

Section 5: Specimen Papers – Commentary on Mark Schemes

AS Unit 1 – Accounting Principles

Question 1 – D Lupin

This question covers a Trial Balance followed by footnotes giving additional information. The requirement is for a Trading and Profit and Loss Account together with a Balance Sheet.

Frequently at least one mark will be awarded for titles/narratives. The mark at the start must include the company name and should not be abbreviated. The correct wording for the period is important and should be for 'the year ended' not 'as at'.

In arriving at the cost of sales value, always look out for additional entries such as carriage inwards and drawings of goods, these are frequently omitted or entered as Profit and Loss expenses. The wording 'Cost of Sales' sometimes carries one mark. Throughout the answer it is important to state correct wording.

Following gross profit there are usually entries to cover additions. The commission receivable of £800 owing must be added to the Trial Balance value; frequently candidates in error make a deduction for this. In addition to the entries in the question discount received and rent received are frequently given.

The expenses in the Profit and Loss Account should be shown net. For example, rent and rates should be shown as £30 400 not £27 400 + £3 000. It helps to show calculations in brackets, but unless the net value is shown marks will be lost. Loan interest can cause problems. It is worth calculating the amount required, regardless of the amount shown in the Trial Balance. In this question the loan was in existence for the complete year, therefore the interest due is $£30\,000 \times 11\% = £3\,300$. This is the amount to be entered as an expense, regardless of the amount shown in the Trial Balance (which may be different). Here £3 025 has been paid, therefore £275 is outstanding and this will be shown as a Current Liability in the Balance Sheet. The adjustments for rent and salaries require a little arithmetic to calculate the amounts outstanding. The drawings included in general expenses should be deducted and also shown in the Balance Sheet. Some students will also include all drawings in error in the Trading Account, rather than just drawings of goods in this account. Calculations for depreciation should be for the period and care should be taken if fixed assets are to be depreciated for part of the period only.

The Fixed Assets in the Balance Sheet should be after depreciation to date. Sometimes candidates deduct the current year only. There are a few aspects to note in Current Assets. If there is a provision for doubtful debts then this should be deducted from debtors and a net value shown. If a net value is not shown then marks will usually be lost. The commission receivable is owed to the business and therefore will be shown under Current Assets; frequently this is shown by candidates, in error, under Current Liabilities. It is always worth noting the column in the Trial Balance for the bank value. Here it is a debit and therefore will be a Current Asset, if it had been a credit it would have been an overdraft and therefore a Current Liability. Within Current Liabilities, loan interest owing tends to cause problems with either a value omitted or the full amount for the year entered. In this question the loan is in part a Current Liability and in part a Long Term Liability.

To gain the marks the correct split must be shown. Candidates frequently omit loans under Long Term Liabilities. Note the mark for the narrative 'Long Term Liabilities'.

The net profit is usually an own figure mark and it should be the value from the Trading and Profit and Loss Account, not the value needed to make the Balance Sheet balance. Drawings are cash drawings and the personal holiday, the net total should be shown.

Up to two marks may be awarded for quality of written communication and to gain these, candidates should make use of columns, sub-totals where appropriate, rule off (with a ruler) and use correct headings/sections.

Question 2 – Bluebell Traders

This question covers depreciation with ledger accounts and evaluation.

- a) Some of the entries in the ledger accounts are for values directly given in the question; others will be for varying degrees of difficulty. Marks will sometimes be awarded for the correct value and narrative, it is therefore important that candidates use the correct narrative. For example, the £36 000 in the Office Equipment Account should be with Bank, not any other wording. The depreciation charge for machinery requires calculation for the full year against £165 000 (£255 000 - £90 000 disposal) and part year for the new machinery $£90\,000 \times 10\% \times 4/12$ months. Frequently candidates will calculate for the full year on all machinery. The depreciation charge for office equipment will also require separate calculations. $£110\,000 \times 10\%$ for the full year and $£36\,000 \times 10\% \times 6/12$ for part year. Frequently a Disposal Account is asked for in depreciation ledger account questions and candidates can sometimes enter the written down value for the asset being disposed of rather than the original cost in full. Likewise, the depreciation should be for the full amount for the disposed asset.
- b) Candidates can tend to be descriptive only rather than evaluative for depreciation methods. Frequently candidates respond with causes of depreciation for any type of depreciation narrative question regardless of question requirements.
- c) A common error is for candidates to assume that depreciation involves a movement of cash from the business. An outline of the accounting entries demonstrates cash is not involved.

Question 3 – Bob Tulip

This question covers bad debts and provisions using an aged debtors schedule.

- a) The calculation for bad debts should not include the £640, which should not yet be written off. To calculate the new provision for doubtful debts candidates must deduct the bad debts written off, and then apply a specific provision followed by a general provision. Frequently candidates omit to deduct the specific provision and apply the 4% against all debtors.
- b) Frequently entries in Provision for Doubtful Debts Accounts are reversed.

Provision balances b/d are always credit entries. The narratives within the account also carry marks. The change for the period is the entry to the Profit and Loss Account; some candidates use the new account balance in error.
- c) The bad debt of £1,670 should be deducted to arrive at debtors prior to deducting the new provision balance (which is an own figure mark).

- d) Frequently candidates identify concepts and give general rather than specific applications. The development should relate to the question i.e. provision for doubtful debts.
- d) Candidates should relate to the policies given in the question and look for a link to the outcomes given in the scenario. Frequently concerns from the outcomes give a pointer to shortcomings in policies. There can be a tendency for candidates to repeat the policies given, rather than provide an evaluation.

Quality of written communication marks are awarded in this question and care should be given to the spelling of accounting concepts.

AS Unit 2 – Financial Accounting

Question 1 – Aspen, Holly and Cherry

This question covers partnerships and includes an Appropriation Account, Current Accounts and Capital Accounts. A new partner is admitted with goodwill not remaining in the books.

- a) Candidates initially need to be aware of what is added and what is deducted in an Appropriation Account. If drawings are made then the partner pays interest to the partnership, therefore, interest on drawings will be added in the Appropriation Account. However, when a partner puts capital into the partnership, interest will be paid to the partner, therefore, interest on capital will be deducted in the Appropriation Account. Salary to a partner is a payment out and will be deducted in the Appropriation Account. The interest calculations are relatively straight forward with percentages being applied to values given directly in the question. Sometimes questions require percentages to be applied for different proportions of a year. The share of profit is an equal split between the two original partners.
- b) Candidates should take care to enter opening balances on the correct sides in the Current Accounts. The remaining entries can be remembered using PSI/DD (covered earlier in this booklet).

With a new partner, candidates should look out for a revaluation and in this question will need to enter in the Capital Accounts a revaluation gain as a credit entry for the original partners (a loss would be a debit entry). The new partner brings in cash and a vehicle and these should be shown separately. Goodwill of £20 000 should be entered in the original ratio to the original partners i.e. £10 000 credit to each and then taken out for all partners in the new ratio 2:2:1 i.e. £8 000, £8 000 and £4 000 debit entries.

- c) Frequently partnerships will have a narrative aspect and here candidates need to understand goodwill and why it should be written out of the books at the earliest opportunity. Narratives are an important part of the specification and allow candidates to gain valuable marks.

Question 2 – Peter Pine

This question covers incomplete records with a set of final accounts required together with a narrative aspect.

- a) The Trading Account section requires calculations for sales and purchases. Usually these require a series of calculations and it is important that these are shown as marks are given for different aspects. Too frequently candidates do not show calculations and present an incorrect final value for which no marks can be awarded. Usually discount allowed and discount received is omitted from the calculations. Within the Trading section it is worth noting that two marks are awarded for narrative aspects. Following the calculation of gross profit, it is easy to omit discount received, as would also be the case for discount allowed in expenses. Candidates should be reminded to look out for these.

Usually expenses will require adjustments for prepayments and accruals. It is advisable to show calculations in brackets (or close to the answer) and to ensure the final net value is shown. Marks

will be lost if final values are not shown. The loan is for four months only of the period and interest should be calculated for this time only i.e. £8 000 x 12% x 4/12. Frequently candidates enter the interest for a full year regardless of the actual period. The depreciation is the difference between the two book values, although in some questions additional fixed assets may have been purchased and need to be taken into account when calculating depreciation.

The fixed assets in the Balance Sheet are at the net book value given, with no additional adjustment required. The closing bank value is not given in the question and needs calculating by balancing the receipts and payments account, the resultant debit balance indicating a current asset. The loan is for a three year period and must be shown under Long Term Liabilities. An entry for the loan under Current Liabilities will not gain any marks.

The opening capital requires a calculation for the assets less liabilities at the start of the period. To this the additional capital introduced during the period is added. Net profit is then added and drawings deducted.

Up to two marks may be awarded for quality of written communication and to gain these, candidates should make use of columns, sub-totals where appropriate, rule off (with a ruler) and use correct headings/sections.

- b) The narrative relates to advantages and disadvantages of forming a partnership, this would usually be well answered by candidates.

Question 3 – Ash and Maple

This question covers profitability and liquidity ratios together with an evaluation.

- a) Candidates need to be aware of how ratios are calculated and be able to present them to the correct expression i.e. %, :1, times. Marks will be lost if ratios are not correctly presented. Sometimes candidates do not gain marks for stock turnover due to not being aware of how it is calculated. The other ratios tend to be well calculated.
- b) A common error in evaluation is to state how the ratios are calculated rather than respond with evaluation. It is always worth looking out for a bank overdraft and making reference to this on narrative aspects for liquidity ratios.
- c) This section would be looking for candidates to develop responses and frequently such sections will refer to the impact of measures on stock, expenses and bank. Sometimes candidates will fail to offer advice to each business but general advice to both businesses without differentiation.

Quality of written communication marks are awarded in this question and care should be given to presentation, spelling, punctuation and grammar.