

GCSE 2004

June Series



Mark Scheme

Accounting

(Subject Code 3122/2H)

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Dr Michael Cresswell Director General

Paper 2 Higher Tier

1

Total for this question: 30 marks

Marion Hall is an office supplies wholesaler. Information about some of the business's transactions for March 2004 is given below.

Purchases journal transactions for 6 March 2004

On this date Marion Hall received two invoices from suppliers. The details were as follows.

Invoice number EBL234 from Executive Bags Ltd	£
4 executive brief cases model PEB02 at £70 each	280.00
8 laptop cases model LC090 at £30 each	<u>240.00</u>
	520.00
Less trade discount 30%	<u>156.00</u>
	364.00
Plus VAT	<u>63.70</u>
	<u>427.70</u>
Invoice number CTC900 from Beta Telephone Group	£
10 cordless telephones CT007 at £60 each	600.00
Plus VAT	<u>105.00</u>
	<u>705.00</u>

(a) Record the information from the two invoices into the purchases journal.

Date	Supplier	Invoice No	Goods		VAT		Total	
			£	p	£	p	£	p
Mar 6	Executive Bags Ltd	EBL234	364	00 (1)	63	70 (1)	427	70 (1)
6	Beta Telephone Group	CTC900	600	00 (1)	105	00 (1)	705	00 (1)

(6 marks)

Account of Jacqueline Lycett

Jacqueline Lycett is one of Marion Hall's customers. The following information relates to the account of this debtor.

- March 1 Balance, amount owed to Marion Hall, £450
 17 Account settled by cheque
 23 Invoice sent to Jacqueline Lycett for goods £1600 plus VAT £280
 28 Credit note issued to Jacqueline Lycett for goods £120 plus VAT £21

The account was balanced on 31 March 2004.

- (b) Record the above information in the account of Jacqueline Lycett. Bring down the balance on the account at 1 April 2004.

Jacqueline Lycett Account							
Date			£	Date			£
Mar	1	Balance b/d	450 (1)	Mar	17	Bank	450 (1)
	23	Sales	1 880 (1)		28	Sales Return	141 (1)
					31	Balance c/d	1 739 (1)
			2 330				2 330
Apr	1	Balance b/d	1 739 (1) of				

(6 marks)

Marion Hall keeps her petty cash book using the imprest system, the imprest being £50. For the month of March 2004 her petty cash transactions were as follows.

	£
March 1 Petty cash balance	17.10
1 Petty cashier obtained cash to restore the imprest	32.90
9 Bought stamps	8.10
18 Bought petrol	20.00
23 Paid bus fare	2.40
26 Received cash for a personal telephone call	1.20
28 Paid creditor D Austin	9.96
30 Bought envelopes	6.70

- (c) Enter the above transactions in the petty cash book (opposite) and balance the petty cash book at 31 March, bringing down the balance on 1 April.

Ignore VAT.

Petty Cash Book											
Receipts		Date	Details	Total		Postage and Stationery		Travelling Expenses		Ledger	
£	p			£	p	£	p	£	p	£	p
17	10 (1)	Mar 1	Balance b/d								
32	90 (1)	1	Cash								
		9	Stamps	8	10	8	10 (1)				
		18	Petrol	20	00			20	00 (1)		
		23	Bus fare	2	40			2	40 (1)		
1	20 (1)	26	Cash telephone								
		28	D Austin	9	96					9	96 (1)
		30	Envelopes	6	70)	6	70 (1)				
				47	16	14	80 (1)	22	40 (1)	9	96 (1)
		31	Balance c/d	4	04						
51	20			51	20						
4	04 (1)	Apr 1	Balance b/d								
	of										

(12 marks)

- (d) Using the relevant information from part (c) complete the ledger accounts for *Postage and Stationery* and *Travelling Expenses*.

Postage and Stationery Account									
Date			£	p	Date			£	p
<i>Mar</i>	<i>31</i>	<i>Sundries (1)</i>	<i>14</i>	<i>80 (1)</i>					

Travelling Expenses Account									
Date			£	p	Date			£	p
<i>Mar</i>	<i>31</i>	<i>Sundries (1)</i>	<i>22</i>	<i>40 (1)</i>					

(4 marks)

- (e) Identify **two** reasons why some businesses keep a petty cash book as well as a cash book.

To remove unnecessary detail from the cash book (1)
Only totals required to be posted to the ledger (1)
Gives responsibility to a junior member of staff (1)
Easy to control/check (1)
Reduces possibility of fraud (1)

(2 marks)

2

Total for this question: 18 marks

S Scott has prepared the following balance sheet which contains a number of errors.

S Scott
Balance Sheet for the year ended 31 December 2003

	£		£
Premises	100 000	Capital	131 000
Net Profit	27 000	Cash	1 000
Drawings	20 000	Motor Vehicles	28 500
Stock at 31 December 2003	14 000	Creditors	7 000
Stock at 1 January 2003	8 000	Debtors	13 000
Bank Overdraft	11 500		
	<u>£180 500</u>		<u>£180 500</u>

- (a) Prepare a balance sheet for S Scott as at 31 December 2003 showing clearly sub totals for the following.

Fixed assets
Current assets
Current liabilities
Working capital (net current assets)
Capital

S Scott			
Balance Sheet as at 31 December 2003			
	£	£	£
Fixed Assets			
<i>Premises</i>		<i>(1) 100 00</i>	
<i>Motor vehicles</i>		<i>(1) 28 500</i>	<i>(1 o/f) 128 500</i>
Current Assets			
<i>Stock</i>	<i>(1) 14 000</i>		
<i>Debtors</i>	<i>(1) 13 000</i>		
<i>Cash</i>	<i>(1) 1 000</i>	<i>(1 o/f) 28 000</i>	
Less Current Liabilities			
<i>Creditors</i>	<i>(1) 7 000</i>		
<i>Bank overdraft</i>	<i>(1) 11 500</i>	<i>(1 o/f) 18 500</i>	<i>(1o/f) 9 500</i>
			<u>138 000</u>
Financed by			
<i>Capital</i>			<i>(1) 131 000</i>
<i>Add net profit</i>			<i>(1) 27 000</i>
			<u>158 000</u>
<i>Less drawings</i>			<i>(1) 20 000</i>
			<u>138 000</u>

(14 marks)

- (b) S Scott made a net profit for the year but is overdrawn at the bank. Give **two** reasons why this could happen and briefly explain your answers.

<i>Has sold good on credit (1) but has not yet received the cash (1)</i>
<i>Has used overdraft facilities (1) to buy stock (1)</i>
<i>Could have made more drawings (1) than profit (1)</i>
<i>Bought assets(1) paying by cheque or cash(1)</i>
<i>Other valid reasons</i>

(2 marks x 2)

Max 4 marks

3

Total for this question: 20 marks

The following are extracts from the cash book and bank statement of Nicola Stiles for the month of May 2004.

Debit	Cash book (bank columns only)			Credit	
		£		£	
May 1	Balance b/d	5 300	May 6	R Shastri	350
6	R Simpson	240	19	C Walsh	1 200
20	B Murdoch	370	25	I Khan	333
29	T Gemmell	25	28	K Dev	130
30	J Johnstone	499	31	Balance c/d	4 421
		6 434			6 434
May 1	Balance b/d	4 421			

Bank Statement				
		Debit	Credit	Balance
		£	£	£
May 1	Balance b/d			5 300 cr
8	Cheque	350		4 950 cr
9	Deposit		240	5 190 cr
17	Credit transfer		36	5 226 cr
21	Cheque	1 200		4 026 cr
23	Deposit		370	4 396 cr
27	Bank charges	50		4 346 cr
28	Cheque	333		4 013 cr
30	Standing order	90		3 923 cr

(a) Bring the cash book up to date to show a corrected bank balance.

		£			£
June 1	Balance b/d	(1) 4 421	June 1	Bank charges	(1) 50
1	Credit transfer	(1) 36	1	Standing order	(1) 90
			1	Balance c/d	(1) 4 317
		4 457			4 457

(5 marks)

- (b) Prepare a statement reconciling the corrected cash book balance with the balance shown by the bank statement.

Bank Reconciliation Statement as at 1 June 2004 (1)	
<i>Balance as per amended cash book (1)</i>	<i>(1) 4 317</i>
<i>Add (1)</i>	
<i>Cheque not yet presented for payment (1)</i>	<i>(1) 130</i>
	<i>4 447</i>
<i>Less (1)</i>	
<i>Bank lodgements not yet entered (1)</i>	<i>(1) 25</i>
	<i>(1) 499</i>
<i>Balance as per Bank statement (1)</i>	<i>(1) 3 923</i>

(12 marks)

- (c) Explain why it is important for Nicola Stiles to prepare a bank reconciliation statement.

<i>To ensure that the cash book and bank statement agree (1)</i> <i>Errors/mistakes (1)</i> <i>Prevention of fraud (1)</i> <i>Good practice (1)</i> <i>Max 3</i>
--

(3 marks)

4

Total for this question: 15 marks

The following balances were taken from the books of Maryhill Manufacturing Ltd for the year ended 31 March 2004.

	£
Stock of raw materials 1 April 2003	19 000
Stock of raw materials 31 March 2004	22 000
Stock of work in progress 1 April 2003	24 000
Stock of work in progress 31 March 2004	25 000
Depreciation of machinery in the factory	12 000
Factory wages:	
Direct	55 000
Indirect	38 000
Purchases of raw materials	93 000
Factory lighting and heating	8 400
Royalties	12 000
Rent of factory	17 000
Carriage inwards on raw materials	5 000

Prepare a manufacturing account for the year ended 31 March 2004, showing clearly:

- (i) Cost of raw materials consumed;
- (ii) Prime cost;
- (iii) Production cost of goods completed.

Maryhill Manufacturing Ltd		
Manufacturing Account for the year ended 31 March 2004		
	£	£
<i>Stocks of raw materials 01.04.03</i>		<i>(1) 19 000</i>
<i>Add purchases of raw materials</i>		<i>(1) 93 000</i>
<i>Add carriage inwards on raw materials</i>		<i>(1) 5 000</i>
		<i>117 000</i>
<i>Less stock of raw materials 31.03.04</i>		<i>(1) 22 000</i>
<i>Cost of raw materials consumed</i>		<i>of (1) 95 000</i>
<i>Add direct labour</i>		<i>(1) 55 000</i>
<i>Add royalties</i>		<i>(1) 12 000</i>
<i>Prime cost</i>		<i>of (1) 162 000</i>
<i>Add factory indirect costs</i>		
<i>Depreciation in the factory</i>	<i>(1) 12 000</i>	
<i>Factory indirect wages</i>	<i>(1) 38 000</i>	
<i>Factory heating and lighting</i>	<i>(1) 8 400</i>	
<i>Rent of factory</i>	<i>(1) 17 000</i>	<i>75 400</i>
		<i>237 400</i>
<i>Add stock of work in progress 01.04.03</i>		<i>(1) 24 000</i>
		<i>261 400</i>
<i>Less stock of work in progress 31.03.04</i>		<i>(1) 25 000</i>
<i>Factory cost of goods completed</i>		<i>(1) 236 400</i>

(15 marks)

5

Total for this question: 37 marks

The following information is available for the business of Graham Parsons, a trader, at 31 March 2004. All sales and purchases are on credit and all invoices should be paid within 30 days.

	£
Sales	336 000
Stock 1 April 2003	24 000
Stock 31 March 2004	18 000
Purchases	246 000
Gross profit	84 000
Net profit	36 960
Capital employed	462 000
Current assets (including stock)	30 000
Current liabilities	15 000

In addition the following information at 31 March 2002 is also available.

Current ratio	1.4:1
Acid test ratio	0.6:1
The percentage of gross profit to sales	30%
The percentage of net profit to sales	15%
Return on capital employed	12%
Rate of stock turnover	8 times
Expenses to sales percentage	12%

(a) Calculate for the year ended 31 March 2004:

(i) the current ratio;

$30\ 000 (1) / 15\ 000 (1) = 2:1 (1)$

(3 marks)

(ii) the acid test ratio.

$30\ 000 (1) - 18\ 000 (1) / 15\ 000 (1) = 0.8:1 (1)$

(4 marks)

- (b) Comment on the solvency (or liquidity) position of the business. Make use of your answers to (a) (i) and (ii) and the information for the year ended 31 March 2003.

*Business can meet its short term debts (1) but not after stock is taken into consideration (1) better than last year (1) business is solvent (1) any other valid points (1)
Max 3*

(3 marks)

- (c) Calculate for the year ended 31 March 2003:

- (i) the percentage of gross profit to sales;

<i>84 000 (1)/336 000 (1) x 100 (1) = 25%</i>

(3 marks)

- (ii) the percentage of net profit to sales;

<i>36 960 (1)/336 000 (1) x 100 (1) = 11%</i>

(3 marks)

- (iii) the percentage of net profit to capital employed.

<i>36 960 (1)/462 000 (1) x 100 (1) = 8%</i>

(3 marks)

- (d) Comment on the profitability position of the business. Make use of your answers to (c) (i), (ii) and (iii) and the information for the year ended 31 March 2003.

*Gross profit ratio should be similar from year to year (1). Net profit ratio should be similar from year to year (1). ROCE higher the better (1). Can be compared with available interest rates (1). Not as high as last year (1). Need to compare with competitors (1). Any other valid points – 1 mark each.
Max 3*

(3 marks)

(e) Calculate for the year ended 31 March 2004:

(i) the rate of stock turnover;

$252\ 000\ (1)/21\ 000\ (2) = 12\ times$

(3 marks)

(ii) the percentage of expenses to sales.

$47\ 040\ (2)/336\ 000\ (1) = 14\%$

(3 marks)

(f) Describe the activity (or efficiency) of the business. Make use of your answers to (e) (i) and (ii) and the information for the year ended 31 March 2003.

*The higher the stock turnover the faster stock is being sold (1). Faster stock turnover in the second year (1). Expenses are a higher proportion of sales in the second year (1).
Max 2*

(2 marks)

(g) Graham Parsons would like to know if his business did better in the year to 31 March 2003 or 2004.

Explain to Graham in which year you think his business did best. Give reasons for your answer.

*Decision based on candidate's calculations (1). The business is more solvent in second year (1). The business is less profitable in the second year (1). It is better to be able to pay debts than be profitable, as firm will not go out of business (1). Better stock turnover year two (1) any other valid (1)
Max 3*

(3 marks)

- (h) Identify an internal group who have an interest in the accounts of a business organisation and give one reason why they would be interested.

Internal group <i>owners/managers/employees/union (1)</i>
Reason <i>(1) for valid reason</i>

(2 marks)

- (i) Identify an external group who may have an interest in the accounts of a business and give one reason why they would be interested.

External group <i>Inland Revenue/Customs and Excise/government/local authority/bank</i>
Reason <i>(1) for valid reason</i>

(2 marks)