



A-level
Accounting
ACCN2

Financial and Management Accounting

Mark scheme

June 2016

Version: 1.0 Final Mark Scheme

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.

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1 (a) Prepare the cash budget for the **month** of June assuming the equipment is rented and the new membership scheme is introduced.

[8 marks]

[includes 1 mark for quality of presentation]

Answer assuming that existing monthly membership continues.

Cash budget for the month of June 2016

Receipts*	£*	
Monthly membership	6 750	(1)
Yearly membership	15 000	(1)
	<u>21750</u>	
Payments*		
Equipment rental	6 200	(1)
Maintenance contract	2 400	(1)
Operating expenses	6 500	(1)
	<u>15100</u>	
Opening balance	(880)	(1)
Net cash flow	6 650	
Closing balance	<u>5 770</u>	(1)OF

Alternative answer

Students may interpret the question by assuming all members take the new annual membership.

Receipts*	£*	
Annual membership	82 500	(2)#
	<u>82 500</u>	
Payments*		
Equipment rental	6 200	(1)
Maintenance contract	2 400	(1)
Operating expenses	6 500	(1)
	<u>15 100</u>	
Opening balance	(880)	(1)
Net cash flow	67 400	
	<u>66 520</u>	(1)OF

* **Quality of presentation** Award 1 mark for including £ sign, and labelling receipts (income, inflows) payments (expenditure, outflows)

If answer combines both approaches eg £6 750 and £82 500n award 2 marks for the £82 500 and do not award the OF mark for the closing balance.

Marker note:

Award OF mark provided the budget is arithmetically correct and there are no extraneous items eg depreciation, or purchase of equipment.

If answer adds receipts together and just shows £21 750 award 2 marks.

If answer adds payments together eg £15 100 award 3 marks

If answer is not prepare a recognisable budget but show a list of figures only award marks where it is clear that there is a direction eg positive for income, negative for payments (brackets acceptable.

If answer does not show closing balance but shows the correct opening balance for July – award 1 mark

1 (b) Calculate the revised profit or loss for the **month** of June assuming the equipment is rented and the new membership scheme is introduced.

[8 marks]

Before marking 1b please check 1a to see which approach the student has taken to membership and then apply the appropriate mark scheme below.

Calculation of profit where student assumes the monthly membership continues in 1a

	£	
Original loss	(4 500)	
Depreciation	4 000	(2)OF W1
Annual membership	1 250	(2)OF W2
Equipment rental	(6 200)	(1)
Maintenance contract	(200)	(2)OF W3
Loss for the month	(5 650)	(1)OF*

* Award OF mark provided original loss is included, arithmetically correct and no extraneous items.

W1 Depreciation: $240\,000 \div 5 = 48\,000(1) \div 12(1) = 4\,000$

If student calculates depreciation correctly but deducts in calculation then award 1 mark

W2 Annual membership: $15\,000(1) \div 12(1) = 1\,250$

W3 Maintenance contract: $2400(1) \div 12(1) = 200$

Marker note:

Alien items:

Operating expenses of £6 500

Current membership eg £6750 is included this is an alien item so do not award OF mark for loss.

If answer shows £21750 (total cash receipts) then award 1 mark, but do not award the OF mark for loss as this contains an alien item eg current membership

If answer shows a total for expenses of £15 100 (the figure from the cash budget) award 2 marks (for £6 200 and £ 2400) but do not award the OF mark as it contains an alien item eg operating expenses

Alternative answer assuming that all members moved to the new membership scheme in 1a

	£	
Original loss	(4 500)	
Depreciation	4 000	(2)OF W1
Annual membership	6 875	(1)#
Loss of monthly membership	(6 750)	(1)#
Equipment rental	(6 200)	(1)
Maintenance contract	(2 00)	(2)OF W2
Loss for the month	<u>(6 775)</u>	(1)OF*

If answer shows £125 then award 2 marks eg (6875-6750)

W1 Depreciation: $240\,000 \div 5 = 48\,000(1) \div 12(1) = 4\,000$

If student calculates depreciation correctly but deducts in calculation then award 1 mark

W2 Maintenance contract: $2400(1) \div 12(1) = 200$

Marker note:

Alien item:

Operating expenses of £6 500

If answer shows a total for expenses of £15 100 (the figure from the cash budget) award 2 marks (for £6 200 and £ 2400) but do not award the OF mark as it contains an alien item eg operating expenses

2 (a) Prepare the statement of changes in equity for the year ended 30 April 2016. **[13 marks]**
(includes 1 mark for quality of presentation)

	Issued share capital	Share premium	Retained earnings	Total
	£	£	£	£
At 1 May	6 000 000	800 000	2850 000	9650 000
Issue of shares	3 000 000 (1)	600 000 (4)OF W1		3600 000
Profit for the year			2920 000 (1)	2920 000
Dividends paid			(2040 000) (5)OF W2	(2040 000)
At 30 April	9 000 000	1400 000	3730 000	14130 000 (1)OF*

+ 1 mark for quality of presentation: award for 3 out of 4 correct labels eg issue of shares (share issue or shares) profit for the year (profit, net profit) dividends paid (dividends) at 30 April 2016.

* Award OF mark for showing a total in the total column with no alien items.

W1 Share premium

Ordinary shares of 25 p each	6 000 000	
	$\div 0.25$ or (x4)	(1)
Number of ordinary shares	= 24 000 000	
Rights issue	$\div 2$	(1)
No of ordinary shares issued	= 12 000 000	
Premium per share	X 5p	(1)
Share premium	= 600 000	(1)OF

Marker note:

If share premium calculated correctly but placed in an incorrect column award 3 marks.

If share premium is not calculated correctly, check workings.

If there is no entry for share premium but there are workings calculating the rights issue then award marks for calculating 24 000 000 shares **(1)** and 12 000 000 shares **(1)**. Do not reward this calculation twice.

W2 Dividends

Interim dividend	24 000 000	x 4p (1)	= 960 000 (1)
Final dividend	24 000 000 +		
	12 000 000		
	36 000 000	x3 p (1)	<u>= 1 080 000 (1)</u>
			2 040 000

plus **1 mark** for recording dividends in retained earnings column as a negative figure (either as one dividend figure, or two separate figures) – if one dividend payment or both dividends payments shown in incorrect column do not reward this mark.

Marker note

If dividends calculated correctly and added together but placed in an incorrect column award 4 marks.

If dividend calculation does not show number of share but value eg interim dividend 6 000 000 x .04 then this will be worth 1 mark and similarly with final dividend

2 (b) Calculate the gearing ratio at 30 April 2016. State the formula used. **[3 marks]**

Formula:

$\frac{\text{Non-current liabilities}}{\text{Capital employed}} \times 100$ **(1)***

Capital employed

27 532 000	X 100	=66.08%	(1)OF
41 662 000 (1)OF W1			

W1 27 532 000 +14 130 000 **(1)OF** = 41 662 000

Alternative answer

$\frac{\text{Non-current liabilities}}{\text{Equity}} \times 100$ **(1)***

Equity

27 532 000	x 100	=194.85%	(1)OF
14 130 000 (1)OF			

To award OF mark for the answer it must be arithmetically correct and show % sign. Accept formula without x100.

To award marks for calculation, the student's figures should match the formula given by the student. Where the calculation does not match the formula, check the figures used if these are student's own equity or capital employed, award 1 mark; and if the gearing percentage is correctly calculated using the correct debt figure (OF) award 1 further mark.

Accept 66% and 195%

Marker note

Please accept alternative ways of expressing the formulae eg

Debt ÷ capital employed x100

Fixed return funding ÷ all sources of finance x100

Preference shares + non-current liabilities ÷ all sources of finance x100

2 (c) Explain to the directors of Apardeu plc the implications for the company of the gearing ratio at 30 April 2016.

[7 marks]

Explanation of gearing ratio

Max 4 marks

Gearing measures the relationship between funds invested by the owners of the business (shareholders) and funds from outside investors (debenture) **(1)**.

The ratio calculated shows that Apardeu plc is highly geared as the ratio is over 50% (100% if use alternative formula) **(1)OF** . This means that outside investors are providing more of the long term finance of the business than the shareholders **(1) OF**.

If students calculate the opening gearing ratio – award the following marks :

$$\frac{27\,532\,000}{37\,182\,000} \times 100 = 74.04\%(1)$$

OR

$$\frac{27\,532\,000}{9\,650\,000} \times 100 = 285.3\%(1)$$

Award the calculation only once

The gearing ratio has fallen **(1)OF** reducing the company's risk **(1)**

Max 4 marks

Explaining the concerns of high gearing#

Max 4 Marks

This could be worrying for the directors, if they are unable to pay the interest or pay dividends **(1)** or repay the debt when it is due **(1)** the business itself could be at risk **(1)**, or if the debenture is secured **(1)** then they could lose the assets **(1)** providing the security .

The business may find it difficult to retain existing investors **(1)** who may be risk averse.

The business may also find it difficult to raise further finance or attract potential investors if they are highly geared **(1)** or be charged higher interest rates **(1)** because of the increased risk.

Max 4 marks

Explaining why high gearing might be beneficial

Max 2 marks

However, the repayment date is not until 2026 **(1)** which gives the business time to prepare for the repayment **(1)**.

Also in times of rising profits **(1)** the return provided to the shareholders in a highly geared company may be greater than that of a lowly geared one **(1)**.

It is also possible that the interest charged on the debenture is lower than the return required by shareholders **(1)** making this a better source of finance **(1)**.

Max 2 marks

Overall Max 7 marks

If a student incorrectly identifies the gearing eg calculated as low but identified as high, or it is high but identified as low – do not reward the explanation marks – however award marks for their explanation of concerns of high gearing or benefits of low gearing

Alternative answer if student calculates the gearing ratio in 2(b) to low geared

Explanation of gearing ratio

Max 4 marks

Gearing measures the relationship between funds invested by the owners of the business (shareholders) and funds from outside investors (debenture) **(1)**.

The ratio calculated shows that Apardeew plc is low geared as the ratio is below 50% (100% if use alternative formula) **(1)OF** . This means that shareholders are providing more of the long term finance of the business than outside investors **(1) OF**.

If students calculate the opening gearing ratio – award the following marks :

$$\frac{27\,532\,000}{37\,182\,000} \times 100 = 74.04\%(1)$$

OR

$$\frac{27\,532\,000}{9\,650\,000} \times 100 = 285.3\%(1)$$

Award the calculation only once

The gearing ratio has fallen **(1)OF** reducing the company's risk **(1)**

Max 4 marks

Explaining the concerns of low gearing

Max 4 Marks

In times of rising profits **(1)** the return provided to the shareholders in a low geared company may be less than that of a high geared one **(1)**.

It is also possible that the interest charged on the debenture is lower than the return required by shareholders **(1)** making this a better source of finance **(1)**.

Max 4 marks

Explaining why low gearing might be beneficial

Max 3 marks

The directors should be able to repay the debt when it is due**(1)** and repay the interest **(1)** therefore the business is not at risk **(1)**.

The business may also find it easier to raise further finance if they are low geared**(1)** or be charged lower rates of interest **(1)**

Max 2 marks

Overall max 7 marks

3 (a) Prepare the following accounts for the year ended 30 April 2016. (Show clearly the transfer to the income statement.)

- Provision for doubtful debts
- Provision for depreciation
- Interest receivable.

[11 marks]

DR			Provision for doubtful debts account			CR		
Date	Details	£		Date	Details	£		
30 April	Income statement	455	(1)OF*	1 May	Balance b/d	1580	(1)	
30 April	Balance c/d	1125	(2)			1580		
		1580				1580		
		1580		1 May	Balance b/d	1125		

W1 Calculation of closing provision.

$45\,000 \times 2.5\% = 1125$ (1)

Plus 1 mark for the correct side eg Debit balance

Opening balance of 1580 must be a credit entry

*The transfer to the income statement must have an appropriate narrative (IS, P&L etc) and could be a debit or credit entry depending on other entries.

DR			Provision for depreciation account			CR		
Date	Details	£		Date	Details	£		
30 April	Balance c/d	39 450		1 May	Balance b/d	21 000	(1)	
		39 450		30 April	Income statement	18 450	(2)W2	
		39 450				39 450		
				1 May	Balance b/d	39 450	(1)OF*	

W2

Cost	82500	
Provision	21000	
NBV	61500	
Depreciation for year	30%	
	18450	(1)

Plus 1 mark for the correct side and appropriate narrative eg transfer to income statement, profit and loss account (P&L a/c) or depreciation

* award the OF mark for the balancing process provided there are no alien items such as non-current assets.

DR			Interest receivable account			CR		
Date	Details	£		Date	Details	£		
1 May	Balance b/d	90	(1)	30 April	Bank	1 190		
30 April	Income statement	1 200	(1)OF*	30 April	Balance c/d	100	(1)	
		1 290				39 450		
		1 290		1 May	Balance b/d	100		

* award the mark for a numerically accurate calculation and a narrative indicating transfer to

income statement, or profit and loss account (P&L a/c).
 . The closing balance c/d £100 must be a credit entry.

3 (b) Tick **one** box to show which of the following amounts would be included in the income statement for rent receivable for the year ended 30 April 2016.
 Tick **one** box only.

[1 mark]

£	✓
28 200	
28 400	
28 600	✓
33 400	

3 (c) Tick **one** box to show which of the following amounts, for the damaged items, would be included in the closing inventory at 30 April 2016.
 Tick **one** box only.

[1 mark]

£	✓
350	
1 800	✓
2 600	
3 450	

3 (d) Tick **one** box to show which of the following amounts for sundry expenses should be included in the income statement for the year ended 30 April 2016.
 Tick **one** box only.

[1 mark]

£	✓
1 884	
2 094	✓
2 472	
2 892	

3 (e) Tick **one** box to show which of the following concepts is being applied in the calculation of the sundry expenses to be included in the income statement. Tick **one** box only.

[1 marks]

	✓
Business entity	✓
Cost	
Going concern	
Realisation	

3 (f) Prepare the current assets section of the balance sheet at 30 April 2016. You should use all the relevant information from **all** parts of the question 3(a) to 3(d).

[6 marks]

		£	
Inventory		38400	(2)OFW1
Trade receivables	45 000		(1)
Provision for doubtful debts	(1 125)		(1)*
		43875	
Interest in arrears		100	(1)
		82 375	(1)OF#

Inventory

2 marks for correct figure of 38 400; 1 mark for an inventory figure in the range 35000-42000

Provision for doubtful debts

* The mark is given for deducting any provision for doubtful debts

Where the student shows one figure for net trade receivables, award 1 mark if the figure is in the range 42000 to 44999

Award OF mark for numerically correct calculation provided there are no alien items – alien items could be rent received £2400 (or £5000); bank balance.

*

4 (a) Calculate the rate of inventory turnover. State the formula used. **[2 marks]**

$$\frac{\text{Cost of sales}}{\text{Average inventory}} \quad (1)$$

$$\frac{90\,000}{18\,000} = 5 \text{ times} \quad (1)$$

Alternative answer

$$\frac{\text{Average inventory} \times 365}{\text{Cost of sales}} \quad (1)$$

$$\frac{18\,000 \times 365}{90\,000} = 73 \text{ days} \quad (1)$$

Marker note:

Answers must include “times” or “days” to be awarded the mark.

4 (b) Calculate the value of the physical stocktake **[6 marks]**

Answer (assuming theft not recorded)

Answer (assuming theft and purchase not recorded)

	£		
Computer valuation	18 855		
1	(90)	(1)	
2	878	(1)	
3	(155)	(1)	
4	512	(2)*	
	20 000	(1)OF#	

	£		
Computer valuation	18 855		
1	(90)	(1)	
2	878	(1)	
3	0	(1)	
4	512	(2)*	
	20 155	(1)OF#	

* Award 1 mark if 256 added

to be awarded the OF for inventory valuation the calculation must:

Include the original valuation of £18 855

Not include alien items such as: goods sold £8000; difference between goods sold and cost £3440; goods stolen at selling price £400

4 (c) *Suggest two other strategies that the directors could adopt to improve the inventory turnover. Explain any problems your strategies might cause for the business.*
[12 marks]
(includes 2 marks for quality of written communication)

Strategy (1 mark) Explanation (0-2 marks)	Explanation of problems (0-4 marks)*
<p>Increase sales by reducing the price (1) The directors could reduce the price of all products, or make special offers, or target slow-moving products (1). This should increase the volume (quantity) of goods sold (1) and hence improve the inventory turnover.</p>	<p>However, reducing the price may not increase the volume of goods sold (1) and could also reduce the profitability of the business (1) as the costs of the business may not change (1).</p>
Max 6 marks	
<p>Increasing sales by introducing or improving credit terms (1) The directors could offer longer credit terms to encourage increased sales(1)# or to increase sales by attracting new customers (1)</p>	<p>However this could lead to cash flow problems (1) and how successful this is would depend on how significant credit terms were in customers decision making(1) administration costs could increase (1)</p>
Max 6 marks	
<p>Reduce inventory levels (1) This could be done by reducing re-order levels, or improving the inventory control system (1). This would reduce the average inventory level (1) and hence improve inventory turnover</p>	<p>However there is a danger that the business may run out of stock(1) and not be able to make sales(1), thus reducing profitability(1) The business may also lose out on trade discounts (1) reducing profitability</p>
Max 6 marks	
<p>Reduce the cost of inventory purchased (cost of sales) (1). This could be done by changing suppliers or negotiating a discount (1). This would reduce the cost price of the inventory and hence the value of closing inventory (1), or enable the firm to reduce the selling price of the product (1) thus improving the inventory turnover.</p>	<p>However this could cause problems if the inventory is not of such good quality (1), this could lead to lost sales (1) and hence reduced profitability(1). This could cause problems with suppliers (1) perhaps resulting in not being able to purchase goods (1)</p>
Max 6 marks	
<p>Focus on faster selling items (1) Use analysis of computer records to identify products which sell well (1) increase the stock of faster selling items (1) and reduce the stock of slower selling items (1).</p>	<p>However, may prove difficult to sell more of the faster selling items (1) may lead to customer dissatisfaction because stock range reduced (1) could damage relationship with suppliers (1).</p>
Max 6 marks	

* If student lists more than one problem but without development award a maximum of 2 marks

The analysis for increasing sales eg increasing volume etc is the same for any strategy aimed at reducing price and should only be rewarded once

Max 6 marks per suggestion
Overall maximum 10 marks

Quality of written communication:

Award 2 marks: if candidate has attempted at least one suggestion and there are no more than **three**, spelling, punctuation or grammatical errors and technical terms are used appropriately.

Award 1 mark: If candidate has made more than **three** errors or used technical terms inappropriately provided the meaning is clear.

Award 0 marks: if communication hinders understanding.

Marker note:

If a student gives more than 2 suggestions – mark them all and award the marks for the best two.