

GCE 2005
January Series



Mark Scheme

Accounting

ACC5 Further Aspects of Financial Accounting

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 meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting 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 candidates' 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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January 2005**ACC5****MARK SCHEME****INSTRUCTIONS TO EXAMINERS**

You should remember that your marking standards should reflect the levels of performance of Advanced Level candidates, mainly 18 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 candidates 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 candidate'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 candidate'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, candidates may set out their accounts in either a vertical or horizontal format. Both methods are acceptable.

Own Figure Rule

In cases where candidates are required to make calculations, arithmetic errors can be made so that the final or intermediate stages are incorrect. To avoid a candidate being penalised repeatedly for an initial error, candidates 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 candidates make correct conclusions or inferences from their incorrect calculations.

Quality of Written Communication (QWC)

Once the whole script has been marked the work of the candidate should be assessed for the Quality of Written Communication, using the criteria at the end of the mark scheme. The mark should be shown separately on the candidate's script.

Synoptic Assessment

Synoptic assessment is located in the last question. Candidates will be required to integrate their knowledge, understanding and skills learned in different parts of the A Level course.

1

Total for this question: 10 marks

REQUIRED

Prepare an income and expenditure account for the year ended 31 October 2004.

Lake Petteril Wind-Surfing Club
Income and expenditure account for the year ended 31 October 2004

	£		£	
Income				
Subscriptions W ₁			6 360	(2)
Profit on sale of boards W ₂			<u>840</u>	(3)
Less expenditure			<u>7 200</u>	
Repairs	1 867	}		
Rates	675		All (1)	
Electricity	348			
Other expenses	453			
If shown separately then 1 mark			<u>902</u>	(2)
			<u>4 245</u>	(1) OF
			<u><u>2 955</u></u>	(1) OF
W ₁ 6720				(1)
(360)				(1)
W ₂ 2400				(1)
(1560)				(1)
			<u>840</u>	(1)

10 marks

2

Total for this question: 9 marks

REQUIRED

Calculate the amount of cash missing from the till on 31 December 2004.

Workings 1

Stock	890	
Purchases	<u>46 753</u>	(1)
	47 643	
Stock	<u>950</u>	
COGS	<u>46 693</u>	
Gross profit	<u>46 693</u>	(1) OF
Sales	<u><u>93 386</u></u>	(1) OF

Workings 2

Debtors' account		
2 786	(1)	Cash 93 532 (1)
<u>93 386</u>	(4) OF	<u>2 640</u> (1)
<u>W₁</u>		
<u><u>96 172</u></u>		<u><u>96 172</u></u>
Answer		
<u>93 532</u>	W ₂ (7)	
<u>93 322</u>	(1) or 0	
<u><u>210</u></u>	(1)	

9 marks

3

Total for this question: *10 marks***REQUIRED**

Discuss **each** of these methods of stock valuation and advise Tracy on the method she should use.

All are methods of valuing stock – they are not necessarily methods of issue (2). **2 marks**

LIFO	advantages	<ul style="list-style-type: none"> - based on actual prices paid (1) issues are valued at most recent prices (1) 	
	disadvantages	<ul style="list-style-type: none"> - less realistic than FIFO (1) most recent prices are not used for stock valuation (1) unacceptable under SSAP 9 (1) - lowest stock figure (1) - lowest profit (1) in times of rising prices (1) 	max 3 marks

FIFO	advantages	<ul style="list-style-type: none"> - easiest method to calculate (1) intuitively ‘correct’ (1) based on actual prices paid (1) acceptable (1) highest stock figure (1) highest profit (1) 	
	disadvantages	<ul style="list-style-type: none"> - issues are at historic values – may influence costings (1) increases profits, going against prudence concept (1) 	max 3 marks

AVCO	advantages	<ul style="list-style-type: none"> - recognises that all issues from stock are of equal value (1) irons out changes in the price of issues (1) acceptable (1) 	
	disadvantages	<ul style="list-style-type: none"> - new calculation required with each purchase (1) prices charged for issues will not agree with prices paid (1) - average profit (1) 	max 3 marks

Overall max 8 marks

Advice based on discussion (0-2) **2 marks**

Total for Question 3: 10 marks

4

Total for this question: 71 marks

Part A (38 marks)

REQUIRED

(a) Prepare a manufacturing account for the year ended 31 December 2004.

<u>Marcel, Norris and Olive</u>		<u>Manufacturing Account for the year ended 31 December 2004 (1)</u>	
		£	£
	Stock of raw materials		7 684
	Purchases	210 432 (1)	
	Carriage inwards	1 728 (1)	
		<u>212 160</u>	
	Returns outwards	470 (1)	
		<u>211 690</u>	
	Stock of raw materials		<u>219 374</u>
			8 492
W ₁	Raw materials consumed (must say)		210 882 (1) OF
815 018 (1)	Direct labour W ₁		714 770 (2) OF
1 862 (1)	Royalties		<u>12 500 (1)</u>
<u>7/8 (1) 1/8 (1)</u>	PRIME COST (must say)		<u>938 152 (1) OF</u>
			If sales included, then max 7
	Factory overheads		
	Indirect wages W ₁	102 110 (2)	
W ₂	Rent and rates W ₂	12 680 (2)	
13 262 (1)	Other overheads	126 340 (1)	
(582) (1)	Depreciation W ₃	<u>17 000 (2)</u>	
W ₃			<u>258 130</u>
85 000 (1) x 20% (1)	Work in progress		1 196 282
			<u>11 461 (1)</u>
	Work in progress		<u>1 207 743</u>
			31 743
			<u>1 176 000</u>
	Profit loading (20%)		235 200 (1) OF
	Transfer price		<u><u>1 411 200 (1) OF</u></u>
			20 marks
			All items must be in correct section

(b) Prepare a trading account for the year ended 31 December 2004.

Trading Account for the year ended 31 December 2004

		£	
	Stock	42 120	(1)
	Cost of goods manufactured	<u>1 411 200 (1) OF</u>	
		<u>1 453 320</u>	
	Stock	48 480	
	COGS	<u>1 404 840</u>	
	Gross profit	<u>1 095 160 (1) OF</u>	
	Sales	<u><u>2 500 000 (1) or 0</u></u>	

4 marks

(4)

- (c) Calculate the amount of provision for unrealised profit to be charged to the profit and loss account for the year ended 31 December 2004.

Closing provision W₁	8 080	(2)	OR		Provision for unrealised profit
Opening provision	7 020	(1)			Bal b/d
Profit and loss entry	1 060	(1)		Bal c/d W ₁	P&L a/c
				<u>8 080</u>	<u>7 020</u>
				<u>8 080</u>	<u>1 060</u>
					<u>8 080</u>
					Bal b/d
					<u>8 080</u>

$$W_1 48\,480 (1) \times \frac{20}{120} (1)$$

4 marks

- (d) Evaluate the case for adding a mark-up to the total production cost of goods.

Factory profit is the difference between the costs of manufacture and the price that would be charged if the goods were bought in (0-3).

Because the goods are made more cheaply, the factory is increasing the profits of the business and this should be reflected in the final accounts (0-3).

Gross profit on manufacturing and gross profit on trading should be kept separate until they are totalled in the profit and loss account to reflect the contribution that each section is making to overall profits (0-3).

Total gross profit does not increase – so what is the point? (0-3)

max 8 marks

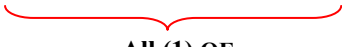
Evaluation based on above points (0-2)

2 marks

Total for part (d): 10 marks

Part B (33 marks)

- (e) Prepare the partners' capital accounts for the year ended 31 December 2004.

Capital accounts											
	M		N		O		M	N	O		
							Both (1)				
Goodwill	32 000	(1)	32 000	(1)	16 000	(1)	Balances b/d	250 000	200 000		
Balances c/d	318 000	(1)	218 000	(1)	134 000	(1)	Revaluation	100 000	(1)	50 000	(1)
		OF		OF		OF	Cash			<u>150 000</u>	(1)OF
	<u>350 000</u>		<u>250 000</u>		<u>150 000</u>			<u>350 000</u>	<u>250 000</u>	<u>150 000</u>	
							Balances b/d	318 000	218 000	134 000	
											
								All (1) OF			

11 marks

If vertical presentation, max 6 marks

(4)

(f) Prepare a partnership profit and loss appropriation account for the year ended 31 December 2004.

Profit and Loss Appropriation Account for the year ended 31 December 2004

	£		£	
Net profit			248 000	(1)
Norris – salary			12 500	(1)
			235 500	
Share of profit				
Marcel	157 000	(1) OF		
Norris	78 500	(1) OF	235 500	
Net profit			248 000	(1)
Interest on capital				
Marcel	6 360	(1) OF		
Norris	4 360	(1) OF		
Olive	2 680	(1) OF	13 400	
			234 600	
Share of profit				
Marcel	93 840	(1) OF		
Norris	93 840	(1) OF		
Olive	46 920	(1) OF	234 600	

11 marks

(g) Prepare the partners' current accounts for the year ended 31 December 2004.

Current Accounts									
	M	N	O		M	N	O		
		All (1) or 0				Both (1) or 0			
Drawings	218 000	120 000	36 000	Balances b/d	21 632	33 140			
				Salary		12 500 (1)			
						OF			
						All (1) OF			
				Int on Cap	6 360	4 360	2 680		
Balances	60 832 (1)	102 340 (1)	13 600 (1)	Profit	250 840 (1)	172 340 (1)	46 920 (1)		
c/d	OF	OF	OF		OF	OF	OF		
	278 832	222 340	49 600		278 832	222 340	49 600		
				Balances b/d	60 832	102 340	13 600		
						All (1) OF			

11 marks

If vertical presentation, max 6 marks

QUALITY OF WRITTEN COMMUNICATION

After the candidate's script has been marked, the work should be assessed for the Quality of Written Communication, using the following criteria.

Marks

- 0** Accounts and financial statements are unclear and poorly presented.
There is little or no attempt to show workings or calculations.
Descriptions and explanations lack clarity and structure.
There is very limited use of specialist vocabulary.
Answers may be legible but only with difficulty.
Errors in spelling, punctuation and grammar are such that meaning is unclear.
- 1-2** There is some attempt to present accounts and financial statements in an appropriate format.
Workings are missing or are not clearly linked to the answers.
Descriptions and explanations are understandable but they lack a logical structure.
There is some use of specialist vocabulary but this is not always applied appropriately.
In most cases answers are legible, but errors in spelling, punctuation and grammar are such that meaning may be unclear.
- 3-4** Accounts and financial statements are generally well presented but there are a few errors.
Workings are shown and there is some attempt to link them to the relevant account(s).
Descriptions and explanations are usually clearly expressed but there are some weaknesses in the logical structure. There is a good range of specialist vocabulary which is used with facility.
Answers are legible. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed.
- 5** Accounts and financial statements are well organised and clearly presented.
Workings are clearly shown and easy to follow. Descriptions and explanations are clearly expressed.
Arguments are logically structured. There is wide use of specialist vocabulary which is used relevantly and precisely.
Answers are clearly written and legible. Spelling is accurate and the standard conventions of punctuation and grammar are followed so that meaning is clear.