



**General Certificate of Education (A-level)
June 2012**

Accounting

ACCN2

(Specification 2120)

Unit 2: Financial and Management Accounting

Final

Mark Scheme

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 events which all examiners participate in and is the scheme which was used by them in this examination. The standardisation process 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 standardisation each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, examiners encounter unusual answers which have not been raised 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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MARK SCHEME

INSTRUCTIONS TO EXAMINERS

You should remember that your marking standards should reflect the levels of performance of students, mainly 17 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 students 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 student'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 student'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, students may set out their accounts in either a vertical or horizontal format. Both methods are acceptable.

Own Figure Rule

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

Assessment Objectives (AOs)

The Assessment Objectives are common to AS and A Level. The assessment units will assess the following Assessment Objectives in the context of the content and skills set out in Section 3 (Subject Content) of the specification.

<p>AO1: Knowledge and Understanding</p>	<p>Demonstrate knowledge and understanding of accounting principles, concepts and techniques.</p>
<p>AO2: Application</p>	<p>Select and apply knowledge and understanding of accounting principles, concepts and techniques to familiar and unfamiliar situations.</p>
<p>AO3: Analysis and Evaluation</p>	<p>Order, interpret and analyse accounting information in an appropriate format. Evaluate accounting information, taking into consideration internal and external factors to make reasoned judgements, decisions and recommendations, and assess alternative courses of action using an appropriate form and style of writing.</p>
<p>Quality of Written Communication (QWC)</p>	<p>In GCE specifications which require students to produce written material in English, students must:</p> <ul style="list-style-type: none"> • ensure that text is legible and that spelling, punctuation and grammar are accurate so that meaning is clear • select and use a form and style of writing appropriate to purpose and to complex subject matter • organise information clearly and coherently, using specialist vocabulary when appropriate. <p>In this specification, QWC will be assessed in all units. On each paper, two of the marks for prose answers will be allocated to 'quality of written communication', and two of the marks for numerical answers will be allocated to 'quality of presentation'. The sub questions concerned will be identified on the question papers.</p>

1

Total for this question: 6 marks

1 Explain **two** types of error that could have occurred that would cause the computerised inventory (stock) value to be lower than the physical valuation. (6 marks)

Award 3 marks per reason:

- 1 mark for: identifying reason
- 1 mark for: general explanation*
- 1 mark for: clearly explaining how reason results in lower computerised inventory** (application)

Reasons could include

Reasons	General explanation*	Application**
<ul style="list-style-type: none"> • error entering the data (human error) • error of original entry • the original inventory (stock) figure may not have been entered 	The number (or valuation) entered into the computer could be incorrect.	The figure entered on the computer was less than it should have been. For example 120 items of inventory (stock) could be entered as 102.
<ul style="list-style-type: none"> • items missed out completely, eg error of omission 	A purchase of goods has not been entered on to the computer system. Could be any transaction affecting inventories.	For example purchase of 120 items omitted from computer system.
<ul style="list-style-type: none"> • goods on sale or return 	These are goods the business still owns and should be included in the inventory.	These may have been correctly identified during the physical stock-take but entered on to the computer system (as a sale).
<ul style="list-style-type: none"> • items processed twice 	A transaction affecting inventory could have been entered twice on to the computer system.	The sale or purchase returns would be deducted from the inventory on to the computer resulting in a lower valuation.
<ul style="list-style-type: none"> • goods returned 	Goods returned have not been entered on to the computer system.	The goods returned by customers are part of the physical count as they are on the premises but the computer will show a lower value.
<ul style="list-style-type: none"> • incorrect values used 	The figures used in the computer system may be incorrect.	If the cost/quantity used in the computer system is lower this will result in the valuation being lower than the physical stock-take.
<ul style="list-style-type: none"> • computer failure/software failure/hacking/virus 	This could cause the data to be corrupted.	Data could be lost showing a lower valuation.

Overall max 6 marks

2

Total for this question: 30 marks

2 (a) Prepare a cash budget for **each** of the **three** months September, October and November. (A space for workings is provided on page 6). (20 marks)

Chun
Cash budget
For each of the months September, October and November

	September	October	November
	£	£	£
Receipts			
Credit sales 1 month	19 200 (1)	14 400 (1)	12 800 (1)
Credit sales 2 months	3 920 (1)	4 704 (1)	3 528 (1)
Loan	24 000 (1)		
	47 120	19 104	16 328
Payments			
Purchases	11 500	10 750	9 865 (1) for row
Overheads	5 489	4 982	4 126 (1) for row
Drawings	1 800 (1)	1 750 (1)	2 000 (1)
Loan repayment		1 000	1 000 (1) for both
Loan interest		120 (1)	115 (1)
Purchase of non-current (fixed) assets	6 800 (1)		
	25 589	18 602	17 106
Opening balance	(23 680) (1)	(2 149)	(1 647)
Net cash flow	21 531	502	(778)
Closing balance	(2 149) (1) OF	(1 647) (1) OF	(2 425) (1) OF

20 marks

2 (b) Using examples from the cash budget, explain **two** reasons why a business can make a profit but still have an overdraft. (10 marks)
(includes 2 marks for quality of written communication)

Identification of reasons: **1 mark** each.

Max 2 marks

Reasons to include:

- timing differences, eg sales/trade receivables/realisation/accruals
- purchase of non-current assets
- drawings
- repayment of loans
- the size of the starting overdraft position.

Application from cash budget: **1 mark** per application.

Max 2 marks

The use of numerical data from the question.

For example:

- the cash from the sales of £18 000 in September will not finally be received until November
- the purchase of non-current assets £6800
- drawings of £1800, £1750, £2000 (**OF**)
- repayment of loan £1000 (or £2000) (**OF**)
- this could also include reference to % of sales received or % of drawings
- quoting the original overdraft of £23 680.

Explanation of each reason: **0-2 marks** per explanation.

Max 4 marks

Explanations to include:

- timing differences: the cash is not received until the customers pay. However the sales are included in the income statement (**1**) and hence profit when the sale is made (**1**)
- purchase of non-current assets: reduce cash. However they do not affect the income statement (**1**) as they are treated as capital expenditure/on the balance sheet/effect of depreciation (**1**)
- drawings: will reduce the bank balance but do not affect the income statement (**1**) as they are treated as capital withdrawals/shown on the balance sheet (**1**)
- repayment of the loan: will reduce cash but have no effect on profit (**1**) as it reduces the liability on the balance sheet (**1**)
- original overdraft: even though the profit may generate cash, (**1**) this could still take time to pay off and may result in an overdrawn balance (**1**).

8 marks

Quality of written communication:

To award 2 marks the student must:

- use accounting terminology appropriately
- have no more than two spelling/grammatical/punctuation errors.

For 1 mark: The student will have more than 2 spelling/grammatical/punctuation errors, but it will be possible to understand the content.

For 0 marks: The quality of communication makes understanding difficult.

2 marks

3

Total for this question: 20 marks

3 Using the items (2) to (6), shown on the opposite page, complete the table below to show the correct accounting treatment for each of the items to calculate:

- a revised profit (net profit) for the year
- a revised figure for net current assets (working capital).

For each item, identify the correct accounting concept to be applied. The first item has been completed. (20 marks)

Items	Revised profit (net profit) for the year £	Revised net current assets (working capital) £	Accounting concept
Draft	68 745	5 489	
(1)	(250)	(250)	Realisation
(2)	375 (1)	0 (1)	Business entity (1)
(3) W1	(325) (5) for both*	(325)	Prudence (1)
(4)	(2 000) (1)	(2 000) (1) OF*	Accruals (1)
(5)	(1 000) (1)	(3 000) (1)	Prudence, Accruals, Consistency (1)
(6)	200 (1)	(1 050) (1)	Prudence, Accruals, Consistency (1)
Adjusted	<u>65 745</u> (1) OF	<u>(1 136)</u> (1) OF	

W1

***Item 3: Inventory (stock) valuation is worth a total of 5 marks**

There are 3 marks for the calculation of the inventory adjustment

+ 1 mark for showing figure as a reduction in profit

+ 1 mark for showing figure as a reduction in net current assets

	£	
Realisable value	4 500	
Less: Repair costs	<u>825</u>	(1)
NRV	3 675	
Cost	<u>(4 000)</u>	(1)
Adjustment	(325)	(1)

For example: if the candidate adds 325 to profit this is worth 3 marks

20 marks

4

Total for this question: 24 marks

4 (a) Prepare a corrected balance sheet for Shazad Ltd at 31 March 2012. You should take into account the share issue. (A space for workings is provided on page 12). (16 marks)
(includes 2 marks for quality of presentation)

Shazad Ltd
Balance sheet at 31 March 2012

	£		£	
Non-current (fixed) assets			285 600	
Current assets				
Inventory (stock)	38 567			
Trade receivables	24 891	(1)		
Bank	159 519	(3) OF	W3	
	222 977			
Current liabilities				
Trade payables	20 782	(1)		
	20 782			
Net current assets			202 195	
			487 795	
Non-current (long term) liabilities				
6% Debenture 2026-28			150 000	(1)
Net assets			337 795	
Equity (capital and reserves)				
Ordinary shares of 50p each			250 000	(3) OF W1
Share premium			55 000	(3) OF W2
Revaluation reserve			20 000	(1) must be added to equity
Retained earnings			12 795	(1)
			337 795	

Workings

W1 Share issue

300 000 shares x 50p = £ 150 000 (1) + £100 000 = £250 000 (1) OF
1 extra mark for recording a figure for ordinary shares in the equity section

W2 Share premium

300 000 shares x 15p = £ 45 000 (1) + £10 000 = £55 000 (1) OF
1 extra mark for recording a figure for share premium in the equity section

W3 Bank balance

Receipt from share issue
150 000 + 45 000 = £195 000 (1) OF
Minus original overdraft £35 481 (1)
 £159 519

Plus 1 mark: there is a further mark for correct placement, eg bank overdraft in current liabilities, bank balance in current assets

14 marks

Marks for trade receivables, payables, are awarded provided they are in the correct section of the balance sheet

The Debenture mark can only be awarded provided there is a clear Non-Current Liabilities (long term liabilities) heading

Non-current liabilities could be shown below equity on the balance sheet, however the equity section must be totalled for the debenture mark to be awarded.

Quality of presentation

1 mark for correct title (including name, at and date). There should be no abbreviations eg month in full.

1 mark for correct treatment of non-current asset and inventory.

2 marks

4 (b) Calculate the gearing ratio after the share issue. State the formula used. (3 marks)

$$\frac{\text{Non-current liabilities}}{\text{Capital employed}} \text{ (1)} = \frac{150\,000}{337\,795 \text{ (1) OF} + 150\,000} = 30.75\% \text{ (1) OF}$$

OR

$$\frac{\text{Non-current liabilities}}{\text{Equity}} \text{ (1)} = \frac{150\,000}{337\,795} \text{ (1) OF} = 44.4\% \text{ (1) OF}$$

3 marks

4 (c) Explain the effect of the share issue on the gearing of Shazad Ltd. (5 marks)

The gearing ratio has been reduced **(1)** from 51.23% to 30.75% **(1) OF**. Plus a comment on the significance of the size of change **(1) OF**.

This means that the shareholders are providing a greater share of the capital employed in the business **(1)**.

Before the share issue the company was highly geared **(1)**.

It is now low geared as the gearing ratio is below 50% **(1)** (100% if using debt/equity).

This means the business is less risky to investors **(1)**.

5 marks