

Teacher Resource Bank

GCE Accounting

Candidate Exemplar Work:

- ACCN3 Sample Scripts and Commentaries



ACCN 3 Sample Answers and Commentaries

Introduction

Below are candidates' answers to selected questions from the second Specimen Question Paper for ACCN3*. They have been marked in accordance with the second Specimen Mark Scheme for ACCN3 ** document.

The answers have been selected to reflect a range of attainment and for each a commentary has been produced by an experienced examiner, to offer some guidance as to where candidates have scored marks as well as areas of improvement.

*This document does **not** contain complete question papers, only selected sample questions.

**A copy of the corresponding mark scheme can be found under 2009 Additional Specimen Papers via the following link: pp59-71: http://www.aqa.org.uk/qual/gce/accounting_trb_new.php

Question 1 ACCN3 (Second Specimen Question Paper)**Total for this question: 9 marks****1**

Denise Watson sells one type of agricultural machine, a mini-baler. She provides the following information for April 2008.

Denise had 2 mini-balers in stock at 1 April 2008. They cost £1200 each.

Date	Purchases	Sales
1 April	3@ £1200	
2 April		4@ £2900
7 April	4@ £1350	
17 April		4@ £3000
21 April	8@ £1400	
24 April		7@ £3000

Total purchases for the month: £20 200 Total sales for the month: £44 600

Denise has calculated her gross profit to be £24 782, using the weighted average cost method (AVCO) of valuing her stock.

She sells her mini-balers in the order in which she purchases them. For this reason, she believes she should change her method of valuing stock to the first in first out method (FIFO).

REQUIRED

- 1 (a) Prepare a trading account for the month of April 2008 using the FIFO method of valuing stock. *(3 marks)*
- 1 (b) Discuss **one** advantage and **one** disadvantage of using the weighted average cost method (AVCO) of valuing stock. Advise whether she should change her method of valuing stock. *(6 marks)*

Candidate A

Question number				Leave blank
(i)				
(a)	Purchases	Sales	Stock left.	
	2@		2@1200	
	3@1200		5@1200	
		4	1@1200	
	4@1350		4 @1350	
		4	1@1350	
	8@1400		8@1400	
		7	2@1400	
	FIFO value of closing stock = £1400 <u>£2,800</u>			3
	<u>Denise Watson</u>			
(b)	<u>Trading Account for month ended 30 April 2008</u>			
	£	£		
	Sales	44,600		
	Opening stock	2,400		
	Purchases	<u>20,200</u>		
		22,600		
	less closing stock	<u>(2,800)</u>		
	Gross Profit	<u>19,800</u>		
		<u>24,800</u>		6

Candidate B

Question number								Leave blank	
1a)	<u>FIFO</u>								
	Stock	Purchases	Sales	Balance					
	1 April	5@1200		£6000					
	3 April		4@	£1200					
	7 April	4@1350		£6600					
	17 April		1@1200 4@1350	£1350					
	21 April	8@1400		£12550					
24 April		1@1350 7@1400	£2800	(2@1400)					
								3	
b)	Sense Watson								
	Trading (a/c) for the month ending 30 April 2008							0	
				£	£				
	Sales				44600		1		
	- cost of sales			2400			1		
	Opening stock			2000					
	+ purchases			70200					
			22600						
			2800	19800					
- closing stock				23400					
Gross profit				24800				5	

Candidate C

Question number

1a)	2 @ 1400 = 2800			3	Leave blank 3
b)	<u>Denise Watson</u> <u>Trading account for April 2008</u>				
			£	£	
	Sales			44660	
	opening stock		2400		
	Purchases		20200		
	Closing stock		(2800)		5
			£	£	
	Cost of goods sold			19800	
	Gross profit			<u>24800</u>	1

Candidate D

1

(a) Fifo

In	Out	Left.
		2 @ 1200 = 2400
3 @ 1200 = 3600		
	4 @ 2900 = 11600	
		1 @ 1200 = 3600
4 @ 1350 = 5400		
	4 @ 3000 = 12000	
		1 @ 1350 = 1350
8 @ 1400 = 11,200		
	7 @ 3000 = 21000	
		2 @ 1400 = <u>2800</u>
Value of Stock at 30 th April = £2800.		3

(b) Trading A/c for Denise Watson for the year ended 30.4.08

Sales			44,600
Opening stock	2400		
Purchases	20,200	22600	
Closing stock		2800	
Cost of goods sold			19,800
Gross profit			<u>24,800</u>

Commentary: Candidates A – D

Candidate A

1a) 3/3 marks

1b) 6/6 marks

1(a) This is an excellent answer scoring full marks

However, the candidate used a perpetual calculation in part (a) which did, and always will, give the correct answer.

However, using a perpetual calculation:

(i) is time consuming and

(ii) because of its complexity, may result in more arithmetic errors.

A periodic calculation is to be preferred when using the first in first out (FIFO) method.

1(b) This answer is clear and well laid out.

Candidate B:

1a) 3/3 marks

1b) 5/6 marks

1(a) The correct valuation was given but time was wasted using a periodic method of valuation.

1(b) A mark was thrown away in the heading by using 'a/c' instead of writing it in full eg 'Trading account...'. Otherwise this was a good, clear, accurate trading account.

Candidate C:

1a) 3/3 marks

1b) 6/6 marks

1(a) This is a perfect answer. The candidate used a periodic calculation – quick and accurate.

1(b) A good, neat, accurate answer.

Candidate D:

1a) 3/3 marks

1b) 5/6 marks

1(a) The candidate has produced the correct answer, but a perpetual method of calculation has been used.

1(b) The heading did not score a mark. The candidate carelessly used '*...the year...*' when in fact the trading account was for a month. Also the date had been abbreviated. Dates should always be written in full i.e. 30 April 2008.

Question 4 ACCN3 (Second Specimen Question Paper)**Total for this question: 37 marks**

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The balance sheet of JMC plc for the year ended 31 December 2007, together with comparative figures for 2006, is shown below.

JMC plc

Balance Sheet at 31 December	2007	2006
	£000	£000
Fixed assets (Note 1)	7233	5602
Current assets		
Stock	858	988
Debtors	935	888
Cash in hand	112	32
	<u>1905</u>	<u>1908</u>
Creditors: amounts falling due within one year		
Trade creditors	675	452
Taxation	20	60
Proposed dividend	100	175
	<u>795</u>	<u>687</u>
Net current assets	<u>1110</u>	<u>1221</u>
Total assets less current liabilities	8343	6823
Creditors: amounts falling due after more than one year		
Loans	213	413
Net assets	<u>8130</u>	<u>6410</u>
Capital and reserves		
Called-up share capital	6000	4410
Share premium account	771	441
Revaluation reserve	1074	1074
Profit and loss account	285	485
	<u>8130</u>	<u>6410</u>

Note 1

Tangible fixed assets	£000
Cost	
At 1 January 2007	6523
Additions	2396
Disposals	(665)
At 31 December 2007	<u>8254</u>
Depreciation	
At 1 January 2007	921
Charge for the year	165
Disposals	(65)
At 31 December 2007	<u>1021</u>
Net book value	
At 1 January 2007	5602
At 31 December 2007	7233

Additional information

The proceeds from the sale of fixed assets in 2007 were £666 000.

REQUIRED

- 4 (a) Calculate the operating profit for the year ended 31 December 2007. (5 marks)
(for quality of presentation: plus 2 marks)
- 4 (b) Prepare the reconciliation of operating profit to the net cash flow from operating activities for the year ended 31 December 2007. (10 marks)
- 4 (c) Explain how a company can make a loss but still have an increase in cash. (10 marks)
- 4 (d) Discuss the extent to which cash is more significant for business survival than profit. (10 marks)

Candidate A

a Operating Profit =
 $(P+L03 - P+L04) + \text{CU tax} + \text{e}$
 $(485 - 285) + 20 = 220$ operating profit. £220,000

b Reconciliation of operating profit to net cash flow from operating activities, for the year ended 31 December 07.

	£000	
operating profit	220	1
+ depreciation	100	
- profit on disposal	(66)	3
+ decrease in stock	130	1
- increase in debtors	(47)	1
+ increase in creditors	223	1
Net cash flow	560	1

from a. a.

c Profit/loss is different to cash, cash could be increased through the sale of a fixed asset, or the taking out of a loan. Neither of those transactions have an effect on the profit so they wouldn't prevent a loss being made.

A loss happens when expenses are greater than gross profit such expenses would be heating and lighting.

A loss can only be prevented by increasing sales and controlling expenses more efficiently. A loss could be created through a large

depreciation charge, which would have an effect on cash as it is a non cash expense.

d) Profit is important (for the long term) survival of a business, but cash is important for the short term survival. Cash is the lifeblood of a business, and a business cannot function without it, as it will be unable to pay creditors or buy stock, thus being unable to trade. With no profit, a business may find it hard to get new investors and will have no money to plough back into the business, this will make it extremely hard for a business to expand and grow, and eventually the business will stand still. Although it is important for a business to have enough cash, there are limits to how much cash is ok, as large amounts of cash in the bank is ~~pointless~~ ^{Pointless} as it could be invested, so it won't be made for the business.

Overall profit and cash are both significant, but with cash taking priority, as without cash it will be hard for a business to make a profit.

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Candidate B

a Operating profit for the year ended 31 Dec 07
 = Δ asset - Δ liability
 = 47 - 130 + 80 - 223 + 285 + 40 + 75
 = 174

Operating profit for the year ended 31 Dec 07
 = £285 - £130 + £47 - £223 = £(21)

0
1

b₂ Reconciliation of operating profit to the net cash flow

			100	
Operating profit		(21)	(260)	174
Stock			130	1
Debtors			(47)	1
Trade creditors			223	1
Depreciation			100	
Profit on sales of fixed assets			(66)	3
			<u>319</u>	<u>8</u>
			319	80
				514

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c - A company can make a loss but still have an increase in cash because their creditor might increase while debtors and stocks are decrease

- Besides they might sell their assets to bring more cash into the business.

- If they use right issue their cash also increase while the loss of profit remains the same.

- Their cash might be increase because they do not have to pay their tax, dividend in the current year but this year their profit must be reduce by this amount.

- Depreciation is non-cash expenses therefore if the amount of depreciation is high cash may increase while profit is decrease

- Debtor Doubtful Bad debt written off will reduce profit but increase cash.

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d To some extent cash is more significant for business survival than profit

For example the company might need profit to cash to pay their long term or short term debts (debt, loan, bank) and dividend for shareholder.

If the business makes profit but do not have cash to pay their debt they may also get bankrupt.

In case that the business have to buy new assets or fix their fixed asset they will need cash rather than profit

If the business has cash they can invest in other activities to raise their finance.

Cash can increase up to time while profit can not

However if the business makes loss they might not be able to attract investors and their creditors will not allow them to be reduced. For long term, profit is more important but in short term cash is necessary.

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Candidate C

(a) operating profit : £1000

Difference in profit and loss account	(200)	2	
Add provision for tax	20	1	
Add proposed dividends	100	1	
Add provision			
operating loss	(80)	1	

(QWC = 1)

(b) Reconciliation of operating profit to net cash flow from operating activities for the year ended 31 December 2007

operating loss	(80)	1		
Add decrease in stock	130	1		
less increase in debtors	(47)	1		
Add increase in creditors	223	1		
Add depreciation	165	1		
less profit on disposal	(66)	3		
net cashflow from operating activities	325	1		

profit on disposal = 665 - 615
= 600
= 666 - 600 = £66

(c) A company can make a loss but still have an increase in cash because in the profit and loss account non-cash items are deducted. for example the provision for depreciation is taken away but no cash is actually leaving the business. therefore this could be why a company makes a loss but has an increase in cash. Also proposed dividends is taken away but yet they may not have been paid yet. This again would give the same results.

(d) Cash is essential for the short term survival of the business and without it the day to day running of the business wouldn't be the same. Cash is the physical existence of the money whereas profit is sometimes overstated or understated. profit is essential for the long term survival of the business and is needed if the business intends to grow.

Candidate D

(a) operating profit = profit before interest and tax
 $(200) \times 2 = \frac{100}{120} + \frac{20}{120} = x = x$

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JMC Plc

(b) Reconciliation of operating profit to net cash flow from operating activities
 For the year ended 31.12.2007

	(000)
operating profit	1 (80)
add: depreciation fixed asset	1 165
less: increase of	
less: profit on sale of fixed asset	3 (66)
add: stock	1 130
less: debtors	1 (47)
add: creditors	1 223
net cash flow from operating activities	1 325

10

(c) Profit is needed for long-term survival & however cash is need for both long-term and short-term survival. &
 Sale of fixed asset (asset manipulation) & can increase the cash or bank but does not affect &
 if a company has made a loss. This would be ^{in the} capital section and won't affect trading profit & b/s account
 A bank loan can also increase the cash position but won't affect profit.

By valuing stock differently & for e.g. choosing between LIFO and FIFO ~~life tests~~
 Other ways by which profit and cash can be different is through depreciation policies, some companies can choose when to recognize their income.

A company can ask their debtors to pay their debts or offer an incentive to pay them quicker. This will bring cash in but won't affect the profit and loss section

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(d) Cash is not only need for the long term but also for the short term as for eg. bills and expenses would have to be paid up and if they are not paid then the person or company can be sued and liquidate. So a healthy cash flow and bank account is vital for any business. Profit is the long term aim, a company can still expect to make a loss in the short term but not in the long term as the main aim of a business is to make a profit and get a return.

There are also other factors that need to be taken which come under social accounting as they might benefit the community by providing jobs etc or are a charity organization without the intention to make a profit but they will need cash.

The economic cycle can should also be taken into account ~~as it affects the business~~.

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Commentary: Candidates A – D

Candidate A

4a) 2/5 (QWC = 0)

4b) 9/10

4c) 5/10

4d) 10/10

4a) The candidate miscalculated the retained loss for the year as a profit. The correct adjustment for tax was made.

The candidate did not use any headings or labels and there was no clear layout, therefore, 0 marks were awarded for QWC.

4b) A good attempt was made of preparing the reconciliation. The layout was neat and mostly accurate. The only error was that the difference between the depreciation charge for the year and the depreciation relating to disposals was used rather than the actual charge.

4c) The candidate gave a couple of good examples of capital receipts as transactions affecting cash but not profits, but failed to identify other transactions that might explain the difference between cash and profits.

The effect of providing for depreciation was explained well.

Around half of the answer was irrelevant detail focusing on how a loss could be avoided.

4d) A good comprehensive answer.

Candidate B

4a) 0/5 (QWC = 0)

4b) 8/10

4c) 7/10

4d) 8/10

4a) The calculation of operating profit started with the closing profit and loss account balance. All three adjustments shown were incorrect, hence no marks were scored in this part question. There were no headings given and the layout was poor, so no marks could be awarded for presentation either.

The candidate used '07' as a heading rather than 2007. None of the figures had descriptions, therefore 0 marks were awarded for QWC.

4b) A reasonable attempt at the reconciliation statement was made by this candidate, however, the heading did not score as it was incomplete.

The candidate did not use the depreciation charge for the year, but instead used the annual charge less the amount of depreciation that had been charged to the disposal.

4c) The candidate showed some good examples of transactions involving the differences in cash and profits.

4d) A good answer – a little more development of each point would have made it even better.

Candidate C

- 4a) 5/5 (QWC = 1)**
4b) 10/10
4c) 4/10
4d) 3/10

4a) and 4b) The candidate scored maximum marks for both parts of this question. The candidate showed good clear workings for the calculation of the profit on disposal. Workings are always a good insurance in case an error is made and the actual figure used in the answer is incorrect.

There was no heading but the figures had good clear descriptions. 1 mark was awarded for QWC.

The narrative parts of the question were less well done.

4c) The explanation of the effects that non-cash items have on the profit and loss account was vague. The candidate gave some good examples here. The answer was limited however – there was no mention of capital transactions or of timing differences.

4d) Although the candidate recognised that cash is essential for the short-term survival of a business, there was no development to discuss the effects that a shortage could have. Only the growth aspect of the use of profits was hinted at. More development was needed.
No assessment was made.

Candidate D

- 4a) 4/5 (QWC = 0)**
4b) 10/10
4c) 7/10
4d) 5/10

4a) The components to arrive at an answer were given by this candidate, but there was no answer evident. Hence the candidate could score marks for the process that was shown. Unfortunately the layout was poor and no headings were present hence no additional presentation marks could be awarded.

The equation approach does mean that generally descriptions are missing as was the case with this candidate. 0 marks were awarded for QWC.

4b) This, however, was a good answer scoring full marks.

4c) The candidate gave good examples of capital transactions and payments made by debtors. Stock valuation and depreciation policies were mentioned, but there was no discussion on how either might impact on profits and/or cash.

4d) A good opening paragraph followed by second and third paragraphs that were disappointing as they were not relevant to the question.