

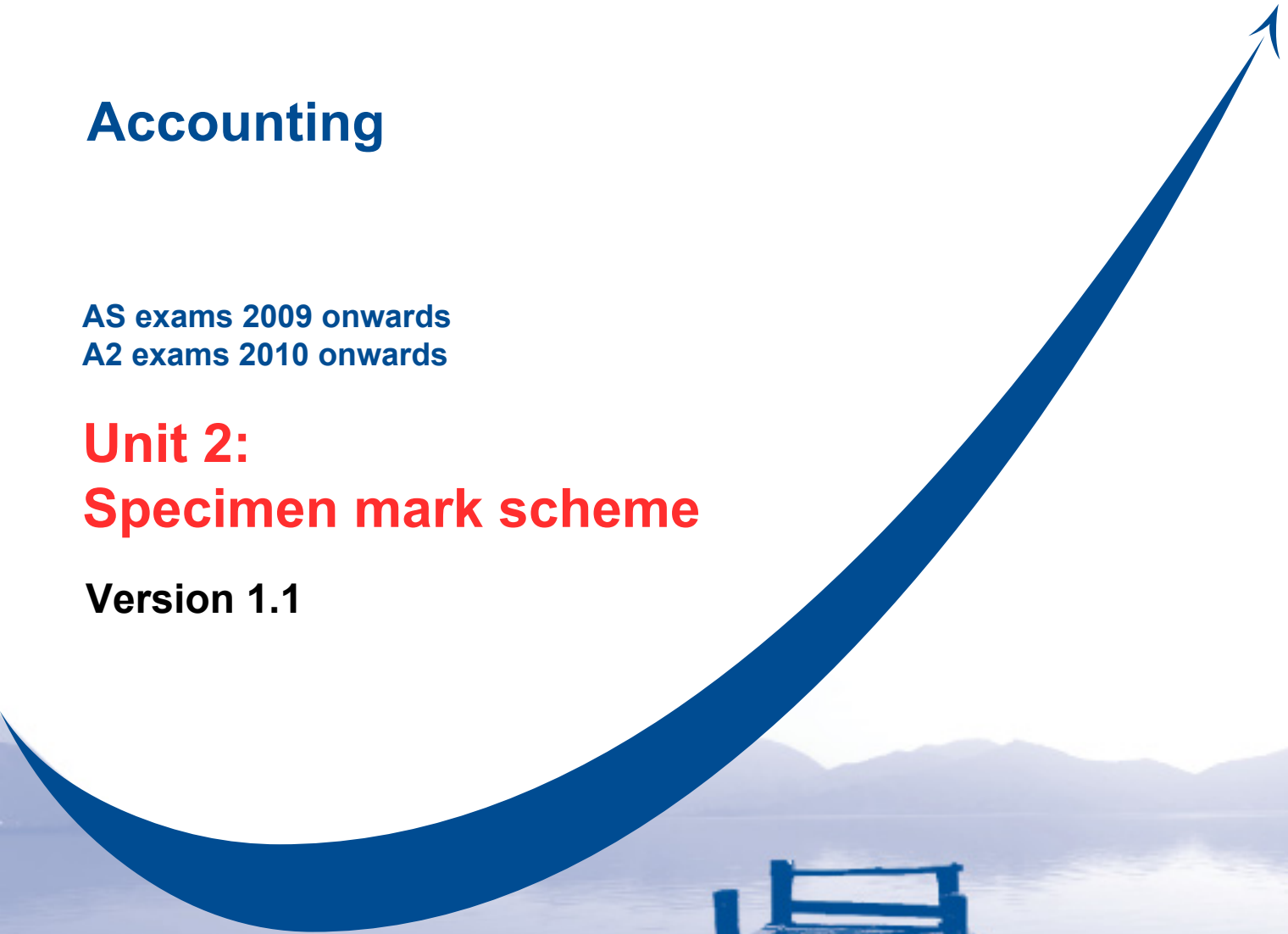
GCE
AS and A Level

Accounting

AS exams 2009 onwards
A2 exams 2010 onwards

Unit 2: **Specimen mark scheme**

Version 1.1



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ASSESSMENT and
QUALIFICATIONS
ALLIANCE

General Certificate of Education

Accounting

ACCN2

**Unit 2 Financial and Management
Accounting**

Specimen Mark Scheme

for examinations in 2009 and onwards

The specimen assessment materials are provided to give centres a reasonable idea of the general shape and character of the planned question papers and mark schemes in advance of the first operational examinations.

Further copies of this Mark Scheme are available to download from the AQA Website: www.aqa.org.uk

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MARK SCHEME

INSTRUCTIONS TO EXAMINERS

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

Own Figure Rule

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

1

Total for this question: 10 marks

The following information relates to the rent and rates account of Mohammed, a sole trader.

During the year £4400 was paid for rent. At the end of the year £400 was owed for rent. £1200 was paid for rates. £500 has been paid for rates for the next financial year.

REQUIRED

1(a) Calculate the amount to be included in the profit and loss account for rent and rates.

Rent	4 400	
Rates	1 200	
Accrual	400	(1)
Prepayment	(500)	(1)
	5 500	(1 OF)

3 marks

1 (b) This is an example of the application of the Accruals concept.

1 mark

Stock costing £500 has been damaged by a water leak. Mohammed has found a customer who is willing to buy the stock for £600 provided it is repaired and transported to their premises. It is estimated that the cost of the repairs would be £60 and the transport costs would be £80.

REQUIRED

1 (c) Calculate the value of the damaged stock.

Net realisable value (1)		
Selling price	600	(1)
Less repairs	60	(1)
Less transport	80	(1)
Stock valuation	460	(1OF)

5 marks

1 (d) This is an example of the application of the Prudence concept.

1 mark

2

Total for this question: 10 marks

The balance sheet of Sonia at 31 May 2007 showed:

Motor vehicles at cost	£18 500
Provision for depreciation for motor vehicles	£10 500

During the year Sonia sold a motor vehicle which had cost £8500 and had a net book value of £3000. She also purchased a new motor vehicle costing £8800.

Her policy is to depreciate all assets held at the year end using the reducing balance method at the rate of $33\frac{1}{3}\%$ per annum.

REQUIRED

Prepare the motor vehicles at cost account and the provision for depreciation of motor vehicles account at 31 May 2007. Balance the accounts on 31 May 2007 and bring down any balances.

Motor Vehicles at cost

Dr			Cr		
Date	Details	£	Date	Details	£
1 Jun	Balance b/d	18 500 (1)			
31 May	Addition	8 800 (1)	31 May	Disposal a/c	8 500 (1)
			31 May	Balance c/d	18 800
		27 300			27 300
1 Jun	Balance b/d	18 800 (1 OF both)			

Provision for Depreciation – Motor Vehicles

Dr			Cr		
Date	Details	£	Date	Details	£
31 May	Disposal a/c	5 500 (1)	1 Jun	Balance b/d	10 500 (1)
			31 May	Profit & loss a/c	4 600 W1 (3)
31 May	Balance c/d	9 600			
		15 100			15 100
			1 Jun	Balance b/d	9 600 (1 OF both)

Workings (W1)

Cost	(18 500 + 8 800 - 8 500)	18 800 (1)
Depreciation	(10 500 - 5 500)	5 000 (1)
Net book value		<u>13 800</u>
Depreciation for year	(13 800 ÷ 3)	<u>4 600 (1)</u>

10 marks

3

Total for this question: 30 marks

The following trial balance has been extracted from the books of account of Falcon Ltd at 31 March 2007 **after** the preparation of the profit and loss appropriation account.

	Dr	Cr
	£	£
Bank	1 058	
Debenture (2011 – 2013)		28 000
Fixtures and fittings – net book value	17 500	
Issued ordinary shares of £1 each fully paid		50 000
Premises – net book value	80 000	
Proposed dividends		2 500
Provision for corporation tax		5 400
Retained profits at 31 March 2007		19 832
Share premium account		5 000
Stock at 31 March 2007	14 560	
Trade creditors		7 842
Trade debtors	5 456	
	<u>118 574</u>	<u>118 574</u>

The following adjustments need to be made **before** the preparation of a balance sheet.

- 1 The directors have had the premises valued and wish to include the revaluation in the final accounts. The premises are to be valued at £200 000.

- 2 The directors made a rights issue of ordinary shares, at a premium of 20p, on the basis of 1 new share for every 2 shares held. The rights issue was fully subscribed.

REQUIRED

3 (a) Prepare a balance sheet at 31 March 2007 after making any necessary adjustments.

**Falcon Ltd
Balance sheet at 31 March 2007**

		NBV £
Fixed assets*		
Premises at valuation		200 000 (2)
Fixtures & fittings		<u>17 500 (1)</u>
		217 500
Current assets*		
Stock	14 560 (1)	
Debtors	5 456 (1)	
Bank	31 058 (2) (W3)	
	<u>51 074</u>	
Creditors: amounts falling due within one year *		
Creditors	7 842 (1)	
Proposed dividends	2 500 (1)	
Corporation tax	5 400 (1)	
	<u>15 742</u>	
Net current assets*		35 332 (1 OF)
Total assets less current liabilities		<u>252 832</u>
Creditors: amounts falling due after more than one year*		
Debenture 2011 – 2013		<u>28 000 (1)</u>
		<u>224 832</u>
Capital and reserves*		
Ordinary shares of £1 each		75 000 (2) (W1)
Share premium		10 000 (2) (W2)
Revaluation reserve		120 000 (1)
Profit and loss account		19 832 (1)
		<u>224 832</u>

18 marks

W1 Rights issue
 $50\,000 \div 2 = \text{£}25\,000$ shares
 (1) + (1) for adding to ordinary shares

W2 Share premium
 $25\,000 \times 0.2 = 5000$
 (1) + (1) for adding to share premium

W3 Bank 1058 + 30 000
 (1) (1 OF)

Plus 2 marks for quality of presentation (QWC)
 1 mark for title
 1 mark for five (of six) correct sub-headings*

2 marks

Overall 20 marks

- 3 (b) Calculate the gearing ratio **before** and **after** making any necessary adjustments. State the formula used.

Formula:
$$\frac{\text{Debt} \times 100}{\text{Capital employed}} \quad (1)$$

	Before		After
(50 000 + 5000 + 19 832 + 28000)	$\frac{28\,000}{102\,832} = 27.23\% \quad (1 \text{ OF})$ (1CF)	=	$\frac{28\,000}{252\,832} = 11.07\% \quad (1 \text{ OF})$ (1CF)

Reward any other acceptable formula

5 marks

- 3 (c) Assess the impact of the rights issue and the revaluation of premises on the gearing of Falcon Ltd.

Explain the impact	0-2	The issue of shares and the revaluation of premises have increased shareholders' funds by £150 000 (1). This has reduced the gearing (1).
Assess the impact	0-4	Falcon Ltd was low geared before the changes (1). The gearing is now lower (1) reducing the level of risk (1). Falcon should be able to borrow further funds if required (1).

Overall max 5 marks

4**Total for this question: 30 marks**

The accountant of Hawk Ltd is preparing information for the next Directors' meeting. She has calculated that the net profit for the next months will be: £36 000.

She has also prepared the cash budget for the five months July to November and provided the following information relating to December.

The cash from debtors figure is calculated on the following basis:

20% of cash from sales is received in the current month, with customers taking 2% cash discount;

60% is received in the month following the sale;

20% is received two months after the sale is made.

The forecast sales are:

October	November	December
£	£	£
30 000	50 000	60 000

The following payments are forecast for December:

payments to creditors	£12 500
operating expenses	£12 000
purchase of fixed assets	£19 510
repayment of loan	£20 000

REQUIRED

4 (a) Make the entry for December in the cash budget below.

	July	August	September	October	November	December	
	£	£	£	£	£	£	
Income							
Cash from debtors	20 000	24 000	28 500	32 500	38 500	47 760	(4) W1
Expenditure							
Payments to creditors	10 000	11 000	14 000	18 000	24 500	12 500	(1) both
Operating expenses	12 000	12 000	12 000	12 000	12 000	12 000	
Purchase of fixed assets		8 500				19 510	(1)
Repayment of loan						20 000	(1)
	<u>22 000</u>	<u>31 500</u>	<u>26 000</u>	<u>30 000</u>	<u>36 500</u>	<u>64 010</u>	
Net cash flow	(2 000)	(7 500)	2 500	2 500	2 000	(16 250)	(1 OF)
Opening balance	980	(1 020)	(8 520)	(6 020)	(3 520)	(1 520)	
Closing balance	<u>(1 020)</u>	<u>(8 520)</u>	<u>(6 020)</u>	<u>(3 520)</u>	<u>(1 520)</u>	<u>(17 770)</u>	(1 OF)

Workings (W1)

	October	November	December		
	£	£	£		
Sales	30 000	50 000	60 000		
	x 20%	(1)	x 60%	(1)	
			x 20%	(1)	
			x 98%	(1)	
Cash	6 000	30 000	11 760	=	47 760

9 marks

4 (b) Calculate the total net cash outflow for the six months.

980 + 17 770 = 18 750 (2)

2 marks

4 (c) Write a memorandum to the Directors explaining **three** reasons why Hawk Ltd could make a profit but have a bank overdraft.

To Directors of Hawk Ltd

From A student

Date

Subject Explaining why Hawk Ltd could make a profit but have a bank overdraft

Identify reasons	0-3	Application of realisation concept Purchase of fixed assets Repayment of loan
Explain reasons	0-2 per reason	Sale made and recorded in profit and loss account when the invoice is raised (1) but cash is not received until debtors pay (1). Purchase of fixed assets and repayment of loan reduce cash (1) but do not affect profit (1).
Application to question	0-3	80% of the cash from December’s sales will not be received until January and February. The directors intend to spend £28 010 on fixed assets which reduces the bank balance but does not affect profit.

Max 11 marks

Quality of written communication (QWC)

For using good English – spelling, punctuation, grammar.

0-2 marks

Overall max 13 marks

4 (d) Explain **two** benefits of using spreadsheet to prepare a cash budget.

Identify two benefits	0-2	Benefits could include: Speed Accuracy Automatic updating What-if calculations Time saving
Application of two benefits to cash budget	0-2 per benefit	When an amendment is made the totals will automatically change (1) and the whole budget does not have to be re-calculated (1). Once the template has been created it is possible to change the entries to see what will happen eg what effect the change will have on the cash figure <b style="text-align: right;"><u>6 marks</u>

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1

Total for this question: 10 marks

The following information relates to the rent and rates account of Mohammed, a sole trader.

During the year £4400 was paid for rent. At the end of the year £400 was owed for rent. £1200 was paid for rates. £500 has been paid for rates for the next financial year.

REQUIRED

1(a) Calculate the amount to be included in the profit and loss account for rent and rates.

Rent	4 400
Rates	1 200
Accrual	400 (1)
Prepayment	(500) (1)
	5 500 (1 OF)

3 marks

1 (b) This is an example of the application of the Accruals concept.

1 mark

Stock costing £500 has been damaged by a water leak. Mohammed has found a customer who is willing to buy the stock for £600 provided it is repaired and transported to their premises. It is estimated that the cost of the repairs would be £60 and the transport costs would be £80.

REQUIRED

1 (c) Calculate the value of the damaged stock.

Net realisable value (1)	
Selling price	600 (1)
Less repairs	60 (1)
Less transport	80 (1)
Stock valuation	<u>460</u> (1OF)

5 marks

1 (d) This is an example of the application of the Prudence concept.

1 mark

2

Total for this question: 10 marks

The balance sheet of Sonia at 31 May 2007 showed:

Motor vehicles at cost	£18 500
Provision for depreciation for motor vehicles	£10 500

During the year Sonia sold a motor vehicle which had cost £8500 and had a net book value of £3000. She also purchased a new motor vehicle costing £8800.

Her policy is to depreciate all assets held at the year end using the reducing balance method at the rate of $33\frac{1}{3}\%$ per annum.

REQUIRED

Prepare the motor vehicles at cost account and the provision for depreciation of motor vehicles account at 31 May 2007. Balance the accounts on 31 May 2007 and bring down any balances.

Motor Vehicles at cost

Dr			Cr		
Date	Details	£	Date	Details	£
1 Jun	Balance b/d	18 500 (1)			
31 May	Addition	8 800 (1)	31 May	Disposal a/c	8 500 (1)
			31 May	Balance c/d	18 800
		27 300			27 300
1 Jun	Balance b/d	18 800 (1 OF both)			

Provision for Depreciation – Motor Vehicles

Dr			Cr		
Date	Details	£	Date	Details	£
31 May	Disposal a/c	5 500 (1)	1 Jun	Balance b/d	10 500 (1)
			31 May	Profit & loss a/c	4 600 W1 (3)
31 May	Balance c/d	9 600			
		15 100			15 100
			1 Jun	Balance b/d	9 600 (1 OF both)

Workings (W1)

Cost	(18 500 + 8 800 - 8 500)	18 800 (1)
Depreciation	(10 500 - 5 500)	5 000 (1)
Net book value		<u>13 800</u>
Depreciation for year	(13 800 ÷ 3)	<u>4 600 (1)</u>

10 marks

3

Total for this question: 30 marks

The following trial balance has been extracted from the books of account of Falcon Ltd at 31 March 2007 **after** the preparation of the profit and loss appropriation account.

	Dr	Cr
	£	£
Bank	1 058	
Debenture (2011 – 2013)		28 000
Fixtures and fittings – net book value	17 500	
Issued ordinary shares of £1 each fully paid		50 000
Premises – net book value	80 000	
Proposed dividends		2 500
Provision for corporation tax		5 400
Retained profits at 31 March 2007		19 832
Share premium account		5 000
Stock at 31 March 2007	14 560	
Trade creditors		7 842
Trade debtors	5 456	
	<u>118 574</u>	<u>118 574</u>

The following adjustments need to be made **before** the preparation of a balance sheet.

- 1 The directors have had the premises valued and wish to include the revaluation in the final accounts. The premises are to be valued at £200 000.

- 2 The directors made a rights issue of ordinary shares, at a premium of 20p, on the basis of 1 new share for every 2 shares held. The rights issue was fully subscribed.

REQUIRED

3 (a) Prepare a balance sheet at 31 March 2007 after making any necessary adjustments.

**Falcon Ltd
Balance sheet at 31 March 2007**

		NBV £
Fixed assets*		
Premises at valuation		200 000 (2)
Fixtures & fittings		<u>17 500 (1)</u>
		217 500
Current assets*		
Stock	14 560 (1)	
Debtors	5 456 (1)	
Bank	31 058 (2) (W3)	
	<u>51 074</u>	
Creditors: amounts falling due within one year *		
Creditors	7 842 (1)	
Proposed dividends	2 500 (1)	
Corporation tax	5 400 (1)	
	<u>15 742</u>	
Net current assets*		35 332 (1 OF)
Total assets less current liabilities		<u>252 832</u>
Creditors: amounts falling due after more than one year*		
Debenture 2011 – 2013		<u>28 000 (1)</u>
		<u>224 832</u>
Capital and reserves*		
Ordinary shares of £1 each		75 000 (2) (W1)
Share premium		10 000 (2) (W2)
Revaluation reserve		120 000 (1)
Profit and loss account		19 832 (1)
		<u>224 832</u>

18 marks

W1 Rights issue
 $50\,000 \div 2 = \text{£}25\,000$ shares
 (1) + (1) for adding to ordinary shares

W2 Share premium
 $25\,000 \times 0.2 = 5000$
 (1) + (1) for adding to share premium

W3 Bank 1058 + 30 000
 (1) (1 OF)

Plus 2 marks for quality of presentation (QWC)
 1 mark for title
 1 mark for five (of six) correct sub-headings*

2 marks

Overall 20 marks

- 3 (b) Calculate the gearing ratio **before** and **after** making any necessary adjustments. State the formula used.

Formula:
$$\frac{\text{Debt} \times 100}{\text{Capital employed}} \quad (1)$$

	Before		After
(50 000 + 5000 + 19 832 + 28000)	$\frac{28\ 000}{102\ 832} = 27.23\% \quad (1 \text{ OF})$ (1CF)	=	$\frac{28\ 000}{252\ 832} = 11.07\% \quad (1 \text{ OF})$ (1CF)

Reward any other acceptable formula

5 marks

- 3 (c) Assess the impact of the rights issue and the revaluation of premises on the gearing of Falcon Ltd.

Explain the impact	0-2	The issue of shares and the revaluation of premises have increased shareholders' funds by £150 000 (1). This has reduced the gearing (1).
Assess the impact	0-4	Falcon Ltd was low geared before the changes (1). The gearing is now lower (1) reducing the level of risk (1). Falcon should be able to borrow further funds if required (1).

Overall max 5 marks

4**Total for this question: 30 marks**

The accountant of Hawk Ltd is preparing information for the next Directors' meeting. She has calculated that the net profit for the next months will be: £36 000.

She has also prepared the cash budget for the five months July to November and provided the following information relating to December.

The cash from debtors figure is calculated on the following basis:

20% of cash from sales is received in the current month, with customers taking 2% cash discount;

60% is received in the month following the sale;

20% is received two months after the sale is made.

The forecast sales are:

October	November	December
£	£	£
30 000	50 000	60 000

The following payments are forecast for December:

payments to creditors	£12 500
operating expenses	£12 000
purchase of fixed assets	£19 510
repayment of loan	£20 000

REQUIRED

4 (a) Make the entry for December in the cash budget below.

	July £	August £	September £	October £	November £	December £	
Income							
Cash from debtors	20 000	24 000	28 500	32 500	38 500	47 760	(4) W1
Expenditure							
Payments to creditors	10 000	11 000	14 000	18 000	24 500	12 500	(1) both
Operating expenses	12 000	12 000	12 000	12 000	12 000	12 000	
Purchase of fixed assets		8 500				19 510	(1)
Repayment of loan						20 000	(1)
	<u>22 000</u>	<u>31 500</u>	<u>26 000</u>	<u>30 000</u>	<u>36 500</u>	<u>64 010</u>	
Net cash flow	(2 000)	(7 500)	2 500	2 500	2 000	(16 250)	(1 OF)
Opening balance	980	(1 020)	(8 520)	(6 020)	(3 520)	(1 520)	
Closing balance	<u>(1 020)</u>	<u>(8 520)</u>	<u>(6 020)</u>	<u>(3 520)</u>	<u>(1 520)</u>	<u>(17 770)</u>	(1 OF)

Workings (W1)

	October £	November £	December £		
Sales	30 000	50 000	60 000		
	x 20%	(1)	x 60%	(1)	
			x 20%	(1)	
			x 98%	(1)	
Cash	6 000	30 000	11 760	=	47 760

9 marks

4 (b) Calculate the total net cash outflow for the six months.

980 + 17 770 = 18 750 (2)

2 marks

4 (c) Write a memorandum to the Directors explaining **three** reasons why Hawk Ltd could make a profit but have a bank overdraft.

To Directors of Hawk Ltd

From A student

Date

Subject Explaining why Hawk Ltd could make a profit but have a bank overdraft

Identify reasons	0-3	Application of realisation concept Purchase of fixed assets Repayment of loan
Explain reasons	0-2 per reason	Sale made and recorded in profit and loss account when the invoice is raised (1) but cash is not received until debtors pay (1). Purchase of fixed assets and repayment of loan reduce cash (1) but do not affect profit (1).
Application to question	0-3	80% of the cash from December’s sales will not be received until January and February. The directors intend to spend £28 010 on fixed assets which reduces the bank balance but does not affect profit.

Max 11 marks

Quality of written communication (QWC)

For using good English – spelling, punctuation, grammar.

0-2 marks

Overall max 13 marks

4 (d) Explain **two** benefits of using spreadsheet to prepare a cash budget.

Identify two benefits	0-2	Benefits could include: Speed Accuracy Automatic updating What-if calculations Time saving
Application of two benefits to cash budget	0-2 per benefit	When an amendment is made the totals will automatically change (1) and the whole budget does not have to be re-calculated (1). Once the template has been created it is possible to change the entries to see what will happen eg what effect the change will have on the cash figure <u>6 marks</u>