \text{ (1)} = 600\,000$$

$$\text{Bonus shares: } 600\,000 \times (2/5) \text{ (1)} = 240\,000$$

$$\text{Rights issue funds: } 600\,000 + 240\,000 = 840\,000 \times (1/3) \text{ (1)} = 280\,000 \times 40\text{p} \text{ (1)} = 112\,000 \text{ OF}$$

(W6) Dividends paid:

$$1\,120\,000 \text{ (1)} \times 5\text{p} = 56\,000 \text{ OF}$$

Marker notes:

- (1) Calculations where the workings are not transferred or transferred but in the wrong direction in to the statement of cash flows will not be fully awarded. For example, a depreciation for the year of £60 875 would be awarded 2 marks if it is not transferred into the statement of cash flows, or if £60 875 is shown as a negative figure in the statement of cash flows. An income tax paid figure of £19 790 would be awarded zero marks if it is not transferred into the statement of cash flows, or if shown as an addition in the statement of cash flows.
- (2) Dividends paid must be based on the original shares and the OF for a combination of shares issued through a bonus and or rights issue during the year.
- (3) For the issue of shares, the (1/3) proportion must be applied to the original share capital and the OF bonus shares and **not** against just the original share capital.

- 4 (b)** *Assess the performance of Van Moorsel Limited based on the statement of cash flows for the business for the year ended 29 February 2016. Identify the key changes in the liquidity of the company and discuss the implications of these changes for the company.*

[15 marks]

[Includes 2 marks for quality of written communication]

Identification (1)	Quantification (1)	Development (implications) (1)
Selling more shares	Cash flow improved by £112000 OF	<ul style="list-style-type: none"> No dilution of ownership as the shares will be sold to existing shareholders in proportion to the existing holding via the rights issue Decrease in gearing and risk Future dividend payments on ordinary shares are variable depending on profit levels
Disposal of a non-current asset	Cash flow has been improved by £16 500 OF	Impact depends on motive for disposal: <ul style="list-style-type: none"> If sold but not replaced, then impact on decreased production capacity If sold due to being depreciated or being replaced by new technology then impact on efficiency and productivity improvements
Increase in inventory	Cash flow has declined by £9400 CF	<ul style="list-style-type: none"> Cost of holding inventory will increase Less chance of a stock out and lost sales and or reputation
Increase in trade receivables	Cash flow has declined by £12 600 CF	<ul style="list-style-type: none"> More risk of bad debts via non-payment More credit control procedures required to monitor customer accounts
Decrease in trade payables	Cash flow has declined by £7 800 CF	<ul style="list-style-type: none"> Positive impact on relationships with suppliers Could be eligible for more prompt payment discounts Will be less chance of being charged interest on later payment

Payment of interest	Cash flow has declined by £7 600 OF	<ul style="list-style-type: none"> • This cost of borrowing may decrease in future due to loan repayments and so less debt to service
Payment of taxation	Cash flow has declined by £19 790 OF	<ul style="list-style-type: none"> • Tax must be paid if a business makes a profit • Van Moorsel is profitable and so likely to be paying tax in the future
Purchase of non-current assets	Cash flow has declined by £75 000 CF .	<ul style="list-style-type: none"> • If replacement assets, then efficiency and productivity could be improved . • Impact on cost reductions • If additional assets, then the business could be undergoing growth and expansion. Impact on sales and profit growth
Loan repayments	Cash flow has declined by £100 000 CF	<ul style="list-style-type: none"> • Long term borrowing will be less • Gearing and risk will be reduced • Lower interest costs which will help profitability
Dividend payments	Cash flow has declined by £56 000 OF	<ul style="list-style-type: none"> • Dividends are, however, variable depending on profit • Dividend payments have increased due to the bonus and rights issues during the year

Marker notes:

- (1) Maximum 1 mark for each point identified of a change in liquidity (eg issue shares). Maximum 5 marks in total.
- (2) Maximum 1 mark for quantification of the change in liquidity (eg the OF for the cash raised by the issue of shares). Maximum 5 mark in total.
- (3) Maximum 1 mark maximum for the implications of the point identified. The implications may be generic points. Maximum 5 marks in total.
- (4) Overall maximum 13 marks.
- (5) Indicate each mark awarded with a letter: I (identification); Q (quantification) and D (development).

Quality of written communication:

2 marks for no more than 3 spelling, punctuation or grammar mistakes.

1 mark where 4 or more spelling punctuation and grammar mistakes are evident

0 marks where the level of communication means it is difficult to understand the response