



**General Certificate of Education**

**Accounting ACC5**

**Unit 5 Further Aspects of Financial  
Accounting**

**Mark Scheme**

*2008 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.

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June 2008

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: 24 marks**

The Breezwind Sailing Club operates a clubhouse bar for its members. The bar sells all drinks at a uniform mark-up of 10% on cost.

The treasurer provides the following information for the year ended 31 December 2007:

	<b>At 1 January 2007</b>	<b>At 31 December 2007</b>
	£	£
Bar stocks	856	1020
Creditor for bar stocks	428	612

Cash paid to the supplier of bar stocks during the year amounted to £31 180.

A part-time bar steward is paid £2600 per annum.

**REQUIRED**

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

**Breezwind Sailing Club.**  
**Bar trading account for the year ended 31 December 2007**

	£	£
<b>Sales</b>		<b>34 320 (2OF or 0)</b>
<b>Cost of sales</b>		
<b>Stock</b>	<b>856 (1 both stocks)</b>	
<b>Purchases</b>	<b><u>31 364</u> W1 (4OF)</b>	
	<b>32 220</b>	
<b>Stock</b>	<b><u>1 020</u></b>	
	<b>31 200 (1OF)</b>	
<b>Steward's wages</b>	<b><u>2 600</u> (1)</b>	<b><u>33 800</u></b>
<b>Bar profit</b>		<b><u>520</u> (1OF)</b>

**10 marks****W1 Bar Creditors**

<b>31180 (1)</b>	<b>428 (1)</b>
<b><u>612 (1)</u></b>	<b><u>31 364</u> (1OF)</b>
<b><u>31 792</u></b>	<b><u>31 792</u></b>

The club has 110 members. Each member pays an annual subscription of £50 per annum. The club has been operating at a small annual deficit of about £850 for each of the past four years.

To improve the financial position of the club the treasurer has suggested two alternative options.

**Option 1:** To increase annual subscriptions from £50 to £80 per member. She has estimated that membership would fall from 110 members to 90 as a result.

**Option 2:** Increase the mark-up on all bar sales from the present 10% to 25%. She has estimated that this would result in bar sales falling by 50%.

## REQUIRED

1(b) Draft a memorandum to the club committee advising them which of the two options outlined by the treasurer should be implemented. Justify your answer.

### Memorandum

To : The Committee

From : A. Candidate

Date : 6<sup>th</sup> June 2008

Subject : Consideration of options to restore club's financial position.

#### Option 1:

Despite loss of members this option would bring in extra finance (1) it would raise an extra £1700 a year (3OF) (£7200 (1) - £5500 (1)) however with fewer members would other money raising activities suffer? (1) (1 further mark for an example eg bar takings; competition fees etc).

The increase may well be unpopular with members in the short term (1) however, in a few years time it will probably have been forgotten (1).

Other considerations might include:

Loss of membership might be seen by potential members as a negative point (0-3).

It may be perceived by donors or banks as a negative point (0-3).

Other relevant points to be rewarded.

**max 5 marks**

#### Option 2:

Despite the increase in bar prices this option also would increase bar sales revenue (1) by £3900 per year (3OF) (£19 500 (1)OF - £15 600 (1)OF). Will the loss of bar custom have an adverse effect on other ancillary activities being publicised in the bar? (1) (1 further mark for examples eg discos; treasure hunts; bingo etc). Will the increase in bar prices affect these ancillary activities? (1)

Other considerations might include:

How will other costs be affected? Might there be savings (1) eg fewer hours for bar steward (1) less heating costs; lighting costs etc (1) if bar is opening less frequently.

Will potential members be put off? (1)

Might some potential members see this as a "plus" point (1).

Other relevant points to be rewarded.

**max 5 marks**

2 marks for all 4 headings, 1 mark for 3 or 2 headings  
Judgement based on points developed above: 2 marks

**Overall max 14 marks**

2

**Total for this question: 18 marks**

Shirley Knott runs a vehicle repair business. She sublets part of her premises.

She has never kept a full set of accounting records. However, she is able to provide the following information for the year ended 31 December 2007.

	<b>At 1 January 2007</b>	<b>At 31 December 2007</b>
	<b>£</b>	<b>£</b>
Rent payable owing	300	150
Business rates paid in advance	162	180
Commission receivable owing	200	-
Commission received in advance	-	150
Rent received in advance	80	-
Rent receivable owed by tenant	-	160
Vehicles at cost	60 000	60 000
Depreciation of vehicles	38 400	?

Her summarised cash book showed the following details.

**Cash receipts**

	<b>£</b>
Receipts for work done	45 670
Commission received	3 050
Rent received	720

**Cash payments**

	<b>£</b>
Rent and rates	3 138
Other expenses	23 450

**Additional information**

- (1) Depreciation is charged on vehicles at 40% per annum using the reducing balance method.

**REQUIRED**

2 Prepare a profit and loss account for the year ended 31 December 2007.

**Shirley Knott**  
**Profit and loss account for the year ended 31 December 2007**

	£		£	
Work done			45 670	
Commission received		W1	2 700 (4OF)	
Rent received		W2	<u>960 (4OF)</u>	
			49 330	
Less expenses				
Rent and rates	W3	2 970 (6OF)		
Other expenses		23 450		
Depreciation on vehicle	W4	<u>8 640 (3OF)</u>	<u>35 060</u>	
Net profit			<u>14 270 (1OF)</u>	

**18 marks**

**Workings****W1 Commission Received**

£	£
200 (1)	3050 (1)
2700 (1OF)	
<u>150 (1)</u>	
<u>3050</u>	<u>3050</u>

**W2 Rent Received**

£	£
960 (1OF)	80 (1)
	720 (1)
	<u>160 (1)</u>
<u>960</u>	<u>960</u>

**W3 Rent and Rates**

£	£
162 (1)	300 (1)
3138 (1)	2970 (1OF)
<u>150 (1)</u>	<u>180 (1)</u>
<u>3450</u>	<u>3450</u>

**W4 Depreciation**

$$60\,000 - 38\,400 = 21\,600$$

$$21\,600 (1) \times 40\% (1) = 8640 (1OF)$$

3

**Total for this question: 58 marks**

Amandeep and Dorothy have been in partnership for several years. Their partnership agreement provides that partners be credited with interest on capital at 6% per annum and that residual profits or losses be shared: Amandeep 2/3 and Dorothy 1/3. It further provides that partners be charged interest on their drawings.

The partners have provided the following information for the six months ended 31 October 2007.

	<b>£</b>
Net profit for the period	34 675
Capital account balances at 1 May 2007	
- Amandeep	40 000
- Dorothy	25 000
Current account balances at 1 May 2007	
- Amandeep	2 460 Cr
- Dorothy	130 Cr
Vehicle at written down value	5 000
Other fixed assets at written down value	27 000
Stock	4 840
Trade debtors	8 170
Trade creditors	4 390
Balance at bank	2 420
Drawings	
- Amandeep	23 000
- Dorothy	10 640
Interest on drawings	
- Amandeep	420
- Dorothy	230

Dorothy retired from the partnership at the close of business on 31 October 2007. At the start of business on 1 November, Bart and Chetan were admitted as partners.

The partners agreed the following terms.

- (1) Fixed assets excluding the vehicle would be valued at £80 000.
- (2) Damaged stock valued at £1300 would be written off.
- (3) Debts totalling £500 would be written off as bad.
- (4) Goodwill was valued at £45 000, and that goodwill would not be shown in the partnership balance sheet.
- (5) Dorothy would keep the vehicle at a valuation of £4800.
- (6) Any monies due to or owed by Dorothy would be settled through the partnership bank account on 31 October 2007.

**REQUIRED**

3(a) Prepare a profit and loss appropriation account for the six months ended 31 October 2007.

**Amandeep and Dorothy**  
**Profit and loss appropriation account for the six months ended 31 October 2007**

	£	£
Net profit		34 675(1)
Interest on drawings		<u>650(1)</u>
		35 325
Interest on capital - A	1 200 (1)	
	D <u>750 (1)</u>	<u>1 950</u>
		33 375
Share of profits - A	22 250 (1 OF)	
	D <u>11 125 (1 OF)</u>	<u>33 375</u>

**6 marks**

3(b) Prepare current accounts for Amandeep and Dorothy for the six months ended 31 October 2007.

<b>Current accounts</b>			
	<b>A</b>	<b>D</b>	
	<b>£</b>	<b>£</b>	<b>£</b>
<b>Drawings</b>	23 000 (1)	10 640	Balances b/d 130
<b>Interest on drawings</b>	420 (1)	230 (1)	Interest on capital 750
<b>Transfer to capital a/c</b>		1 135 (10F)	Net profit 11 125 (10F)
<b>Balance c/d</b>	2 490 (10F both)	<u>12 005</u>	<u>12 005</u>
	<u>25 910</u>		<u>2 490</u>
		<b>Balance b/d</b>	

**9 marks**

The partnership agreement drawn up by Amandeep, Bart and Cheetan provides for the following.

- (1) Bart and Cheetan each be credited with a partnership salary of £8000 per annum.
- (2) Residual profits be shared in the ratio 3:1:1 respectively.
- (3) Separate capital accounts and current accounts be maintained. Fixed capital accounts should total £120 000 and reflect profit sharing ratios, and partners should inject or withdraw capital to achieve this.

The net profit earned by the partnership for the six months ended 30 April 2008 was £37 850.

Partners' drawings for the six months ended 30 April 2008 were:

	<b>£</b>
Amandeep	19 750
Bart	8 430
Cheetan	10 000

3(c) Prepare detailed capital accounts recording the retirement of Dorothy and the admission of Bart and Chetan to the partnership.

		Capital Accounts			
		A	D	A	D
		£	£	£	£
Bank			53 335 (10F)	40 000	25 000 (1) for both
Vehicle			4 800 (1)	64 000	32 000 (6) W1
To capital a/c below	104 000		<u>58 135</u>	<u>104 000</u>	1 135 (10F)
				<u>58 135</u>	
Goodwill	27 000 (1)	9 000 (1)	9 000 (1)	104 000	
Bank	5 000 (10F)			33 000 (10F)	33 000 (10F)
Balances c/d	<u>72 000</u>	<u>24 000*</u>	<u>24 000*</u>	<u>104 000</u>	<u>33 000</u>
	<u>104 000</u>	<u>33 000</u>	<u>33 000</u>	<u>72 000</u>	<u>24 000</u>
			Balances b/d	72 000	24 000

\* 1 mark for both balances

W1 53 000 (1) + 45 000 (1) – 1300 (1) – 500 (1) – 200 (1) = 64 000 (10F) + 32 000 (correct split) max 16 marks

**REQUIRED**

3(d) Prepare a profit and loss appropriation account for the six months ended 30 April 2008.

**Amandeep, Bart and Chetan**  
**Profit and Loss Appropriation Account for the six months ended 30 April 2008**

		£	£
<b>Net profit</b>			<b>37 850 (1)</b>
<b>Salaries</b>	<b>Bart</b>	<b>4 000</b>	
	<b>Chetan</b>	<b>4 000</b>	<b>8 000 (1)</b>
		<u>4 000</u>	<u>8 000 (1)</u>
			<b>29 850</b>
<b>Share of profits</b>	<b>Amandeep</b>	<b>17 910 (1OF)</b>	
	<b>Bart</b>	<b>5 970 (1OF)</b>	
	<b>Chetan</b>	<b>5 970 (1OF)</b>	<b>29 850</b>
		<u>5 970 (1OF)</u>	<u>29 850</u>

**5 marks**

3(e) Calculate the balances on the partners' current accounts at 30 April 2008.

<b>Current account balances at 30 April 2008</b>			
	Amandeep	Bart	Chetan
	£	£	£
<b>Balance</b>	<b>2 490 (1OF)</b>		
<b>Salaries</b>		<b>4 000</b>	<b>4 000 (1 OF for both)</b>
<b>Profit share</b>	<b>17 910 (1OF)</b>	<b>5 970</b>	<b>5 970 (1 OF for both)</b>
	<u>20 400</u>	<u>9 970</u>	<u>9 970</u>
<b>Drawings</b>	<b>19 750</b>	<b>8 430</b>	<b>10 000 (1 all three)</b>
<b>Balance</b>	<b><u>650 Cr (1OF)</u></b>	<b><u>1 540 Cr (1OF)</u></b>	<b><u>30 Dr (1OF)</u></b>

Only rewarded if Dr or Cr is shown

**8 marks**

3(f) Evaluate the usefulness of maintaining separate capital accounts and current accounts for Amandeep, Bart and Chetan.

The partners' capital accounts show the capital introduced by each partner (1) and the current balance that the business "owes" each partner (1):

eg Amandeep £72 000, Bart and Chetan £24 000 each (1).

They also show any capital adjustments to partners' capital (1) eg goodwill (1) and cash to adjust to represent profit sharing ratios (1).

The capital account balances represent the permanent capital of the business (1).

The current account balances show retained profits (1) earned by each partner (1) and how it has been earned (1) eg salaries, residual profits (1) also profits that have been withdrawn (drawings) (1).

The current accounts show that Amandeep and Chetan have debit balances on their accounts (1OF) ie they have withdrawn more of the retained profits from the business than they have earned (1 OF), whereas Bart has a credit balance (1) he still has some retained profits invested in the business (1).

Fixed capital accounts are essential if partnership agreement provides for interest on capital (1). In this case there is no need (1), since the partnership agreement does not allow for interest on capital (1).

Other valid points to be rewarded but must be applied to the partnership in question.

**max 12 marks**

Judgement (0 – 2)

**2 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, understandable and logically argued (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?