

Accounting

Advanced GCE **A2 7808**

Advanced Subsidiary GCE **AS 3808**

Mark Schemes for the Units

January 2007

3808/7808/MS/R/07J

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All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the Report on the Examination.

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Advanced Subsidiary GCE Accounting (7808)

MARK SCHEMES FOR THE UNITS

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Mark Scheme 2500
January 2007

1 Numerical Answers

Answers to computational questions or part-questions are mainly through calculation. Marks are awarded for particular calculations.

Own figures ('of'): where 'of' is indicated a figure which is incorrect solely because of an error in an earlier part of the question may be awarded the appropriate marks as if it were correct.

2 Quality of Written Communication

The specification states that 'Candidates will be required to select and use a form and style of writing appropriate to purpose and to complex subject matter; to organise relevant information clearly and coherently, using specialist accounting vocabulary and conventions; and to ensure text is legible, and spelling, grammar and punctuation are accurate, so that meaning is clear.'

Up to four marks (5%) may be added to the overall mark for a candidate's paper, if the candidate's written responses have met the specification requirement in some measure.

Marks will be allocated according to the following criteria:

Narrative Responses

2 marks Relatively straightforward ideas have been expressed clearly and fluently, using an appropriate style of writing. Answers are relevant and broadly logical and coherent. There are few, if any, errors of spelling, punctuation and grammar.

1 mark Simple ideas have been expressed in a style which, generally, lacks clarity and fluency. Responses have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar which are noticeable and detract from the quality of the response. Writing may lack legibility.

0 marks Responses which fail to achieve the standard required for one mark.

Numerical Responses

2 marks Most account headings, narratives and balances are included. All figures are legible, and effective use is made of columns and sub-totals. Accounts are ruled off as appropriate.

1 mark Some account headings, narratives and balances are included. Most figures are legible, and some use is made of columns and sub-totals. Some accounts are ruled off as appropriate.

0 marks Responses which fail to achieve the standard required for one mark.

In this examination the following questions will be assessed for quality of written communication:

Narrative	Q3
Numerical	Q1

1 (a)Martin GriffithsTrading and Profit and Loss Account for the year ended 31 December 2006

Sales			680,000	
Sales returns			<u>10,000</u>	
			670,000	(2)
Opening stock	39,000			
Purchases	<u>285,000</u>			
	324,000			
Drawings	<u>3,000</u>	(1)		
	321,000			
Closing stock	<u>41,000</u>			
Cost of sales (1)			<u>280,000</u>	(1)
Gross Profit			390,000	
Discount received			2,000	(1)
Commission receivable			<u>4,300</u>	(2)
			396,300	
Carriage outwards	2,800	(1)		
General expenses	138,012	(1)		
Salaries	144,000	(2)		
Provision for doubtful debts	392	(2)		
Loan interest	4,500	(2)		
Depreciation premises	7,200	(2)		
Depreciation machinery	<u>4,825</u>	(3)		
			<u>301,729</u>	
Net Profit			<u>94,571</u>	[21]

1 (b)

Balance Sheet as at 31 December 2006Fixed Assets

Premises		324,000	(2) (1 of)
Machinery		<u>23,675</u>	(2) (1 of)
		347,675	

Current Assets

Stock	41,000		
Debtors	68,208	(2)	
Commission receivable	200	(1)	
Bank	<u>12,000</u>	(1)	
	121,408		

Current Liabilities

Creditors	82,700	(1)	
Salaries owing	12,000	(1)	
Loan interest	750	(1)	
Loan	<u>22,500</u>	(1)	
	117,950		

Working Capital (1)

3,458
351,133

Long Term Liabilities (1)

Loan		<u>22,500</u>	(1)
		<u>328,633</u>	

Financed by

Capital		243,562	
Net Profit		<u>94,571</u>	
		338,133	
Drawings		<u>9,500</u>	(2)
		<u>328,633</u>	

[17]

Total marks [38]

3 (a) (i)

Office equipment					
Bal b/d	163,400	(1)	Disposal	20,000	(1)
Bank	30,000	(1)	Disposal	28,000	(1)
			Bal c/d	145,400	(1)
	<u>193,400</u>			<u>193,400</u>	
					[5]

(ii)

Disposal of office equipment					
Office equipment	20,000	(1)	Depreciation	12,000	(2)
Office equipment	28,000	(1)	Depreciation	22,680	(2)
			Bank	3,800	(1)
			Bank	4,920	(1)
			Profit & Loss	4,600	(1)
	<u>48,000</u>			<u>48,000</u>	
					[9]

- (b) Straight line is easy to calculate and chance of error reduced.
 Will give an equal charge each full year and useful for fixed assets that reduce in value by equal amounts.
 Reducing balance could also be considered, where depreciation would be higher in earlier years.
 If office equipment reduces in value by equal amounts each year, then straight line method appropriate.

(3 x 2 marks or 2 x 3 marks)**(1 for point plus up to 2 for development)****[6]****Total marks [20]**

**Mark Scheme 2501
January 2007**

1 Numerical Answers

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2 Quality of Written Communication

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Narrative Responses

- 2 marks Relatively straightforward ideas have been expressed clearly and fluently, using an appropriate style of writing. Answers are relevant and broadly logical and coherent. There are few, if any, errors of spelling, punctuation and grammar.
- 1 mark Simple ideas have been expressed in a style which, generally, lacks clarity and fluency. Responses have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar which are noticeable and detract from the quality of the response. Writing may lack legibility.
- 0 marks Responses which fail to achieve the standard required for one mark.

Numerical Responses

- 2 marks Most account headings, narratives and balances are included. All figures are legible, and effective use is made of columns and sub-totals. Accounts are ruled off as appropriate.
- 1 mark Some account headings, narratives and balances are included. Most figures are legible, and some use is made of columns and sub-totals. Some accounts are ruled off as appropriate.
- 0 marks Responses which fail to achieve the standard required for one mark.

In this examination the following questions will be assessed for quality of written communication:

Narrative	Q1
Numerical	Q3

1 (a)

Purchases Ledger Control Account					
Bank	766,000	(1)	Bal b/d	174,000	(1)
Cash	5,600	(1)	Credit purchases	964,000	(1)
Purchase returns	41,600	(2)			
Discounts received	18,550	(2)			
Contra sales ledger (1)	84,200	(1)			
Bal c/d (1)	<u>222,050</u>	(1)			
	<u>1,138,000</u>			<u>1,138,000</u>	

[12]

(b)

Revised Schedule of Creditors					
	Increase		Decrease		
Balance as per schedule of creditors					216,150
(i) Incorrect amount in purchase ledger	1,800	(2)			
(iii) Credit purchase omitted	8,700	(2)			
(iv) Purchase returns omitted			<u>4,600</u>	(2)	
Net increase	<u>10,500</u>		4,600		<u>5,900</u>
Corrected creditor balance					<u>222,050</u>

[7]

- (c) It is easier to detect errors because control accounts provide an independent check on the postings in the sales and purchases ledgers. Errors in the ledger can be located quickly. Segregation of duties helps in the prevention of fraud because members of staff who complete the control accounts are not involved in completing the sales and purchases ledgers. Totals of debtors and creditors from control accounts can be determined quickly and used in preparation of the trial balance.

(3 points x 2 marks)**(1 for point plus 1 for development)**

[6]

Total marks [25]

2 (a)

FIFO	300(2) @ 20(2) = 6,000 (1)		
			[5]
LIFO	200(2) @ 14(2) = 2,800		
	100(2) @ 18(2) = <u>1,800</u>		
	4,600 (1)		
			[9]

(b)

<u>Trading Account for the month ended 31 December 2006</u>			
Sales		182,000	(2)
Opening stock	7,000 (1)		
Purchases	<u>97,000</u> (2)		
	104,000		
Closing stock	<u>6,000</u>		
		<u>98,000</u>	
Gross Profit		<u>84,000</u> (1)	
			[6]

- (c) Stock should be valued at the lower of cost and net realisable value. SSAP 9 states companies should use either the FIFO or AVCO method of stock valuation in the final accounts. Whichever method is chosen it should be applied consistently. Prudence concept states companies should choose the lowest value when valuing assets.

(2 points x 2 marks)**(1 for point plus 1 for development)****[4]****Total marks [24]**

3 (a)

Michelle MusaTrading and Profit and Loss Account for the year ended 31 December 2006

Sales (71,000+4,600-7,500+8,300+860)			77,260	(4)
Opening stock	5,500			
Purchases (23,000-3,000+3,500+560)	<u>24,060</u>	(3)		
	29,560			
Closing stock	<u>4,800</u>			
Cost of sales (1)			<u>24,760</u>	
Gross Profit			52,060	
Discounts received			<u>560</u>	(1)
			52,620	
Rent (5,200- 450+650)	5,400	(2)		
Insurance (600+80-120)	560	(2)		
Wages	24,300	(1)		
Depreciation	4,000	(2)		
Discounts allowed	860	(1)		
Provision for doubtful debts	<u>440</u>	(1)		
			<u>35,560</u>	
Net Profit			<u>17,500</u>	(1)
				[19]

(b)

Balance Sheet as at 31 December 2006Fixed Assets

Machinery			7,500	(1)
Fixtures			<u>4,500</u>	(1)
			12,000	

Current Assets

Stock	4,800			
Debtors (8,300 - 440)	7,860	(2)		
Insurance prepaid	120	(1)		
Bank	<u>7,900</u>	(2)		
	20,680			

Current Liabilities

Creditors	3,500			
Rent accrued	<u>650</u>	(1)		
	4,150			

Working capital

16,53028,530Financed by

Capital			31,030	(2)
Net Profit			<u>17,500</u>	(1of)
			48,530	
Drawings			<u>20,000</u>	(1)
			<u>28,530</u>	

[12]

Total marks

[31]

**Mark Scheme 2502
January 2007**

1 Numerical Answers

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Numerical Responses

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In this examination the following questions will be assessed for quality of written communication:

Numerical	Q1
Narrative	Q3

1 (a)

Loxton Sports Club

Income and Expenditure Account for the year ended 31 December 2006 (1)

Income

Subscriptions	(1 850 – 55 + 165 + 110 – 195)	1 875	(3)
Competitions	(1 617 – 986)	631	(1)
Dinner dance	(2 050 – 1 000 – 950)	100	(2)
Donations		60	(1)
Interest	(240 + 80)	<u>320</u>	(2)
		2 986	

Expenditure

Insurance	230	(1)	
Clubhouse maintenance	800		
Electricity	185		
Rent and rates	(320 – 100 – 75 + 70)	215	(2)
Clubhouse depreciation	500	(1)	
Equipment	450	(1)	
Loss on sale	<u>140</u>	(1)	
		<u>2 520</u>	
Surplus		<u>466</u>	

[16]

(b)

Balance Sheet as at 31 December 2006

Fixed Assets

Clubhouse	24 500	
Equipment	<u>7 250</u>	
	31 750	(1)

Current Assets

Rates prepaid	75	
Subscriptions due	110	(1)
Deposit account	4 000	
Interest due	320	(1of)
Cash	<u>1 234</u>	
	5 739	(1of)

Current Liabilities

Subscriptions in advance	<u>195</u>	(1)
--------------------------	------------	-----

5 544

37 294

General/Accumulated Fund (1)

36 828 (1)

Plus Surplus/Deficit (1)

466 (1of)

37 294

[9]

- (c) Income and Expenditure Receipts and Payments
 Equivalent to profit and loss account Equivalent to cash book
 Matches income to expenditure Records actual cash transactions
 Estimate of depreciation recorded Actual capital expenditure recorded

2 marks for each correct difference x 2

[4]

Total marks [29]

2 (a)

Sadeek and Emma

Appropriation Account for the year ended 31 December 2006

Net profit		27 500
Interest on drawings		
Sadeek	600 (1)	
Emma	500 (1)	
		<u>1 100</u>
		28 600
Interest on Capital		
Sadeek	3 200(1)	
Emma	2 000(1)	
		<u>5 200</u>
		23 400
Salary Sadeek		<u>5 000</u> (1)
		18 400
Share of profit		
Sadeek	9 200 (1 of)	
Emma	<u>9 200</u>	
		<u><u>18 400</u></u>

[6]

(b) (i)

Current Accounts

	Sadeek	Emma			Sadeek	Emma	
Drawings	12 000	10 000	(1)	Balance b/d	2 700	400	(1)
Int on drawings	600	500	(1of)	Int on cap	3 200	2 000	(1of)
Balance c/d (1of)	7 500	1 100		Salary	5 000		(1)
				Share	<u>9 200</u>	<u>9 200</u>	(1of)
	<u>20 100</u>	<u>11 600</u>			<u>20 100</u>	<u>11 600</u>	

[7]

(ii)

Capital Accounts

	Sadeek	Emma	Kevin		Sadeek	Emma	Kevin
Goodwill	30 000 (1)	20 000 (1)	10 000 (1)	Balance	40 000	25 000	
Balance c/d (1of)	40 000	35 000	10 500	Bank			15 000
				Stock			5 500
				Goodwill	<u>30 000 (1)</u>	<u>30 000 (1)</u>	
	<u>70 000</u>	<u>55 000</u>	<u>20 500</u>		<u>70 000</u>	<u>55 000</u>	<u>20 500</u>

[7]

(c) (i) Goodwill is the value that can be obtained for the business over and above (1) the net asset value (1) as recorded in the balance sheet (1) of the business. [3]

(ii) Reasons may include:
 Goodwill cannot always be calculated with precision.
 If based upon a skilled workforce staff may leave.
 If based upon a local or national monopoly this may be broken.
 If based upon location competition may reduce impact.

(1 mark for identification of reason plus 1 mark for development x 2)

[4]

Total marks [27]

3 (a)

Return on capital employed	$\frac{24\,000}{60\,000} \times 100 = 40\%$	(2)
Current ratio	$\frac{54\,000}{54\,000} = 1:1$	(2)
Liquid (acid test) ratio	$\frac{36\,000}{54\,000} = 0.67:1$	(2)

(b)

Return on capital employed	At 40% is high (1) compared to other alternative investments (1)
Current ratio	Is lower than the norm of 1.5 to 2:1 (1) Need to improve ratio by controlling costs and reducing creditors (1)
Liquid (acid test) ratio	Is less than the accepted level of 1:1 (1) Need for corrective action (1)

[6]

(c) In Option:

1. 30 day credit

Profitability

Profit will be £1 000 less

Profitability will fall

(1)

(1)

2. Business loan

Profitability

Profit will be £2 000 less

Profitability will fall

(1)

(1)

Liquidity

Current liabilities will rise by £20 000

(1)

Liquidity will fall substantially

Cash will not be available to meet debt in 30 days

(1)

(1)

Liquidity

Current assets and liabilities will remain unchanged

Liquidity will remain unaffected

Loan is a long term liability, not affecting short term liquidity

(1)

(1)

(1)

(Decision (1) plus (1) if a reason given)

[12]

Total marks [24]

**Mark Scheme 2505
January 2007**

ACCOUNTING MARKING GUIDELINES**1 Numerical Answers**

Answers to computational questions or part-questions are mainly through calculation. Marks are awarded for particular calculations.

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2 Quality of Written Communication**Narrative Responses**

- 2 marks Complex ideas have been expressed clearly and fluently, using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, are well structured. There are few, if any, errors of spelling, punctuation and grammar.
- 1 mark Simple ideas have been expressed in a style which, generally, lacks clarity and fluency. Responses have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar which are noticeable and detract from the quality of the responses. Writing may lack legibility.
- 0 marks Responses which fail to achieve the standard required for one mark.

Numerical Responses

- 3 marks All account headings, narratives and balances are included. All figures are legible, and effective use is made of columns and sub-totals. Accounts are ruled off as appropriate.
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- 0 marks Responses which fail to achieve the standard required for one mark.

In this examination the following questions will be assessed for quality of written communication:

Narrative: Q2
Numerical: Q1

1 (a)

Lusby plcProfit and Loss Account for the year ended 31 December 2006 (1)

Turnover		1 494 700	(2)
Cost of sales		<u>298 500</u>	(2)
Gross profit		1 196 200	
Administrative expenses	205 400		(6)
Distribution costs	<u>273 800</u>		(4)
Profit on ordinary activities		717 000	
Other income		<u>16 200</u>	(2)
Profit on ordinary activities before tax		733 200	
Corporation tax		<u>148 000</u>	(1)
Profit after tax		585 200	
Profit and Loss b/f		<u>(32 000)</u>	(1)
		553 200	
Dividends	230 000		(1)
General reserve	<u>150 000</u>		(1)
Retained profit		<u>173 200</u>	
			[21]

Cost of sales

$$51\,500 + 300\,000 - 53\,000 = 298\,500$$

Administrative expenses

$$84\,000 + 4\,200 + 2\,300 - 10\,200 + 115\,000 + 12\,400 - 2\,300 = 205\,400$$

Distribution costs

$$76\,000 + 115\,000 + 12\,400 + 8\,400 + 62\,000 = 273\,800$$

1 (b)

Balance sheet as at 31 December 2006Fixed assets

Land and buildings		2 100 000	(1)
Office equipment		223 200	(1)
Delivery vehicles		<u>133 000</u>	(1)
		2 456 200	

Current assets

Stock	53 000	
Debtors	46 200	(2)
Rent received owing	1 200	(1)
Prepaid	10 200	(1)
Bank	<u>174 800</u>	
	285 400	

Creditors falling due in less than one year

Creditors	32 000	
Accruals	8 400	(1)
Dividends	230 000	(1)
Taxation	<u>148 000</u>	(1)
	418 400	

Net current assets	(1)	<u>(133 000)</u>
		<u>2 323 200</u>

Capital and reserves

Share capital		1 200 000	(1)
Revaluation reserve		200 000	(1)
Share premium		600 000	(1)
General reserve		150 000	(1)
Profit and loss		<u>173 200</u>	(1of)
		<u>2 323 200</u>	

[16]

Total marks [37]

2 (a) Agrawel LtdSchedule of Fixed Assets for the year ended 31 December 2006

	<u>Land and buildings</u>	<u>Motor vehicles</u>	<u>Office equipment</u>
Cost at 1 January	400 000	180 000	70 000 (1)
Additions		34 000 (1)	120 000 (1)
Disposals		(15 000) (1)	(2 000) (1)
Revaluation (1)	<u>150 000 (1)</u>		
Cost at 31 Dec	<u>550 000</u>	<u>199 000</u>	<u>80 000 (1)</u>
Depreciation 1 Jan	30 000	90 000	20 000 (1)
Disposals		(5 400) (2)	(1 500) (1)
Profit and loss	<u>3 000 (2)</u>	<u>22 880 (2)</u>	<u>8 000 (1)</u>
Depreciation 31 Dec	<u>33 000</u>	<u>107 480</u>	<u>26 500 (1)</u>
Book value 31 Dec	<u>517 000</u>	<u>91 520</u>	<u>53 500 (2)</u>

[20]

- (b) A distinction must be made between the types of research and development. Pure and applied research must be written off to the profit and loss as an expense. A development cost can be capitalized and shown as a fixed asset.

(3 x 2 marks)

[6]

(1 for point plus 1 for development)

Preference shares and the different types of preference share depending on the risk. Shares could be cumulative, non-cumulative.

A secured loan or debenture charged on the assets of the company.

Agrawel has land and buildings worth £550 000 after the revaluation and this could be used for a long term loan or mortgage.

Leasing agreements if the investment required new machinery. A leasing agreement could be in the form of a finance lease or operating lease.

A short term borrowing facility from the bank by agreeing an overdraft limit.

Agrawel should investigate the possibility of obtaining a grant for the new investment. It could qualify for a regional, national or a European grant.

(4 x 2 marks)

[8]

(1 for point plus 1 for development)

Total marks [34]

3 (a)

		<u>Bank</u>			
Application & allotment		2 500 000	(1)	Application & allotment	250 000 (1)
Application & allotment	(1)	2 150 000	(1)		
		<u>Application & allotment</u>			
Bank		250 000	(1)	Bank	2 500 000 (1)
Share premium	(1)	3 000 000	(1)	Bank	2 150 000 (2)
Share capital	(1)	1 400 000	(2)		
		<u>Share capital</u>			
				Bal b/d	3 000 000 (1)
				Application & allotment	1 400 000 (1)
		<u>Share premium</u>			
				Application & allotment	3 000 000 (2)

[17]

- (b) (i) Par value is the issue price of the shares and is also called the nominal value of the share. Ponting Ltd has a par value of £0.50 per share.
- (ii) Authorised share Capital is the amount stated in the Memorandum of Association. Ponting Ltd can issue a maximum of 6 000 000 shares at a par value of £0.50.
- (iii) Share premium is the difference between the par value and the price of the share. Ponting Ltd has a share premium of £0.75 on each share.

(3 x 2 marks)**[6]****(1 for point plus 1 for development)**

- (c) An alternative to the raising of finance by an issue of ordinary shares. Debentures are long term loan capital and would increase the debt capital of the company. Debentures pay a fixed rate of interest and the amount borrowed is charged on the assets of the company. Debentures are a higher risk and the debenture interest is an expense to the profit and loss account and must be paid regardless of the profit position but ordinary dividends are an appropriation of profit. Debenture holders do not have voting rights unlike the ordinary shareholders.

(3 x 2 marks)**[6]****(1 for point plus 1 for development)****Total marks [29]**

**Advanced GCE Accounting 7808
January 2007 Assessment Series**

Unit Threshold Marks

Unit		Maximum Mark	a	b	c	d	e	u
2500	Raw	80	64	56	48	41	34	0
	UMS	100	80	70	60	50	40	0
2501	Raw	80	71	64	57	50	44	0
	UMS	100	80	70	60	50	40	0
2502	Raw	80	58	52	46	40	34	0
	UMS	100	80	70	60	50	40	0
2505	Raw	100	90	82	74	66	59	0
	UMS	100	80	70	60	50	40	0

Specification Aggregation Results

Overall threshold marks in UMS (i.e. after conversion of raw marks to uniform marks)

	Maximum Mark	A	B	C	D	E	U
3808	300	240	210	180	150	120	0
7808	600	480	420	360	300	240	0

The cumulative percentage of candidates awarded each grade was as follows:

	A	B	C	D	E	U	Total Number of Candidates
3808	3.3	10	33.3	33.3	70	100	31
7808	0.0	0.0	75.0	75.0	100	100	5

5 candidates aggregated this series

For a description of how UMS marks are calculated see;
http://www.ocr.org.uk/exam_system/understand_ums.html

Statistics are correct at the time of publication

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