



A-LEVEL **Accounting**

Unit 3 Further Aspects of Financial Accounting
Mark Scheme

2120
June 2015

Version 1.0: Final

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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June 2015

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.

1

Total for this question: 20 marks

1 (a) Prepare the partnership appropriation account for the 9 month period 1 August 2014 to 30 April 2015.

[11 marks]

Appropriation account for Green, Brown and White for the period 1 August 2014 to 30 April 2015

	£	£	
Appropriation account:			
Profit for the period ($£60\,000 \times 9/12 = 45\,000$ – $(8,000 \times 2\% \times 9/12)$)		44 880	2 CF
Interest on drawings:			
Green ($22\,000 \times 9/12 \times 3\%$)	495		1CF
Brown ($18\,000 \times 9/12 \times 3\%$)	<u>405</u>		1CF
		900	
White salary ($11\,900 \times 9/12$)		(8 925)	1CF
Interest on capital:	(2 214)		1CF
Green ($73\,800 \times 4\% \times 9/12$)	(1 767)		1CF
Brown ($58\,900 \times 4\% \times 9/12$)	<u>(1 314)</u>		1CF
White ($43\,800 \times 4\% \times 9/12$)			
		<u>(5 295)</u>	
Remaining profit		31 560	
Split of remaining profit:			
Green ($31\,560 \times 40\%$)	12 624		1OF
Brown ($31\,560 \times 35\%$)	11 046		1OF
White ($31\,560 \times 25\%$)	<u>7 890</u>		1OF
		<u>31 560</u>	
(11 marks)		-	

Marker notes:

Profit for the year: award one mark for a profit for the period figure of £45 000 (**1OF**) or for an adjusted figure based on £45,000 where workings are shown. Unless £44,880 or £45,000, award 0 marks if no workings.

The interest on the loan needs to be adjusted against the profit, and not shown as an appropriation of profit (do not regard interest on loan as an alien item if shown within the appropriation account).

Remaining profit: OF for split of remaining profit if split in the right profit sharing ratio and if no alien transactions are in the appropriation account.

Marks for interest on drawings, salary and interest on capital are only awarded if the transactions have been treated in the correct direction eg. adding interest on drawings

1 (b) Prepare the current account for Green for the year ended 30 April 2015. **[9 marks]**

Dr	Green's current account		Cr
Details	£	Details	£
Bal b/d	8 865 (1)	Loan interest (W1)	220 (2)OF
Drawings	22 000 (1)	Interest on capital	2 214 (1)OF*
Interest on drawings	495 (1) OF*	Profit share (W2)	20 074 (2)OF
		Bal c/d	8 852
	31 360		31 360
Bal b/d (must be labelled)	8 852 (1) OF		

(W1) Loan interest:

First 3 months: $8\,000 \times 5\% \times 3/12 = 100$ (1) CF
 Second 9 months: $8\,000 \times 2\% \times 9/12 = 120$ (1) OF*
 Total 220

(W2) Profit share:

First 3 months: $60\,000 \times 3/12 = 15\,000 - 100 = 14\,900 \times 50\% = 7\,450$ (1) CF
 Second 9 months: $31\,560 \times 40\% = 12\,624$ (1) *
 Total 20 074

(9 marks)

Marker notes:

Interest on drawings must be a debit entry; interest on capital must be a credit entry.
 OF for balance b/d if corresponds with the balance c/d and if there are no aliens in the current account.

(*) marks for interest on drawings, interest on capital and part of the loan interest and profit share are only to be awarded if the figures correspond with the appropriation account in task 1(a).

Show marks against each entry even where the answer is totally correct.

Marks are only awarded where the entries are in the correct side (Dr or Cr).

Marks are for figures only, with no marks for narratives, except for balance b/d where label required (accept appropriate abbreviations).

Award 5 marks for a perfect complete reversal (ie a mirror image of the totally correct answer).

Reward workings where appropriate if the figures for loan interest and profit share are not correct.

If correct workings for loan interest and for the profit share are not recorded in the current account, reward 1 mark for each item.

The mark for the closing balance b/d is awarded if there are no alien items in the current account.

2

Total for this question: 23 marks

2 (a) Prepare the income statement for the year ended 31 March 2015. [8 marks]

Farah Income statement for the year ended 31 March 2015

	£	£	
Revenue (W2)		32 442	1 OF
Cost of sales			
Opening inventory	6 750		
Purchases	30 310		
Closing inventory (W1)	<u>10 025</u>		3 OF
		<u>27 035</u>	
Gross profit (must be labelled)		5 407	1 OF
Less expenses	8 290		
Insurance	3 460		
Light and heat	375		
Loss on disposal	<u>4 505</u>		2 OF
Depreciation (W3)		<u>16 630</u>	
		<u>(11 223)</u>	1 OF
Loss for the year (must be labelled)			

(W1) Closing inventory:

Inventory at 5 April	8 100	
Add: Sales 8 250 x 100/120	6 875 (1) CF	
Less: Purchases	<u>(4 950) (1) CF</u>	
Inventory at 31 March	<u>10 025 (1)CF</u>	

(W2) Revenue:

$27\,035 \times 120/100 = 32\,442$ **1 OF**

Marker notes:

The own figure mark for revenue must be based on their own cost of sales figure x 120/100

(W3) Depreciation:

NBV b/d	22 670	
Less NBV disposal 4 275 +375	<u>4 650</u>	
	<u>18 020</u>	
Depreciation 18 020 x 25%	<u>4 505 (2) CF</u>	

Marker notes:

Correct figure of £4505 is awarded **2 marks**; any other figure with working where 25% is used, **1 mark (OF)**

(8 marks)

Marker notes:

Marks for gross profit and for loss for year are only awarded if no alien item within each section. Do not block mark, ie show marks for individual items. Check workings if the figures are incorrect and award marks where appropriate.

There are no marks for workings not used in the income statement.

OF for loss for the year is only awarded if there are no aliens in the income statement and if it is labelled correctly. Label for final figure must be clear: loss for the year, net loss (or own figure: profit for the year, net profit). Do not accept other labels: do not accept abbreviations. Brackets are not required for the figure for loss.

If the result of workings for closing inventory is not used in the income statement award a maximum of **2 marks**.

If the result of workings for depreciation are not used in the income statement award a maximum of **1 mark**.

2 (b) Prepare a balance sheet for Farah at 31 March 2015.

[15 marks]

Farah Balance sheet at 31 March 2015

	£	£	
Non-current assets (W1)		13 515	2 OF
Current assets			
Inventory	10 025		1OF
Trade receivables (W2)	9 162		2OF
Prepaid expenses (W3)	<u>170</u>		2OF
	19 357		
Current liabilities			
Trade payables (W4)	10 620		2OF
Accrued expenses (W5)	1 245		2OF
Bank overdraft	<u>9 770</u>		1
Net current liabilities	<u>21 635</u>		
		<u>(2 278)</u>	
Capital		11 237	
Opening capital (W6)	27 460		2OF
Net loss	(11223)		1OF*
Drawings	<u>(5 000)</u>		
		<u>11 237</u>	

W1 Non-current assets:

Non-current assets

NBV b/d	22 670	Disposal NBV	4 650	1 OF
		Depreciation	4 505	1* OF
		NBV c/d	<u>13 515</u>	OF
	<u>22 670</u>		<u>22 670</u>	

Alternative:

NBV b/d	22 670	
NBV disposal	(4 650)	(1) OF
Depreciation charge	<u>(4 505)</u>	(1)* OF
NBV c/d	<u>13 515</u>	OF

W2 Trade receivables:

Trade receivables

Bal b/d	3 540		Receipts	26 820	1
Sales	<u>32 442</u>	1*OF	Bal c/d	<u>9 162</u>	OF
	<u>35 982</u>			<u>35 982</u>	

Alternative:

Bal b/d	3 540	
Add Sales	32 442	(1) * OF
Less Receipts	<u>(26 820)</u>	(1)
Bal c/d	<u>9 162</u>	OF

W3 Prepaid expenses:

Insurance

Bal b/d	725		IS	8 290	1
Bank	<u>7 735</u>	1	Bal c/d	<u>170</u>	OF
	<u>8 460</u>			<u>8 460</u>	

Alternative:

Bal b/d	725	
Paid	7 735	(1)
Charge	<u>(8 290)</u>	(1)
Bal c/d	<u>170</u>	OF

W4 Trade payables:

Trade payables				
Bank	21 650	1	Bal b/d	1 960
Bal c/d	<u>10 620</u>	OF	Purchase	<u>30 310</u> 1
	<u>32 270</u>			<u>32 270</u>

Alternative:

Bal b/d	1 960
Add purchases	30 310 (1)
Less payments	<u>21 650</u> (1)
Bal c/d	<u>10 620</u> OF

W5 Accrued expenses:

Light and heat				
Bank	2 695	1	Bal b/d	480
Bal c/d	<u>1 245</u>	OF	IS	<u>3 460</u> 1
	<u>3 940</u>			<u>3 940</u>

Alternative:

Bal b/d	480
Add charge	3 460 (1)
Less paid	<u>2 695</u> (1)
Bal c/d	<u>1 245</u> OF

W6 Opening capital:

Opening Capital					
Insurance	725	1	Light	480	1
Inventory	6 750	CF	Payable	1 960	CF
Non-current	22 670		Overdraft	3 785	
Receivable	<u>3 540</u>		Capital	<u>27 460</u>	OF
	33 685			33 685	

Alternative:

Assets:	725 + 6 750 + 22 670 + 3 540 = 33 685	1CF
Liabilities:	480 + 1 960 + 3 785 = <u>6 225</u>	1CF
Capital	<u>27 460</u>	OF

(15 marks)

Alternative answer.**Farah Balance sheet at 31 March 2015**

	£	£	
Non-current assets (W1)		13 515	2OF
Current assets			
Inventory	10 025		1OF
Trade receivables (W2)	9 162		2OF
Prepaid expenses (W3)	<u>170</u>		2OF
		<u>19 357</u>	
Total assets		<u>32 872</u>	
Capital			
Opening capital (W6)	27 460		2OF
Net loss	(11 223)		1OF
Drawings	<u>(5 000)</u>	11 237	
Current liabilities			
Trade payables (W4)	10 620		2OF
Accrued expenses (W5)	1 245		2OF
Bank overdraft	<u>9 770</u>		1
		<u>21 635</u>	
Total capital and liabilities		<u>32 872</u>	

(15 marks)**Marker notes:**

(*) marks for depreciation, sales and loss for the year only to be awarded if the figures correspond with the income statement in task 2(a)

Show marks against each item in the balance sheet. Check workings if the figures are incorrect and award marks where appropriate.

For the workings for each item award 1 maximum mark if workings not used in balance sheet.

3

Total for this question: 31 marks

3 (a) Prepare the statement of cash flows for the year ended 31 May 2015 in accordance with the requirements of IAS 7.

[21 marks]

[includes 2 marks for quality of presentation]

Hickey Ltd Statement of cash flows for the year ended 31 May 2015

Profit from operations (W1)	106 341	5 OF
Depreciation (W2)	32 500	4OF
Loss on disposal	5 094	
Increase in inventory	(19 120)	1
Decrease in trade receivables	14 340	all
Increase in trade payables	<u>13 384</u>	three
Cash from operations	152 539	
Interest paid (W4)	(11 500)	2CF 1OF
Taxation paid (W3)	<u>(11 700)</u>	2OF
Net cash from operating activities	129 339	
Cash flow from investing activities *		
Purchase of non-current assets	(123 645)	
Proceeds from disposal of non-current assets (W5)	<u>20 376</u>	1 for both
	(103 269)	
Cash flow from financing activities *		
Loan repayment	(25 000)	1 CF
Dividends paid (W6)	<u>(7 875)</u>	2 CF 1OF
	<u>(32 875)</u>	
Decrease in cash and cash equivalents	(6 805)	1OF
Cash and cash equivalents at beginning of year	<u>3 940</u>	
Cash and cash equivalents at end of year	<u>(2 865)</u>	

Marker note:

Accept first section as a reconciliation between profit from operations and net cash from operating activities.

So the statements of cash flows would start with net cash from operating activities of £129 339

OF (14 marks)

W1 Profit from operations:

Bal c/d	56 045	
Bal b/d	18 321	
Tax	12 600	1 CF
Interest	11 500	2 CF 1OF
Dividends (W6)	<u>7 875</u>	2 CF 1OF
Profit for the year	<u>106 341</u>	OF

W2 Depreciation:

Depreciation

:

Bal b/d	251 900	1	Disposal	25 470	1
Additions	123 645	1	IS	32 500	OF
				34750	
Revaluation	29 925	1	Bal c/d	0	
	<u>405 470</u>			<u>405 470</u>	

Alternative:

Bal b/d	251 900	1
Bal c/d	(347 500)	
Difference in balances	(95 600)	
Additions	123 645	1
Revaluation	29 925	1 CF
Disposal	(25 470)	1
Depreciation charge for year	<u>32 500</u>	

W3 Taxation:

Taxation:

Bank	11 700	OF	Bal b/d	14 200	1
Bal c/d	<u>15 100</u>		IS	<u>12 600</u>	1
	<u>26 800</u>			<u>26 800</u>	

Balance b/d	14 200	1
Balance c/d	(15 100)	
Income statement	12 600	1
Tax paid	<u>11 700</u>	OF

W4 Interest:

125 000 x 8% = 10 000
 25 000 x 8% x 9/12 = 1 500
 Interest paid 11 500

Marker note:

1 own figure mark awarded for £10,000 or £12,000 or £1500.

Do not accept any other figure for interest

W5 Disposal proceeds:

7 875 (2)
CF

$25\,470 - 5\,094 = \text{£}20\,376$

W6 Dividends paid:

$131\,250 / 1.75 \times 10.5\text{p}$

Own figure: $131\,250 \times 10.5\text{p} = 13\,781.25$ (1)

Do not accept any other figure for dividends paid

Quality of presentation:

Statement of cash flows heading – with no abbreviations must include name of company and document title and date reference **(1 mark)**

Sub headings (*). Two subheadings required which must be shown before items within the section; must say 'investing activities' and 'financing activities' **(1 mark)**

(21 marks)

Marker notes:

Depreciation: if depreciation is *deducted* in the first section award maximum 3 marks. If depreciation is shown in the wrong section award maximum 3 marks.

Figures from workings not used in statement: if profit from operations is not transferred to the statement of cash flows award a maximum of 4 marks; if depreciation is not transferred to the statement of cash flow award a maximum of 3 marks.

Statements of cash flow where format not followed: where students do not have clear sections award marks as follows. Treat the answer as if it all the first section (profit from operations) and therefore no marks are available for investing activities, financing activities and decrease in cash.

3 (b) Explain how it is possible for a business to make a profit but have a decrease in cash resources. Use examples from the statement of cash flows to support your answer.

[10 marks]

Profit is measured on an accruals basis (ie time related) **(1)** and cash is measured where it is actually received or paid **(1)**.

Hickey Limited has made a profit of £106 341 **(1) OF** but despite this has got a bank overdraft of £2 865/decrease of £6805 **(1) OF**.

Profit and cash are different for the following reasons:

EXAMPLES	
SECTION A	<p>Some transactions affect profit (income statement) but not cash (1)</p> <p>Items are:</p> <ul style="list-style-type: none"> • Depreciation of £32 500 OF • Loss on disposal of £5 094 CF <p>max 2 for example – identification(1) and amount(1)</p>
SECTION B	<p>Some transactions affect cash but not profit (income statement) (1).</p> <p>Items are:</p> <ul style="list-style-type: none"> • Non-current asset additions at cost of £123 645 CF • Loan repayment of £25 000 OF • Proceeds from disposal of non-current assets of £20 376 OF • Dividends paid of £7 875 OF <p>max 2 for example – identification(1) and amount(1)</p>
SECTION C	<p>Some transactions affect both cash and profit (income statement) but at different times (1).</p> <p>Items include:</p> <ul style="list-style-type: none"> • Sales on a credit basis are in profit before cash and trade receivables have changed by £14 340 CF • Purchases on a credit basis are again in profit before cash and trade payables have changed by £13 384 CF • Inventory movements where this has changed by £19 120 CF • Interest paid of £11 500 OF • Tax paid of £11 700 OF <p>max 2 for example – identification(1) and amount (1)</p>

Marker notes:

Students are allowed to illustrate their answer with a maximum of 4 examples: 1 example from each section (maximum 3 marks each) plus a bonus example from any section (maximum 2 marks – ie one mark for item and one mark for data from cash flow statement). (To clarify: it would not be

possible for a student to give four examples using only two sections.) Therefore, there is a maximum of 11 marks for examples.

4	<p><i>Discuss the suitability of both options considering both financial and any non-financial factors.</i></p> <p><i>Recommend the most appropriate option and justify your decision.</i></p>	[16 marks]
[includes 2 marks for quality of written communication]		

Ordinary shares:

Generic	Application
More shares issued which may be easy to raise as they would be sold on the stock exchange for a plc (1)	800 000 shares (1) at £1.40 each (1)
Dilution of ownership / reduction in control / voting rights at AGM (1)	New shareholders could gain 15% (1) control if new investors $(800/5200 \times 100)$
Dividends do not normally have to be paid / or vary with profit levels (1) .	This business has a policy to maintain dividend levels (1) . The cost would be £30 000 (1) which would increase total dividends from £165 000 to £195 000 (1)
Dividends do not affect profit for the year (1) but would nevertheless reduce retained earnings (1)	Retained earnings would decrease from £71 250 to £41 250 (1)
Shares are a permanent form to funding and are not repayable (1) unless the company decided to re purchase to regain some control (1)	
Ordinary shares reduce gearing / implications of lower gearing (1)	Gearing would decrease by 2.5% (1) from 20% to 17.5% (1)

Comments about ordinary shares (**maximum 7 marks: max 3 generic; max 4 application**)

Debenture loan:

No dilution of ownership as loan investors don't have voting rights (1)	
Security is required as collateral against potential loan default (1) and this would usually require substantial non-current assets (1)	
Interest must be paid at a fixed rate (1)	Interest would be paid of £39 200 (1) which would increase the cost from £56 000 to £95 200 (1)
Interest cost reduces profit / increases expenses (1)	
The loan is repayable at a future redemption date (1) as a lump sum amount (1)	
Gearing and risk would be increased / implications of higher gearing (1)	Gearing would increase by 9.8% (1) from 20% to 29.8% (1)

Comments about debenture loans (**maximum 7 marks: max 3 generic; max 4 application**)

Overall maximum for ordinary shares and debentures (13 marks)

Decision (**1 mark**) must specify clearly shares or debenture and give a summary reason / justification for the judgement

Quality of written communication :

2 marks: 2 or less errors regarding spelling, punctuation and grammar and comments about both financial and non- financial considerations.

1 mark: 3 or more errors regarding spelling, punctuation and grammar

0 marks: the level of written communication makes it difficult to understand the response.

(16 marks)