



General Certificate of Education

Accounting ACCN2

**Unit 2 Financial and Management
Accounting**

Mark Scheme

2009 examination - June series

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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ACCN2

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.

NOTE FOR TEACHERS

Please note that this mark scheme contains very detailed information for the benefit of examiners, which is designed to guide them when deciding what are acceptable responses and what are not.

Inevitably some of this guidance for examiners recommends the acceptance of candidates' responses which are only valid in the context of this particular examination. Centres are advised that these responses should not necessarily be seen as good practice.

1

Total for this question: 10 marks**REQUIRED**

- 1 (a) Calculate the value of last season's shirts to be included in the closing stock.

Value of shirts

Cost	
100 x 20 = 2000	
	NRV
	100 x 22 = 2200 (1)
	Less advertising <u>300 (1)</u>
	<u>1900 (1OF)</u>

Alternative answer if calculated for one shirt

NRV	
300 ÷ 100	<u>3 (1)</u>
	22 (1)
	<u>19</u>
19 x 100 = 1900 (1)	

Plus 1 mark for: selecting lower of cost or net realisable value

4 marks

- 1 (b) State
- one**
- accounting concept that is applied to the valuation of stock.

1 mark for one concept from:

Prudence

Cost .

Materially

Consistency

1 mark

- 1 (c) Calculate the provision for doubtful debts at 31 May 2009.

$$38\,750 \times 5\% = \text{£}1937.50 \text{ (2)} \quad \text{2 or 0}$$

Answer must be exact. 1938 is not accepted

2 marks

- 1 (d) Calculate the effect the change in provision will have on Fei's net profit for the year ended 31 May 2009.

	£	
Closing provision	1 937.50	
Opening provision	<u>2 025.00</u>	1 for calculation using the two provisions
Reduction in provision	<u>(87.50)</u>	(1)

(1) for identification of effect eg increase in profit based on own figure calculation
e.g. correct use of change in provision**3 mark**

2

Total for this question: 10 marks**REQUIRED**2 Discuss **two** reasons why Jemima and Jim should **not** form a private limited company.

Reason 1 mark for reason – two only	Examples 0-2 marks
Legal requirements Red Tape Bureaucracy	<ul style="list-style-type: none"> • The company must be registered at Companies House (1). • The accounts have to be filed (1) there and may have to be audited (1) depending on size of business. • There could be start-up costs in setting up a limited company.
Shareholders will require dividends	<ul style="list-style-type: none"> • If they sell shares to other shareholders they will require a return in the form of dividends, however if they form a partnership then they would share the profit between themselves.
Control	<p>If Jemima and Jim sell shares to others they may lose control of the company (1) and would not be able to run it the way they want (1).</p> <p>If one shareholder buys more than half the shares they would lose control (1) – this could be likely as they need to raise £50 000 (1).</p>

Do not reward:

- Any suggestion that should set up as PLC
- Difficulty of raising finance because can only sell shares to family and friends – this does not address the question.

1 mark for each reason (two only) + 0-2 for development)

6 marks

Evaluation/conclusion: This should be rewarded wherever it appears in the answer.

Summarising arguments and giving some judgement on the significance of the limitations.

0-2 marks

This could take the form of:

Advice e.g do not set up as Ltd company (1) + justification (1)

Do set up as Ltd company (1) + justification (1)

Evaluation of reasons(1) Plus development (1)

e.g. these reasons are not significant (1) when compared with benefits of limited liability.

8 marks

QWC

For quality of written communication:

For using good English, spelling, punctuation and grammar

2 marks

For 2 marks the answer should be:

Legible, complete sentences with good spelling, basic punctuation and appropriate use of technical terms.

(Please note spelling/punctuation could contain one or two errors).

10 marks

3

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

- 3 (a) Prepare a cash budget for **each** of the three months, July, August and September, assuming the directors purchase the computer system.

	Cash Budget				Cash budgets for each month can be shown separately.	
	July		August		September	
	£		£		£	
Receipts						
Cash sales	26 400	(1)	43 200	(1)	39 600	(1)
Credit sales	20 000	(1)	17 600	(1)	28 800	(1)
	<u>46 400</u>		<u>60 800</u>		<u>68 400</u>	
Payments						
Purchases	22 500	(1)	36 000	(1)	33 000	(1)
Operating expenses	11 500		12 750		11 250	(1) for row
Dividends			27 550	(1)		
Hardware	7 500	(1)			22 500	(1)
Software			3 750	(1)		
Set-up and training costs			4 750	(1)		
Maintenance			250	(1)	250	(1)
	<u>41 500</u>		<u>85 050</u>		<u>67 000</u>	
Net cash flow	4 900		(24 250)		1 400	
Opening balance	(400)	(1)	4 500		(19 750)	
Closing balance	4 500		(19 750)		(18 350)	(1) Correct figure only

Can award 2 marks
for total receipts
e.g 46 400

Narratives not essential for answers.

If depreciation and/or overdraft included then candidate automatically loses closing balance mark.

(1OF) for process of balancing budget (for adjusting balance for cash flow and carrying balance forward – check process do not need to check additions). **20 marks**

- 3 (b) Advise the directors whether or not they need to arrange additional finance to purchase the computer system. Justify your advice.

1 mark for statement of advice

Advice

The directors do/do not need to arrange additional finance.

1 mark

Justification

1 for linking advice to cash budget plus 1 mark using figures (should involve calculation or comparison e.g. exceeds overdraft)

Plus either (1) for source of finance or (1) for forecasts inaccurate.

0-3 marks

4 marks

- 3 (c) Discuss **two** disadvantages to Angelbuild Ltd, other than the cost of installation, of a computerised system of stock control.

Disadvantage	Possible development/explanation
System failure	Many computer systems do not work when first installed and need time to “settle down”. This could cost Angelbuild sales and profit.
Staff training	Training will take time and may mean that staff cannot carry out their existing jobs effectively.
Staff attitudes	Staff may resent or fear the introduction and morale and motivation may suffer – impacting on productivity
Loss of data	Danger of losing data through virus or hacking – could adversely affect business performance.
Health and Safety eg eyestrain/headache	Impact on business eg extra cost of providing seats etc.
Inaccurate data	Caused by input errors – could lead to business losing money
Parallel running	Should run new system alongside existing this will be an additional expense for the business
Costs	Maintenance of hardware and software improvements.

NB: If disadvantage does not relate directly to business e.g. staff issues it can be rewarded if development shows the impact on the business.

Do not reward: Loss of jobs (unless linked directly to the business e.g. redundancy costs).

1 mark for each disadvantage + 1 for development
4 marks

Discussion/conclusion

The benefits of installation could still outweigh these disadvantages. With careful management many of the disadvantages can be avoided. **0-2 marks**

1 mark for conclusion/advice plus 1 for justification.

Overall 6 marks

4

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

4 (a) Calculate the number of bonus shares issued.

£700 (1) shares x 10 (1) = 7000 (1) shares issued**Bonus issue 7000 x 50 (1) = 350 000 shares (1OF)****5 marks****If answer = 35000 shares, 4 marks awarded (even if no workings)**

4 (b) Calculate the total proposed final dividend.

(1OF)****Award 1 mark for OF figure from (a) + 7000****1 mark for multiplying by 20p****357 000 (1OF) x 0.2 (1) = 71 400****2 marks**

4 (c) Prepare a profit and loss appropriation account for the year ended 30 April 2009.

Carins Ltd
Profit and Loss Appropriation Account for the year ended 30 April 2009

	£	£	
Net profit*		105 000	
Less corporation tax*		21 000	(1) (Can be deducted anywhere)
Net profit after tax		84 000	
Ordinary shares			
Interim dividend	*1 400	(3OF)	(700 x 10 = 7000(1) x 0.2(1))
Final dividend	71 400		(1OF)
		72 800	
Retained profit for the year*		11 200	(1OF) No extraneous items for OF mark e.g. revaluation reserve. If include profit / loss account B/F - ok for OF mark

6 marks*** 1400 is worth 3 marks (any other answer must have workings to gain marks)****QWC****For quality of presentation:****1 mark for title/heading - must include name, heading in full e.g Profit and loss appropriation account for the year ended and date in full.****1 mark for headings - must have net profit followed by corporation tax Plus retained profit (or earnings) for the year. (All wording required).****2 marks****Overall max 8 marks**

4 (d) Prepare the capital and reserves section of the balance sheet at 30 April 2009.

Capital and reserves	£	
Ordinary shares of 10p each fully paid	35 700	(3) W1
Share premium account	250*	(1)
Revaluation reserve	*	
Profit and loss account W2	<u>34 981</u>	(3OF)
	70 931	(1OF)

W1

(1) for OF from (a) x 10p eg 350 000 x 10p = 35 000

(1) for 700 plus (1) for adding together

If bonus issue shown separately then 2 marks only

W2 11 200 (1)+ 23 781(1) = 34 981 (1OF)

This could be calculated in (c) – but reward here.

* Could use either Share premium or Revaluation reserve so Revaluation reserve could be £250.

Total capital reserves = 250 for 1 mark or 1OF if consistent with bonus issue in (a).

But must show working here.

8 marks

4 (e) Calculate the gearing ratio at 1 May 2008 and 30 April 2009. State the formula used.

Formula:
$$\frac{\text{Long term liabilities} \times 100^*}{\text{Capital and reserves} + \text{long term liabilities}} \quad (1)$$

At 1 May 2008

At 30 April 2009

$$\frac{65\,000 \times 100}{59\,731 + 65\,000} \quad (1) = 52\% \quad (1) \qquad \frac{65\,000 \times 100}{70\,931 + 65\,000} \quad (1) = 48\% \quad (10F)$$

If shown as ratio 0:52:1 (1 May 2008) or 0:48:1 (30 April 2009), this can be rewarded.

* 100 not necessary for mark as can calculate as ratio.

5 marks

If answer is correct including % or :1 then award 2 marks (must have % or :1)

If incorrect then can award 1 mark for calculation

eg
$$\frac{65\,000}{59\,731 + 65\,000}$$

Could be calculated as
$$\frac{\text{Long term liabilities}}{\text{Capital} + \text{reserves}} \quad (1)$$

$$\frac{2008}{108.8\%}$$

$$\frac{2009}{91.6\%}$$

OR

OR

$$1.09:1$$

$$0.92:1$$

If rounded – Rounding must be mathematically correct

April 2009 calculations based on own figure from (d)

4 (f) Explain one reason why the gearing ratio has changed.

The increase in retained earnings (1) has increased the capital employed (1) and reduced the gearing ratio.

(change in gearing can only be explained by change in retained earnings). **2 marks**