

# A-LEVEL ACCOUNTING

Unit 3 Further Aspects of Financial Accounting ACCN3  
Mark scheme

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2120  
June 2014

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Version: 1.0 Final

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Mark schemes are prepared by the Lead Assessment Writer 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 associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Assessment Writer.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' 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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June 2014

ACCN3

**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.

|   |   |
|---|---|
| <b>AO1: Knowledge and Understanding</b>       | Demonstrate knowledge and understanding of accounting principles, concepts and techniques.  |
| <b>AO2: Application</b>                       | Select and apply knowledge and understanding of accounting principles, concepts and techniques to familiar and unfamiliar situations.   |
| <b>AO3: Analysis and Evaluation</b>           | 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.   |
| <b>Quality of Written Communication (QWC)</b> | <p>In GCE specifications which require students to produce written material in English, students must:</p> <ul style="list-style-type: none"> <li>• ensure that text is legible and that spelling, punctuation and grammar are accurate so that meaning is clear</li> <li>• select and use a form and style of writing appropriate to purpose and to complex subject matter</li> <li>• organise information clearly and coherently, using specialist vocabulary when appropriate.</li> </ul> <p>In this specification, QWC will be assessed in <b>all</b> 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> |

**Task 1**

**Total for this task: 24 marks**

**01** Prepare the partners' capital accounts at 1 June 2014 to show the retirement of Pritchard. **[14 marks]**

**Capital accounts:**

|                 | <b>B</b> | <b>L</b> | <b>P</b>             |             | <b>B</b>      | <b>L</b>      | <b>P</b>            |
|-----------------|----------|----------|----------------------|-------------|---------------|---------------|---------------------|
|                 | <b>£</b> | <b>£</b> | <b>£</b>             |             | <b>£</b>      | <b>£</b>      | <b>£</b>            |
| Goodwill        | 19 800   | 13 200   | <b>(1)</b>           | Balance b/d | 105 000       | 70 000        | 35 000 <b>(1)</b>   |
| Vehicle         |          |          | 2 000 <b>(1)</b>     | Goodwill    | 16 500        | 11 000        | 5 500 <b>(1)</b>    |
| Loan            |          |          | 10 000 <b>(1)</b>    | Revaluation | 7 500         | 5 000         | 2 500 <b>(5) OF</b> |
| Current account |          |          | 14 100 <b>(1)</b>    |             |               |               |                     |
| Bank            |          |          | 16 900 <b>(1) OF</b> |             |               |               |                     |
| Balance c/d     | 109 200  | 72 800   |                      |             |               |               |                     |
|                 | 129 000  | 86 000   | 43 000               |             | 129 000       | 86 000        | 43 000              |
|                 |          |          |                      | Balance b/d | 109 200       | 72 800        |                     |
|                 |          |          |                      |             | <b>(1) OF</b> | <b>(1) OF</b> |                     |

**Workings:****Revaluation account:**

|                       | £             |                | £                  |               |     |
|-----------------------|---------------|----------------|--------------------|---------------|-----|
| Inventory <b>W1</b>   | 3 400         | (1)            | Non-current assets | 26 500        | (1) |
| Receivables <b>W2</b> | 8 100         | (2)            |                    |               |     |
| Bradshaw <b>W3</b>    | 7 500         | (1)* <b>OF</b> |                    |               |     |
| Lloyd <b>W3</b>       | 5 000         | *              |                    |               |     |
| Pritchard <b>W3</b>   | 2 500         | *              |                    |               |     |
|                       | <u>26 500</u> |                |                    | <u>26 500</u> |     |

**Revaluation surplus calculation:**

Non-current assets +26,500 (1) less (inventory 3400 (1) + receivables 8100 (2)) = £15000;  
Split Bradshaw 7500; Lloyd 5000; Pritchard 2500 (1 mark for correct split)

**Alternative version of Revaluation Account:****Revaluation account:**

|                     | £             |                | £                  |               |     |
|---------------------|---------------|----------------|--------------------|---------------|-----|
| Non-current assets  | 175 500       |                | Non-current assets | 200 000       | (1) |
| Inventory           | 3 400         |                | Inventory          | 24 150        | (1) |
| Receivables         | 8 100         |                | Receivables        | 16 440        | (2) |
| Bradshaw <b>W3</b>  | 7 500         | (1)* <b>OF</b> |                    |               |     |
| Lloyd <b>W3</b>     | 5 000         | *              |                    |               |     |
| Pritchard <b>W3</b> | 2 500         | *              |                    |               |     |
|                     | <u>26 500</u> |                |                    | <u>26 500</u> |     |

**Note:** marks are for pairs of entries concerning assets in this alternative version

**W1 Inventory:**

$$£27\,550 + (-£9\,000 + £5\,600) = £24\,150$$

$$£27\,550 - £24\,150 = £3\,400 \text{ (1)}$$

**W2 Reduction in value of trade receivables:**

$$£7\,415 \text{ (1)} + £685 \text{ (1)} = £8\,100$$

$$[4\% \times (24\,540 - 7415)] = 685$$

**W3**

$$26\,500 - 3\,400 - 8\,100 = 15\,000$$

$$\text{Bradshaw: } 15\,000 \times 3/6 = 7\,500 \text{ (1) OF } *$$

$$\text{Lloyd: } 15\,000 \times 2/6 = 5\,000 *$$

$$\text{Pritchard: } 15\,000 \times 1/6 = 2\,500 *$$

\* 1 mark for all 3 figures if the correct profit sharing ratios have been applied.

**Goodwill in old ratio:**

|           |                                      |
|-----------|--------------------------------------|
| Bradshaw  | $33\,000 \times 3/6 = 16\,500$ (1) * |
| Lloyd     | $33\,000 \times 2/6 = 11\,000$ *     |
| Pritchard | $33\,000 \times 1/6 = 5\,500$ *      |

**Goodwill in new ratio:**

|          |                                      |
|----------|--------------------------------------|
| Bradshaw | $33\,000 \times 3/5 = 19\,800$ (1) * |
| Lloyd    | $33\,000 \times 2/5 = 13\,200$       |

\* 1 mark for all figures in each case if the correct profit sharing ratios have been applied.

**Alternative answer 1 (netting goodwill):**

**Capital accounts:**

|                 | Bradshaw       | Lloyd         | Pritchard        |             | Bradshaw       | Lloyd         | Pritchard     |           |
|-----------------|----------------|---------------|------------------|-------------|----------------|---------------|---------------|-----------|
|                 | £              | £             | £                |             | £              | £             | £             |           |
| Goodwill        | 3 300          | 2 200         | (1)              | Balance b/d | 105 000        | 70 000        | 35 000        | (1)       |
| Vehicle         |                |               | 2 000 (1)        | Goodwill    |                |               | 5 500         | (1)       |
| Loan            |                |               | 10 000 (1)       | Revaluation | 7 500          | 5 000         | 2 500         | (5)<br>OF |
| Current account |                |               | 14 100 (1)       |             |                |               |               |           |
| Bank            |                |               | 16 900 (1)<br>OF |             |                |               |               |           |
| Balance c/d *   | 109 200        | 72 800        |                  |             |                |               |               |           |
|                 | <u>112 500</u> | <u>75 000</u> | <u>43 000</u>    |             | <u>112 500</u> | <u>75 000</u> | <u>43 000</u> |           |
|                 |                |               |                  | Bal b/d     | 109 200        | 72 800        |               |           |
|                 |                |               |                  |             | (1) OF         | (1) OF        |               |           |

**Alternative answer 2 (combining goodwill and revaluation):**

**Capital accounts:**

|                 | Bradshaw | Lloyd | Pritchard  |             | Bradshaw | Lloyd  | Pritchard |           |
|-----------------|----------|-------|------------|-------------|----------|--------|-----------|-----------|
|                 | £        | £     | £          |             | £        | £      | £         |           |
| Vehicle         |          |       | 2 000 (1)  | Balance b/d | 105 000  | 70 000 | 35 000    | (1)       |
| Loan            |          |       | 10 000 (1) | Revaluation | 4 200    | 2 800  | 8 000     | (7)<br>OF |
| Current account |          |       | 14 100 (1) |             |          |        |           |           |

|             |         |        |                   |  |         |               |               |
|-------------|---------|--------|-------------------|--|---------|---------------|---------------|
| Bank        |         |        | 16 900 <b>(1)</b> |  |         |               |               |
|             |         |        | <b>OF</b>         |  |         |               |               |
| Balance c/d | 109 200 | 72 800 |                   |  |         |               |               |
|             | 109 200 | 72 800 | 43 000            |  | 109 200 | 72 800        | 43 000        |
|             | 109 200 | 72 800 | 43 000            |  | 109 200 | 72 800        | 43 000        |
|             |         |        |                   |  | Bal b/d | 109 200       | 72 800        |
|             |         |        |                   |  |         | <b>(1) OF</b> | <b>(1) OF</b> |

**Alternative answer 3 (showing the revaluation on each individual asset):****Capital accounts:**

|                   | Bradshaw       | Lloyd         | Pritchard     |                    | Bradshaw       | Lloyd         | Pritchard     |
|-------------------|----------------|---------------|---------------|--------------------|----------------|---------------|---------------|
|                   | £              | £             | £             |                    | £              | £             | £             |
| Goodwill          | 19 800         | 13 200        | (1)           | Balance            | 105 000        | 70 000        | 35 000 (1)    |
| Vehicle           |                |               | 2 000 (1)     | b/d                |                |               |               |
| Loan              |                |               | 10 000 (1)    | Goodwill           | 16 500         | 11 000        | 5 500 (1)     |
|                   |                |               |               | Non-current assets | 13 250         | 8 833         | 4 417 (1) *   |
| Inventory         | 1 700          | 1 133         | 567 (1)*      |                    |                |               |               |
| Trade receivables | 4 050          | 2 700         | 1 350 (2)*    |                    |                |               |               |
| Current account   |                |               | 14 100 (1)    |                    |                |               |               |
| Bank              |                |               | 16 900 (1)    |                    |                |               |               |
|                   |                |               | <b>OF</b>     |                    |                |               |               |
| Balance c/d       | 109 200        | 72 800        |               |                    |                |               |               |
|                   | <u>134 750</u> | <u>89 833</u> | <u>44 917</u> |                    | <u>134 750</u> | <u>89 833</u> | <u>44 917</u> |
|                   |                |               |               | Balance b/d        | 109 200        | 72 800        | (1) OF (1) OF |

\* 1 mark for splitting all 3 in the correct partnership ratios.

**14 marks**

**Marker notes:**

- It is recommended that marks are awarded first to the capital accounts, and then look for workings where figures are incorrect
- Show marks against each entry even if the answer is totally correct
- Entries must be on the correct sides of the account except for a single bank balancing figure which could be on the DR or CR side; do not reward for more than one bank entry
- Marks are for figures only and so ignore narratives in the capital accounts; except for the bank entry which must be labelled bank
- The mark (OF) for bank for Pritchard can only be given if it closes the account, ie there can be no balance on Pritchard's account
- Award 7 marks for a perfect complete reversal
- Workings for inventory and for trade receivables can only be rewarded if they are used in the calculation of the revaluation surplus
- The one mark (OF) for the revaluation surplus split will be only be rewarded if transferred correctly in to the capital accounts
- Reward separate partner capital accounts as well as in columnar format
- Marks for bal b/d are only rewarded if they match the bal c/d and if there are no aliens in the capital accounts (eg current accounts of Lloyd and/or Pritchard)
- Award 7 marks for capitals shown as a calculation rather than in T account format; the answers must be totally correct.

**02** Prepare the partnership balance sheet at 1 June 2014 after the retirement of Pritchard.  
[10 marks]

**Balance sheet for Bradshaw and Lloyd at 1 June 2014**

|                                | £       |           | £       |     |
|--------------------------------|---------|-----------|---------|-----|
| <b>Non-current assets</b>      |         |           | 200 000 | (1) |
| <b>Current assets</b>          |         |           |         |     |
| Inventory                      | 24 150  | (1)       |         |     |
| Trade receivables              | 16 440  | (1)       |         |     |
|                                | 40 590  |           |         |     |
| <b>Current liabilities</b>     |         |           |         |     |
| Bank overdraft W1              | 10 225  | (2)<br>OF |         |     |
| Trade payables                 | 18 200  | (1)       |         |     |
|                                | 28 425  |           |         |     |
| <b>Net current assets</b>      |         |           | 12 165  |     |
|                                |         |           | 212 165 |     |
| <b>Non-current liabilities</b> |         |           |         |     |
| Loan account                   |         |           | 10 000  | (1) |
|                                |         |           | 202 165 |     |
| <b>Capital accounts</b>        |         |           |         |     |
| Bradshaw                       | 109 200 | (1)<br>OF |         |     |
| Lloyd                          | 72 800  | (1)<br>OF | 182 000 |     |
| <b>Current accounts</b>        |         |           |         |     |
| Bradshaw                       | 12 105  | (1)       |         |     |
| Lloyd                          | 8 060   | Both      | 20 165  |     |
|                                |         |           | 202 165 |     |

**W1 Bank overdraft:**

£6 675 (1) - £16 900 (1) OF = (£10 225) OF.

**10 marks**

**Marker notes:**

- The capital account OF balances must be the same as the figures from the answer to 01
- Own figures are accepted for bank and capital accounts only
- Award 3 marks where the capital account balances include the current account amounts and therefore no separate current accounts are shown
- Do not reward the current account figures in the balance sheet where the current account figures have also been shown in the capital accounts

- The figures for inventory and trade receivables must be the OF from task 01
- Bank figure: reward 1 mark for students who have not adjusted the original bank balance of 6675; reward 2 marks for students who correctly adjust the original bank figure with their own payment to Pritchard from the partner's capital account; workings must be shown to support an OF
- Ignore any capital and current account figure for Pritchard

**Task 2****Total for this task: 27 marks**

**03** Prepare an income statement for Toyosi for the year ended 31 March 2014.  
A balance sheet is **not** required.

**[27 marks]****[includes 2 marks for quality of presentation]****Income statement for Toyosi for the year ended 31 March 2014**

|                                     | £              |        | £                   |                              |
|-------------------------------------|----------------|--------|---------------------|------------------------------|
| Revenue <b>W1</b>                   |                |        | 124 500             | (4)                          |
| Cost of sales                       |                |        |                     |                              |
| Opening inventory <b>W2</b>         | 4 470          | (1) OF |                     |                              |
| Purchases <b>W3</b>                 | 97 405         | (4)    |                     |                              |
| Closing inventory <b>W4/W5</b>      | <u>(8 500)</u> | (3)    | <u>93 375</u>       | (1) OF<br>(1) OF<br>labelled |
| Gross profit                        |                |        | 31 125              |                              |
| Profit on disposal <b>W6</b>        |                |        | <u>260</u>          | (1)                          |
|                                     |                |        | 31 385              |                              |
| Less expenses                       |                |        |                     |                              |
| Fixtures depreciation <b>W7</b>     | 3 774          | (2)    |                     |                              |
| Insurance <b>W8</b>                 | 6 540          | (2)    |                     |                              |
| Delivery van depreciation <b>W9</b> | 3 436          | (2)    |                     |                              |
| Wages and salaries <b>W10</b>       | 14 560         | (2)    |                     |                              |
| Telephone                           | 900            | (1)    |                     |                              |
|                                     |                |        | <u>29 210</u>       |                              |
| Profit for the year                 |                |        | <u><u>2 175</u></u> | (1) OF                       |

**W1 Cash account**

|             |  | £              |     |                     |                |
|-------------|--|----------------|-----|---------------------|----------------|
| Balance b/d |  | 500            | (1) | Banked              | 96 520 (1)     |
| Cash sales  |  | 124 500        | OF  | Telephone           | 900            |
|             |  |                |     | Drawings            | 18 000 (1)     |
|             |  |                |     | Purchases           | 8 980 (1)      |
|             |  |                |     | Closing balance c/d | 600 (1)        |
|             |  | <u>125 000</u> |     |                     | <u>125 000</u> |

**W2: Opening inventory:**

$$£93\,375 + £8\,500 - £97\,405 = £4\,470 \text{ (1) OF}$$

**W3 Purchases:**

Trade payables

|             |  | £                |             |  |                      |
|-------------|--|------------------|-------------|--|----------------------|
| Paid        |  | 90 525 (1)       | Balance b/d |  | 7 700                |
| Balance c/d |  | <u>5 600 (1)</u> | Purchases   |  | <u>88 425 (1) OF</u> |
|             |  | <u>96 125</u>    |             |  | <u>96 125</u>        |
|             |  |                  | Balance b/d |  | 5 600                |

$$£88\,425 \text{ OF} + £8\,980 \text{ (1)} = £97\,405 \text{ OF}$$

**Alternative:**

$$90\,525 \text{ (1)} + 5\,600 \text{ (1)} - 7\,700 = 88\,425 \text{ (1) OF}$$

**W4: Closing inventory:**

|           |             |  |
|-----------|-------------|--|
| 4 April   | 9 400       |  |
| Sales*    | 2 850 (2)   |  |
| Purchases | (3 750) (1) |  |
| 31 March  | 8 500 OF    |  |

$$* \text{ Sales} = 3800 \text{ (1)} \times 75\% \text{ (1)} = 2850$$

**W5: Cost of sales:**

$$£124\,500 \times 75\% \text{ (1)} = £93\,375 \text{ OF}$$

**W6 Profit on disposal:**

$$£1\,640 - £1\,380 = £260 \text{ (1) CF}$$

**W7 Fixtures depreciation:**

|             | £                |                  | £                 |
|-------------|------------------|------------------|-------------------|
| Balance b/d | 15 170           | Income Statement | 3 774 <b>OF</b>   |
| Purchases   | <u>3 700 (1)</u> | Balance c/d      | <u>15 096 (1)</u> |
|             | <u>18 870</u>    |                  | <u>18 870</u>     |
| Balance b/d | 15 096           |                  |                   |

**Alternative:** 15 170 + 3 700 (1) - 15 096 (1) = 3 774 **OF**

**W8 Insurance:**

|             | £                |                  | £               |
|-------------|------------------|------------------|-----------------|
| Balance b/d | 390              | Income Statement | 6 540 <b>OF</b> |
| Paid        | <u>6 600 (1)</u> | Balance c/d      | 450 (1)         |
|             | <u>6 990</u>     |                  | <u>6 990</u>    |
| Balance b/d | 450              |                  |                 |

**Alternative:**

390 + 6 600 (1) – 450 (1) = 6 540 **OF**

**W9 Delivery van depreciation:**

|             | £             |                  | £                 |
|-------------|---------------|------------------|-------------------|
| Balance b/d | 16 440        | Disposal NBV     | 1 380 (1)         |
|             |               | Income Statement | 3 436 (OF)        |
|             | <u>16 440</u> | Balance c/d      | <u>11 624 (1)</u> |
| Balance c/d | 11 624        |                  | <u>16 440</u>     |

**W10 Wages and salaries:**

|             | £          |                  | £                |
|-------------|------------|------------------|------------------|
| Paid        | 14 400 (1) | Balance b/d      | 1 270            |
| Balance c/d | 1 430 (1)  | Income Statement | 14 560 <b>OF</b> |
|             | 15 830     |                  | 15 830           |
|             |            | Balance b/d      | 1 430            |

**Alternative:**

$$14\,400 (1) + 1\,430 (1) - 1\,270 = 14\,560 \text{ OF}$$

**25 marks****Quality of presentation:****1 mark** for full income statement heading**1 mark** for labelling cost of sales, and profit for the year**Total 27 marks****Marker notes:**

- Show marks against each transaction in the income statement. Check workings if the figures are incorrect and award marks where appropriate.
- There are no marks for workings which are not then used in the income statement.
- The OF mark for cost of sales does not have to be labelled but must be 75% of revenue (workings not required for this calculation)
- Do not award OF for opening inventory or for profit for the year if there are any aliens in the income statement.
- Award 4 marks for a total depreciation amounts of £7 210. All other expenses must be shown separately.
- Accept profit on disposal if shown as reduction in the expenses
- QP: accept net profit instead of profit for year; do not accept abbreviations

Generally there are no marks for incorrect figures without workings. The following are exceptions to this rule

- Award 1 mark for a fixtures depreciation amount of £74 (the asset purchased has not been included).
- Award 2 marks for a sales figure of £124 400 (the bal b/d and c/d have not been included)
- Award 1 mark for wages and salaries of £14 240 and 1 mark for insurance of £6 660 (reversed the bal b/d and bal c/d amounts).
- Award 1 mark for wages and salaries of £15 830 and 1 mark for insurance of £6 150 (only adjusted for the bal c/d and not the bal b/d).
- Award 2 marks for closing inventory figure of 9450

**Task 3****Total for this task: 27 marks**

**04** Prepare an extract of the statement of cash flows for the year ending 31 May 2015 to show **all** the transactions relating to the rights issue in option 1, in accordance with IAS7. **[8 marks]**

**Financing activities (1)**

|  |                     |
|--|---------------------|
| Proceeds from the issue of share capital (1)* both | 144 000 (4)* OF W1  |
| Dividends paid *                                   | (38 400) (2)* OF W2 |

**W1**

$200\,000 \times 4 = 800\,000$  (1) /  $5 \times 2 = 320\,000$  (1)  $\times 45\text{p}$  (1) = £144 000 OF

**W2**

$320\,000$  OF  $\times 12\text{p}$  (1) = £38 400 OF

\* 1 mark for each figure if treated in the correct direction within the section.

**Total 8 marks****Marker notes:**

- Award 2 marks for a dividends figure of £134 400 OF (been calculated on the original ordinary shares as well as the rights issue) and if the direction is still correct
- Mark for 'financing activities' must be precise to award the mark
- Mark for both sub category labels is for any reasonable description of the transactions
- Accept share capital of £80 000 and share premium of £64 000 as separate amounts for the full 4 marks
- The dividends paid must be shown as a negative figure (this could be by use of brackets or by describing as 'less' or a minus sign)
- If the figures in the extract are incorrect, check workings. The figures in the workings must be used in the extracts. If not, no reward for workings.
- Do not reward if the student has used an appropriation account instead of a an extract from the statement of cash flows

**05** Prepare an extract of the statement of cash flows for the year ending 31 May 2015 to show **all** the transactions relating to the debenture loan issue in option 2, in accordance with IAS7.

**[7 marks]**

**Cash used in/from operations: (1)**

Interest paid (1) \* both (7 200) W1 (2)\* OF

**Financing activities: (1)**

Proceeds from long term borrowing \* 144 000 OF (2)\* OF

**W1** 144 000 OF x 5% (1) = £7 200 OF

\* 1 mark for each figure if treated in the correct direction within the section.

**Total 7 marks**

**Marker notes:**

- Award 2 marks for an interest paid figure of £11 200 OF (been calculated on the existing debenture loan as well as the new loan) and if the direction is still correct
- Mark for 'financing activities' and 'cash used in / from operations' must be precise to award the marks; accept also 'cash flows used in/from financing activities' and cash used in / from operating activities
- Mark for sub category labels is for any reasonable description of the transactions
- The OF for the loan must correspond with the amount of share issue from task 04
- If the figures in the extract are incorrect, check workings. The figures in the workings must be used in the extracts. If not, no reward for workings.
- Do not reward if the student has used an appropriation account instead of a an extract from the statement of cash flows

**06** Discuss the appropriateness of **both** sources of finance to fund the proposed expansion. Recommend the best option and justify your choice.

**[12 marks]**

**Ordinary shares:**

**Generic points (maximum 3 marks)**

**Benefits:**

- permanent source of finance **(1)**
- reduces gearing **(1)** and risk via variable dividend payments **(1)**
- dividends are an appropriation of profit and not an expense to reduce profit for the year **(1)**
- dividends are discretionary **(1)** or risk shareholder dissatisfaction **(1)**

**Drawbacks:**

- there may be a dilution of ownership and control **(1)** as shareholders will have voting rights at the AGM **(1)**. This would happen if the rights issue was not fully subscribed and the shares were then sold to potential new investors instead **(1)**.

**Application points (no maximum)**

- before gearing was 22% ( $80\,000/363\,750 \times 100$ ) **(1)** or  $80\,000/283\,750 \times 100 = 28\%$  **(1)**
- after gearing will have been decreased to 16% ( $80\,000/507\,750 \times 100$ ) **(1)**  $80\,000/427\,750 \times 100 = 19\%$  **(1)**
- the annual dividend cost of the share issue will be £38 400 (OF) **(1)**
- the share option is more expensive **(1)** by £31 200 (OF) **(1)**
- the share issue will generate £144 000 (OF) of funding which is substantial amount

**Max 5 marks**

**Debenture loans:**

**Generic points (maximum 3 marks)**

**Benefits:**

- long term source of finance **(1)**
- no dilution of ownership or control in the business **(1)**
- fixed interest helps assist with planning and budgeting **(1)**
- time value of money advantage by repaying the loan as a lump sum in the future **(1)**.

**Drawbacks:**

- increases gearing **(1)** and risk via fixed interest payments **(1)**
- fixed interest payments reduce profit **(1)**
- debenture interest must be paid annually **(1)** or assets could be repossessed **(1)**
- loan is repayable **(1)** as a lump sum **(1)** at a future maturity redemption date **(1)** which will have a negative impact on cash flows **(1)**
- secured against assets **(1)** which could then be re possessed in the case of loan default **(1)**.

**Application points (no maximum)**

- before gearing was 22% ( $80\,000/363\,750 \times 100$ ) **(1)** or  $80\,000/283\,750 \times 100 = 28\%$  **(1)**
- after gearing will have increased to 44% ( $224\,000/507\,750 \times 100$ ) **(1)** or  $224\,000/283\,750 \times 100 = 79\%$  **(1)**

- the annual interest cost on the loan will be £7,200 (1)
- the loan interest is less (1) than the share dividend by £31 200 (OF)(1)
- the debenture issue will generate £144 000 (OF) of funding which is substantial amount

**Marker note:**

Please record G (for generic) and A (for application) and R (recommendation/justification) for marks given; this option was not available on the standardisation scripts

Loan interest is tax deductible (1)

Application marks: only reward one of debenture interest less/share dividend more

Application marks: only reward one reference to substantial amount raised

Reward relevant references to the nature of the expansion which may be taking place, eg purchasing non-current assets having a similar life to a debenture

**Max 5 marks**

**Overall max 10 marks**

Recommendation (1) with justification for decision about most appropriate source of finance (1).

**Total 12 marks**

**Task 4**

**Total for this task: 12 marks**

**07** Explain the purpose and importance of complying with International Accounting Standards when financial statements are being prepared.

**[12 marks]**

**[includes 2 marks for quality of written communication]**

To ensure that the financial statements are:

- understandable (1) by different interested stakeholders (1) example of stakeholder (1)
- relevant (1) to help with business decision making (1) eg. whether a bank should make a loan based on the ability to meet repayments with interest and not therefore default (in which case assets would need to be seized) (1 mark for an example).
- reliable (1) by not containing any errors (1) or bias (1) or fraud (1) avoidance of window dressing/creative accounting (1)
- comparable (1) between years within a business (1) and across different businesses (1) in different countries (1).

To ensure that financial statements provide correct information about the financial position of the business (1), eg assets, liabilities and equity (1 mark for an example).

To ensure that financial statements provide correct information about the financial performance of the business (1), eg income and expenditure to measure profit or loss (1 mark for an example).

To ensure that a business completes all of the main documents within a set of financial statements (1). This would include: income statement, balance sheet, statement of cash flows, statement of changes in equity, directors' report and explanatory notes about policies, eg a schedule of non-current assets (1 for an example).

To ensure fair presentation (1) and to show a true and fair view (1)

To support the adherence with accounting concepts **(1)** eg prudence, consistency, going concern and accruals **(1 for example)**.

To support the auditors' report when expressing an opinion about the financial statements **(1)**.

To support compliance with the Companies Act 1989 **(1)**

**Max 10 marks**

**2 marks for quality of written communication:**

Award quality of written communication marks even for a brief relevant response.

2 marks for no more than 3 spelling, punctuation or grammar errors.

1 mark for 4 or more spelling, punctuation or grammar errors.

0 marks where it is difficult to understand the prose response.

**Total 12 marks**

**Marker notes:**

- Do not reward comments about specific International Accounting Standards as these are not relevant to the question. However, where the IASs are applied to the context of the question, reward **1 mark** for each related IAS.

**Assessment grid**

| <b>Task</b>  | <b>Syllabus Section</b>                 | <b>AO1</b> | <b>AO2</b> | <b>AO3</b> | <b>Total</b> |
|--------------|---|------------|------------|------------|--------------|
| <b>01</b>    | Partnership accounts                    | 3          | 7          | 4          | <b>14</b>    |
| <b>02</b>    | Partnership accounts                    | 2          | 6          | 2          | <b>10</b>    |
| <b>03</b>    | Incomplete records                      | 2          | 13         | 12         | <b>27</b>    |
| <b>04</b>    | Published accounts of limited companies | 3          | 5          |            | <b>8</b>     |
| <b>05</b>    | Published accounts of limited companies | 3          | 4          |            | <b>7</b>     |
| <b>06</b>    | Sources of finance                      | 3          | 5          | 4          | <b>12</b>    |
| <b>07</b>    | International accounting standards      | 2          | 5          | 5          | <b>12</b>    |
| <b>Total</b> |   | <b>18</b>  | <b>45</b>  | <b>27</b>  | <b>90</b>    |