Version 1.0: 02.07

ASSESSMENT and QUALIFICATIONS ALLIANCE

General Certificate of Education

Accounting ACC5

Unit 5 Further Aspects of Financial Accounting

Mark Scheme

2007 examination - January series

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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Set and published by the Assessment and Qualifications Alliance.

The Assessment and Qualifications Alliance (AQA) is a company limited by guarantee registered in England and Wales (company number 3644723) and a registered charity (registered charity number 1073334).
Registered address: AQA, Devas Street, Manchester M15 6EX *Dr Michael Cresswell Director General*

January 2007 **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: 18 marks**

Ali, Bambi and Charlie have been in partnership for many years. They share profits and losses in the ratio 3:2:1 respectively. After a number of years of poor results, they agree to dissolve the partnership on 31 December 2006.

The partnership balance sheet at 31 December 2006 is shown below.

Ali, Bambi and Charlie
Balance sheet at 31 December 2006

		£
All assets (other than bank)		82 020
Bank balance		700
Liabilities		(23 420)
		59 300
Capital accounts – Ali	40 000	
Bambi	10 000	
Charlie	10 000	60 000
Current accounts – Ali	1 700	
Bambi	(4 700)	
Charlie	2 300	(700)
		59 300

Daphne agreed to purchase the business for £40 000 cash.
All assets and liabilities, other than the bank balance, were taken over by Daphne.
The dissolution took place and was completed on 1 January 2007.
Bambi was unable to meet any liability to the partnership out of his personal funds.

(1)

REQUIRED

(a) Calculate the profit or loss on dissolution.

	£	
Value of assets	**82 020**	**(1)**
Liabilities	**23 420**	**(1)**
Net asset value taken over	**58 600**	
Purchase price	**40 000**	**(1)**
Loss on dissolution (1)	**18 600**	**(1)**

5 marks

(b) Prepare detailed capital accounts to close the partnership books of account.

	A	B	C		A	B (1 all)	C
Current account		**4 700 (1)**		**Balances b/d**	**40 000**	**10 000**	**10 000**
Loss on dissolution	**9 300 (1 OF)**	**6 200(1OF)**	**3 100 (1OF)**	**Current a/c**	**1 700(1)**		**2 300 (1)**
Capital a/c B	**720 (1OF)**		**180 (1OF)**	**Capital a/c A**		**720 (1OF)**	
Bank	**31 680 (1OF)**		**9 020 (1OF)**	**Capital a/c C**		**180 (1OF)**	
	41 700	**10 900**	**12 300**		**41 700**	**10 900**	**12 300**

13 marks

2 **Total for this question: 24 marks**

The treasurer of the Padds Cricket Club supplies the following information extracted from the club's receipts and payments account for the year ended 30 September 2006, relating to monies received for subscriptions.

	£
Annual subscriptions	14 220
Life membership subscriptions	4 050

Additional information

(1)	At 1 October 2005	At 30 September 2006
	£	£
Annual subscriptions outstanding	300	480
Annual subscriptions received in advance	420	120

(2) Half of the annual subscriptions outstanding at 30 September 2006 are to be written off and membership cancelled.

(3) The balance of the life membership fund at 1 October 2005 stood at £8550.

(4) The club treasurer transfers ⅛ of the balance of the fund at each year end to the club's income and expenditure account.

REQUIRED

(a) Prepare an annual subscriptions account.

Annual subscriptions

Balance b/d	**300 (1)**	**Balance b/d**	**420 (1)**
Income and expenditure a/c	**14 700(1 OF)**	**Cash**	**14 220 (1)**
		Income and expenditure a/c subs w/o	**240 (1)**
Balance c/d	**120(1)**	**Balance c/d**	**240 (1)**
	15 120		**15 120**
Balance b/d	**240 (1 for both balances b/d)**	**Balance b/d**	**120**

8 marks

(2)

(b) Prepare a life membership fund account.

Life membership fund

Income and expenditure a/c	**1 575**	**(1)OF**	**Balance b/d**	**8 550**	**(1)**
***Balance c/d**	**11 025**		**Cash/Bank**	**4 050**	**(1)**
	12 600			**12 600**	
			***Balance b/d**	**11 025**	

*** 1 mark for both balances**

4 marks

(c) Evaluate the effect of the life membership fund on the club's liquidity.

In the short term (1):

lump sum received (1) can be used for 'major' expenditures (1) so in the year of receipt, liquidity is improved substantially (1), eg £4050 received this year (1).

max 4 marks

In the long term (1):

no further direct cash injections from the life members (1). Annual transfer to income and expenditure account is just a book entry (0-3). However, the life members may be more likely to spend on ancillary activities at the club (2), eg discos, whist drives, dinner dances etc (1 for example).

max 6 marks

Valid judgement (0 – 2) **12 marks**

3 **Total for this question: 58 marks**

Martin and Nasser are in partnership. Their partnership agreement provides that:

- Nasser be credited with a partnership salary of £3000 per annum
- partners be credited with interest on capital of 6% per annum
- interest on drawings be charged
- residual profits and losses be shared in the ratio of 3:2 respectively.

The partners have never kept a full set of accounting records. However, they are able to provide the following information.

Cash book summary

	£		£
Balance 1 January 2006	2 178	Wages	63 156
Cash sales	332 467	Purchase of machine	8 800
Cash received from debtors	44 049	General expenses	56 676
Rent received	7 000	Payments to creditors	195 911
Balance 31 December 2006	989	Drawings – Martin	35 660
		Nasser	26 480
	386 683		386 683
		Balance 1 January 2007	989

Additional information

		At 1 January 2006	At 31 December 2006
		£	£
Fixed capital accounts -	Martin	100 000 Cr	100 000 Cr
	Nasser	70 000 Cr	70 000 Cr
Current accounts -	Martin	3 210 Cr	?
	Nasser	1 304 Cr	?
Machinery at valuation		147 000	145 000
Vehicle at valuation		16 000	8 000
Stock		14 003	13 471
Debtors		317	183
Creditors		4 872	5 163
Wages accrued		612	938
Rent receivable owing		500	-
Rent receivable paid in advance		-	500

During the year, an old machine that cost £10 000 was traded for £3200 in part exchange for a new machine costing £12 000. The old machine had been depreciated by £6000 over its lifetime.

Interest on drawings for the year amounted to - Martin £230
Nasser £100

(3)

REQUIRED

Prepare the following:

(a) a total debtors' account for the year ended 31 December 2006;

Total debtors' account

Balance b/d	**317 (1)**	**Cash**	**44 049 (1)**
Sales	**43 915 (1OF)**	**Balance c/d**	**183 (1 with bal b/d)**
	44 232		**44 232**
Balance b/d	**183**		

max 2 marks if shown as calculation

4 marks

(b) a total creditors' account for the year ended 31 December 2006;

Total creditors' account

Cash	**195 911 (1)**	**Balance b/d**	**4 872 (1)**
Balance c/d	**5 163 (1 with balance b/d)**	**Purchases**	**196 202 (1OF)**
	201 074		**201 074**
		Balance b/d	**5 163**

max 2 marks if shown as calculation

4 marks

(3)

(c) a trading and profit and loss account for the year ended 31 December 2006;

Martin and Nasser
Trading and profit and loss account for the year ended 31 December 2006

	£		£	
Sales (332 467 (1) + 43 915 (1OF))			**376 382**	**(1OF)**
Less cost of sales				
Stock	**14 003**			
Purchases	**196 202**	**(1OF)**		
	210 205			
Stock (1 for both stocks)	**13 471**		**196 734**	
Gross profit (must say)			**179 648**	**(1OF)**
Rent received			**6 000**	**(4) W1**
			185 648	
Less expenses				
Wages	**63 482 (4) W2**			
General expenses	**56 676**	**(if missing, no mark for net profit)**		
Depreciation of vehicle	**8 000 (1)**			
Depreciation of machinery	**10 000 (5) W3**			
Loss on disposal	**800 (4) W4**			
			138 958	
Net profit (must say)			**46 690**	**(1OF)**

25 marks

If incorrect figures are calculated for any of the following: rent received; wages; depreciation and loss on disposal, marks only to be awarded if workings are shown.

W1 7 000 (1) – 500 (1) – 500 (1) = 6 000 (1)

W2 63 156 (1) – 612 (1) + 938 (1) = 63 482 (1)

W3 147 000 (1) + 12 000 (1) – 4 000 (1) – 145 000 (1) = 10 000 (1)

W4 10 000 (1) – 6 000 (1) – 3 200 (1) = 800 (1)

(3)

(d) a profit and loss appropriation account for the year ended 31 December 2006;

Martin and Nasser
Profit and loss appropriation account for the year ended 31 December 2006

	£	£
Net profit		**46 690 (1OF)**
Add interest on drawings		**330 (1or 0)**
		47 020
Salary – Nasser	**3 000 (1)**	
Interest on capital – Martin	**6 000 (1)**	
Nasser	**4 200 (1)**	**13 200**
		33 820 (1OF)
Share of residual profits – Martin	**20 292 (1OF for both figures if correct split)**	
Nasser	**13 528**	**33 820**

7 marks

(e) partners' current accounts at 31 December 2006.

Current accounts

	M	N		M	N
Drawings	**35 660 (1 for both)**	**26 480**	**Balances b/d**	**3 210 (1 for both)**	**1 304**
Interest on drawings	**230 (1 for both)**	**100**	**Salary**		**3 000(1)**
			Interest on capital	**6 000 (1 for both)**	**4 200**
			Share of profits	**20 292 (1OF for both)**	**13 528**
			Balances c/d	**6 388 (1OF for both)**	**4 548**
	35 890	**26 580**		**35 890**	**26 580**
Balance b/d	**6 388**	**4 548 (1 OF for both)**			

8 marks

Many partnerships maintain separate capital and current accounts.

REQUIRED

(f) Evaluate the extent to which a partnership is likely to benefit from this practice.

Separate capital accounts distinguish clearly between capital that has been introduced (1) or derived from capital adjustments (1) (more permanent capital (1)) and the capital that is internally generated (1) (and withdrawn (1)), shown in the current accounts (1).

max 4 marks

It allows users of the accounts to see when partners withdraw more profits (1) from the business than they are earning (1).

(0 – 2)

It allows a calculation of interest on capital to be made (1), thus rewarding the partners for the amount of invested in the business (1). Very difficult if only capital accounts are kept (1)

max 2 marks

If interest on capital is not an issue, then there is probably not a great deal of benefit in keeping the accounts separate

(0 - 2)

max 8 marks

Judgement (0 – 2) **10 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.

To help them to make judgements, examiners should focus on the following issues.

Are there clear presentations of formats and prose answers?

Are there clear and logical workings, where appropriate?

Is the whole script legible and understandable (including spelling, punctuation and grammar)?

Is there a grasp of accounting terminology (eg avoiding slang, avoiding text language, avoiding abbreviations in prose answers)?

Are arguments logically argued?