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ASSESSMENT and QUALIFICATIONS ALLIANCE

General Certificate of Education

Accounting ACC5

Unit 5 Further Aspects of Financial Accounting

Mark Scheme

2007 examination - June 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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Registered address: AQA, Devas Street, Manchester M15 6EX *Dr Michael Cresswell Director General*

June 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: 22 marks**

The Lynout Rugby Club runs a bar.

The treasurer provides the following information for the year ended 31 March 2007.

	£
Bar sales	25 728
Amounts owing to suppliers 1 April 2006	368
Amounts owing to suppliers 31 March 2007	412
Bar stocks 1 April 2006	1 432
Bar stocks 31 March 2007	1 239

Additional information

(1) During the year ended 31 March 2007, the club paid £17 309 to the suppliers of goods sold in the bar.

(2) The bar steward's wages for the year amounted to £2000.

(3) The club's treasurer took £250 of wines and spirits at cost price from stock during March, for his daughter's wedding on 10 April 2007. No record has been made of these goods, which have been taken on a sale or return basis.

REQUIRED

1(a) Prepare a bar trading account for the year ended 31 March 2007.

Lynout Rugby Club
Bar trading account for the year ended 31 March 2007

	£		£	
Sales			**25 728**	
Less cost of sales				
Stock	**1 432**	**(1)**		
Purchases W_1	**17 353**	**(4)**		
	18 785			
Stock W_2	**1 489**	**(2)**	**17 296**	
			8 432	**(1OF)**
Steward's wages			**2 000**	**(1)**
Bar profit (must say)			**6 432**	**(1OF)**

W_1 17 309	**(1)**	**368**	**(1)**
412	**(1)**	**17 353**	**(1)**
17 721		**17 721**	

W_2 1239 (1) + 250 (1)

10 marks

1(b) Calculate the bar net profit to sales margin for the year ended 31 March 2007.

$$\frac{6\,432 \text{ (1)OF}}{25\,728 \text{ (1)}} \times 100 = 25\% \text{ (1) OF}$$

3 marks

The club's committee wishes to increase the bar profit to sales margin in the next financial year. Two suggestions have been made.

(1) Alf, a committee member, has suggested that the club ought to increase bar prices by 10%.

(2) Brenda, another committee member, has suggested that a better option would be to reduce bar prices by 10%. She feels sure this would increase the volume of sales.

REQUIRED

1(c) Discuss **each** of the two suggestions, and advise the committee which course of action the club should adopt.

Alf: would increase margin (1) to 31.8% (2 OF); this may reduce the volume of sales (1). If it does, then bar profit will be reduced (1), but it depends on price sensitivity (1), and the shortfall may have to be made up with other activities (1) or by increasing subscriptions (1). **<u>max 5 marks</u>**

Brenda: would reduce margin (1) to 16.67% (2 OF), it may increase the volume of sales (1), but it depends on price sensitivity (1), thus increasing profit (1), which will provide extra resources for the club (1). **<u>max 5 marks</u>**

Other issues: up to 2 marks (effects on membership, behaviour etc) max 2 marks

<u>max 7 marks</u>

Advice 0-2 marks **<u>2 marks</u>**

<u>Overall max 9 marks</u>

2 **Total for this question: 16 marks**

Tom Greenacre buys and sells one model of caravan. He provides the following information for April 2007.

On 1 April, there was one caravan in stock, which had cost £17 700.

Date	Purchases	Sales
10 April	2 at £18 000 each	
18 April		2 at £23 000 each
26 April	3 at £18 400 each	
30 April		2 at £23 000 each

REQUIRED

2(a) Calculate the value of closing stock at 30 April 2007, using the weighted average cost (AVCO) method of stock valuation.

AVCO	**Purchases**	**Sales**	**Stock Value £**	
1 April	**1 in stock**		**17 700 (1)**	**(1)**
10 April	**2 at £18 000 each**		**53 700 (3)**	**(1) ÷ 3 (1) = 17 900 (1) OF**
18 April		**2**	**17 900 (1)**	**(1) OF**
26 April	**3 at £18 400 each**		**73 100 (3)**	**(1) OF ÷ 4 (1) = 18 275 (1)OF**
31 April		**2**	**36 550 (2)**	**(1) OF x 2 (1)**

10 marks

2(b) Discuss whether or not a change from the weighted average cost (AVCO) method to the first in first out (FIFO) method would be beneficial to Tom's business.

Change in method of stock valuation will alter reported profits (2).
Depends on what Tom wishes to happen to his reported profits (1).

FIFO will give higher reported profits (1), it will give £250 more (1)OF. This may be beneficial if Tom wishes to sell his business (1).

AVCO will give 'average' profits, i.e. lower than FIFO (1) but greater than LIFO (1), so profit will be £250 less than FIFO (1)OF.
Method will not affect cash flow (2) or order in which caravans are to be sold (1).

Change will have a temporary effect (2).

Both methods are acceptable (1) under standards or for tax purposes.

Conclusion (1). **max 6 marks**

3 **Total for this question: 62 marks**

Daniel and Freda commenced business in partnership on 1 January 2005. They had no partnership agreement and decided not to keep proper books of account.

Capital introduced by each partner on 1 January 2005 was as follows:

	£
Daniel	20 000
Freda	30 000

The following information is given at 31 December 2005, at the end of the first year of trading.

	£
Premises	40 000
Vehicle	3 750
Office equipment	6 000
Stock	2 400
Debtors	150
Creditors	3 250
Cash at bank	10 950

Daniel had withdrawn £17 000 and Freda had withdrawn £23 000 for personal use during the year.

REQUIRED

3(a) Calculate the partnership profit or loss for the year ended 31 December 2005.
A profit and loss account is **not** required.

	£				
Capital 1 January 2005	**50 000**	**(1)**	**W_1**	**40 000**	**All 7 = 4 marks**
Capital 31 December 2005	**60 000**	**(4) W_1**		**3 750**	**6 = 3 marks**
'Retained profits'	**10 000**			**6 000**	**5 = 2 marks**
Add drawings	**40 000**	**(1)**		**2 400**	**4 = 1 mark**
Profit (1)	**50 000**	**(1 OF)**		**150**	
				10 950	
				(3 250)	
				60 000	

8 marks

The partners have decided that, from 1 January 2006, they should maintain a double-entry system of keeping their financial records.

REQUIRED

3(b) Evaluate the decision that the partners have reached with regard to maintaining their financial records in future.

Although much more work (1), there will be much more detail (1), which will allow much better management decisions to be reached (1). Generally, there is no legal requirement to maintain detailed records (1), but it will help with regard to any VAT calculations (1) and calculations of tax liability (1).

Both partners will be able to see more clearly how the business is doing (1), eg credit control, (1) and their own financial position within the business (1).

If the partners were to apply to a bank for a loan or overdraft (1), then the bank manager might require detailed records to be kept (1).

max 8 marks

Single entry is much cheaper (1) and easier to maintain (1) no need for special training (1) but keeping a 'full' system may save on external accountant's fees (1).

4 marks

max 10 marks

Judgement 0-2 **2 marks**

Overall max 12 marks

3

During the early part of 2006, the partners thought that the business was doing so well that the time had come to expand. In order to finance the expansion, Helen was admitted as a partner with effect from 1 July 2006. The partners drew up a written agreement to take effect from 1 July 2006. The agreement provided that:

(1) Helen be credited with a partnership salary of £5000 per annum;
(2) partners be credited with interest on capital at 6% per annum;
(3) residual profits and losses be shared in the ratios Daniel ½; Freda ⅓; Helen 1/6;
(4) partners be charged interest on drawings.

The agreement further provided that the partners would maintain separate capital and current accounts.
At 30 June 2006, the partnership balance sheet was as follows.

	£	£
Fixed assets		
Premises		40 000
Vehicle		3 125
Office equipment		5 700
		48 825
Current assets		
Stock	3 200	
Debtors	1 985	
Bank balance	3 170	
	8 355	
Current liabilities		
Creditors	4 180	4 175
		53 000
Capital accounts - Daniel		25 000
- Freda		28 000
		53 000

When Helen was admitted to the partnership, it was agreed that certain assets would be valued at the following amounts.

	£
Fixed assets	100 000
Stock	2 600
Debtors	1 410
Goodwill	60 000

It was further agreed that goodwill would not appear in the business books of account.

Helen agreed to introduce £50 000 cash as capital.

The partners also agreed that they would maintain separate capital and current accounts.

REQUIRED

3(c) Prepare the partners' capital accounts as they would appear on 1 July 2006, immediately after Helen was admitted as a partner.

	D		F		H			D		F		H	
Goodwill	**30 000**	**(1)**	**20 000**	**(1)**	**10 000**	**(1)**	**Balances**	**25 000**	**(1)**	**28 000**	**(1)**		
Balances c/d	**50 000**		**63 000**		**40 000**		**Asset Revl**	**25 000**	**(4)**	**25 000**	**W_1**		
							Goodwill	**30 000**	**(1)**	**30 000**	**(1)**		
			(1) OF				**Cash**					**50 000**	**(1)**
	80 000		**83 000**		**50 000**			**80 000**		**83 000**		**50 000**	
							Balance b/d	**50 000**		**63 000**		**40 000**	
										(1 OF)			

W_1 £51 175 (1) - £600 (1) - £575 (1) = $\frac{50\,000}{2}$ **14 marks**

The net profit for the year ended 31 December 2006 was £90 000. The profit had accrued evenly throughout the year.

The drawings and interest on drawings for the year for each partner are given below.

	Daniel	**Freda**	**Helen**
	£	**£**	**£**
Drawings	41 000	35 000	12 000
Interest charged on drawings	250	80	160

REQUIRED

3(d) Prepare profit and loss appropriation accounts for the year ended 31 December 2006.

Daniel, Freda and Helen
Profit and loss appropriation account for the year ended 31 December 2006

		£		£	
Net profit				**45 000**	**(1)**
Share of profits	**Daniel**	**22 500**	**(1)**		
	Freda	**22 500**		**45 000**	
Net profit				**45 000**	**(1)**
Interest on drawings	**Daniel**	**250**			
	Freda	**80**			
	Helen	**160**		**490**	**(1)**
				45 490	
Salary	**Helen**			**2 500**	**(1)**
				42 990	
Interest on capital	**Daniel**	**1 500**	**(1 OF)**		
	Freda	**1 890**	**(1 OF)**		
	Helen	**1 200**	**(1 OF)**	**4 590**	
				38 400	
Share of profits	**Daniel**	**19 200**	**(1 OF)**		
	Freda	**12 800**	**(1 OF)**		
	Helen	**6 400**	**(1 OF)**	**38 400**	

max 10 marks

REQUIRED

3(e) Prepare partners' current accounts for the year ended 31 December 2006.

	D	F	H		D	F	H
Drawings	**41 000**	**35 000(1)**	**12 000**	**Profits**	**22 500(1)**	**22 500**	
Int on drawings	**250**	**80(1)**	**160**	**Salary**			**2 500 (1 OF)**
				Int on capital	**1 500**	**1 890 (1 OF)**	**1 200**
				Share of profit	**19 200**	**12 800 (1 OF)**	**6 400**
Balances c/d	**1 950 (1)**	**2 110(1OF)**		**Balance c/d**			**2 060 (1)**
	43 200	**37 190**	**12 160**		**43 200**	**37 190**	**12 160**
Balance b/d			**2 060**	**Balances b/d**	**1 950**	**2 110**	

Marks to be awarded for both balance c/d and balance b/d.

9 marks

3 (f) Evaluate the decision to keep separate capital and current accounts.

Capital accounts show capital injected into the business (1) and any subsequent capital transactions (1), like revaluations (1) and adjustments for goodwill (1).
Allow interest on capital to be calculated accurately (1).
Current accounts show profits earned by each partner (1) and drawings made by each partner (1). They mean that if any partner's drawings exceed earnings (1), then this can quite easily be seen (1).

max 7 marks

Judgement – probably better, unless there is just one division of profits (2). **2 marks**

max 9 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?