

General Certificate of Education

Accounting 5121

*ACC1 Financial Accounting:
The Accounting Information System*

Mark Scheme

2006 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.

June 2006

ACCI

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.

Quality of Written Communication

Once the whole script has been marked the work of the candidate should be assessed for the Quality of Written Communication, using the criteria at the end of the mark scheme. The mark should be shown separately on the candidate's script.

1**Total for this question: 2**

Usman Khan uses a three-column cash book as part of his double-entry bookkeeping system. The following details relate to January 2006.

January		£
1	Balance in cash account	50
	Overdrawn bank balance	1236
2	Cheque paid to Bilton Office Supplies in settlement of an invoice for £167	164
6	Cheque from R Reed paid into bank	567
11	Paid rent by cheque	450
13	Cheque from B Brown paid into bank. Discount of £4 had been taken by the customer	366
14	Cash sales	752
27	Paid wages of part-time employee in cash	75
28	Cash sales	642
A bank statement received on 28 January revealed the following additional items.		
20	Standing order to British Gas	200
21	Interest charged by bank	28
24	Credit transfer from C Denton and Co Ltd	248
On 31 January, all cash in hand, except a float of £50, was paid into the bank.		

(1) REQUIRED

- (a) Prepare the cash book for the month of January 2006 from the information provided above.
- (b) Balance the cash book at the end of the month and bring down the balances at 1 February 2006.

Usman Khan Cash Book

Cr									
Date	Details	Discount £	Cash £	Bank £	Date	Details	Discount £	Cash £	Bank £
Jan 2006					Jan 2006				
1	Balance b/d		50 (1)		1	Balance b/d			1236 (1)
6	R Reed			567 (1)	2	Bilton Office Supplies	3 (1)		164 (1)
13	B Brown	4		366 (1)	11	Rent			450 (1)
14	Sales		752 (1)		27	Wages		75 (1)	
28	Sales		642 (1)		20	British Gas			200 (1)
24	C Denton and			248 (1)	21	Bank interest			28 (1)
31	Cash			1319 (1) OF	31	Bank		1319 (1) OF	
31	Balance c/d					Balance c/d		50	422
		4	1444	2500			3	1444	2500
Feb 2006									
1	Balance b/d		50 (1)	422 (1) OF					

Dr

- (1) (c) Post the discounts to the general ledger accounts.

Dr			Discounts Allowed Account			Cr		
Date 2006	Details	£	Date 2006	Details	£			
January	Cash book	4 (1) or (0)						

Dr			Discounts Received Account			Cr		
Date 2006	Details	£	Date 2006	Details	£			
			January	Cash book	3 (1) or (0)			

2 marks

2

Total for this question: 16 marks

A trainee accountant produced a draft profit and loss account which showed a net profit for the year ended 31 March 2006 of £17 690. Her supervisor subsequently discovered the following errors.

- (1) The purchases day book had been undercast by £520.
- (2) The cost of repairs to a delivery van of £450 had been debited to the motor vehicles account.
- (3) A payment of £500 for insurance had been completely omitted from the accounts.
- (4) A cheque for £2300 received from B Harrison, a debtor, had been credited to the account of B Harris.
- (5) Discount received of £1300 had been charged as an expense in the profit and loss account.
- (6) The closing stock had been recorded in the trading account as £3000. The correct figure was £300.

REQUIRED

- (2) (a) Calculate the correct net profit. Show clearly whether **each** adjustment is added, subtracted or has no effect on the profit calculation.

Correction (1) has been completed as an example.

Corrected net profit for the year ended 31 March 2006

		£	
Net profit as given		17 690	
(1) Purchases undercast	<i>subtract</i>	<u>520</u>	
		17 170	
(2) Vehicle repairs	subtract	450 (1)	
(3) Insurance omitted	subtract	500 (1)	
(4) Error of commission	no effect (1)		
(5) Discount received	add	2 600 (2)	
(6) Closing stock overstated	subtract	2 700 (1)	
Corrected net profit		<u>16 120 (1) OF</u>	

7 marks



- (2) (b) Explain the difference between an error of commission and an error of principle.

Error of commission is where an amount has been entered in the wrong account of the same type (1), example (1), and will not result in incorrect final accounts (1). max 2 marks

Error of principle is where an amount has been entered in a wrong class of account (1), example (1), and will result in incorrect final account (1). max 2 marks

4 marks

- (2) (c) Evaluate the extent to which the use of computer accounting software can eliminate bookkeeping errors.

Computerised accounting has the advantage of automatically posting to both ledger accounts affected by a transaction (1) and therefore should eliminate some types of error (1) including arithmetical ones (1). max 3 marks

However, there will still be the possibility of errors of omission (1) and errors of original entry (1) due to incorrect data inputting (1). max 3 marks

Overall max 5 marks

3 **Total for this question**

Aston Suppliers offers both trade and cash discounts to customers.

REQUIRED

- (a) Explain the following terms.

Trade discount

Offered between businesses (1); generally in the same sector (1); can be offered for bulk buying (1); represents part of profit margin (1). max 2 marks

Cash discount

Offered to encourage prompt payment (1); to try to improve cash flow (1). Deducted from invoice by a payer (1). max 2 marks**4 marks**

Aston Suppliers recently supplied goods to a customer on the following terms.

Price of goods before all discounts and VAT	£2500
Trade discount agreed	20%
Cash discount offered	2%
VAT	17.5%

REQUIRED

- (b) Calculate the total amount of the invoice, including VAT, for these goods, showing all your workings.

Invoice total: £2343 (5 marks for correct answer)**Workings: give credit for incorrect answer where the following can be identified –****2500 x 20% = 500 (1) trade discount****2000(1) x 2% = 40(1) cash discount (OF)****1960 x 17.5% = 343(1) VAT (OF but must be based on SP less trade and cash discount)****2000 + 343 = 2343 Invoice value (1) (allow OF if their VAT added to their goods less trade discount figure).****5 marks**

4

Total for this question: 9 marks

The following information relating to the month of May 2006 has been extracted from the subsidiary books of W G Shrubbs on 31 May 2006.

	£
Sales day book	43 500
Purchases day book	28 900
Returns inwards day book	625
Returns outwards day book	1 340
Discounts allowed	425
Discounts received	780
Payments received from credit customers	35 600
Payments made to credit suppliers	17 680

The general journal also showed that on 15 May 2006, a debit balance of £560 in the sales ledger was set off against a credit balance in the purchases ledger (contra entry).

At 1 May 2006, there was a debit balance on the sales ledger control account of £12 560.

REQUIRED

- (a) Prepare the sales ledger control account for the month of May 2006. Bring down the balance at 1 June 2006.

Dr		Sales Ledger Control Account				Cr	
Date 2006	Details	£		Date 2006	Details	£	
May 1	Balance b/d	12 560	(1)		Payments	35 600	(1)
	Sales	43 500	(1)		Returns in	625	(1)
					Discounts all.	425	(1)
					Contra	560	(1)
					Balance c/d	<u>18 850</u>	
		<u>56 060</u>				<u>56 060</u>	
June 1	Balance b/d	18 850	(1) OF (both)				

7 marks

On 31 May 2006, the total of the balances extracted from the sales ledger was £17 640.

REQUIRED

- (b) Explain **one** benefit of using control accounts.

The control account helps to check the accuracy of the double entry system within each personal ledger (1) and to locate errors. (1)

It would appear that there are mistakes in the sales ledger/debtors' accounts (1) and/or in the books relating sales/debtors' transactions. (1)

max 2 marks

The following is the trial balance of P Pann at 31 December 2005.

	Dr	Cr
	£	£
Wages and salaries	29 000	
Purchases and sales	65 000	125 000
Carriage outwards	3 000	
Returns	2 000	4 000
Motor vehicle	38 250	
Trade debtors	25 000	
Discounts	2 000	5 000
Stock at 1 January 2005	22 000	
Trade creditors		8 000
Carriage inwards	2 500	
Bank overdraft		4 500
VAT		2 250
Capital		40 000
	<u>188 750</u>	<u>188 750</u>

Additional information

At 31 December 2005, the closing stock was valued at £12 500.

REQUIRED

- (a) Prepare the trading and profit and loss account for P Pann for the year ended 31 December 2005.

P Pann
Trading and Profit Loss Account for the year ended 31 December 2005

Sales		125 000	(1)
Less returns inwards		<u>2 000</u>	(1)
		123 000	
Less cost of goods sold			
Opening stock	22 000		(1)
Purchases	65 000	(1)	
Carriage inwards	<u>2 500</u>	(1)	
	67 500		
Less returns outwards	<u>4 000</u>	(1)	63 500
	85 500		
Less closing stock	<u>12 500</u>	(1)	73 000
Gross profit		50 000	(1) OF (must be labelled)
Plus discount received		<u>5 000</u>	(1)
		55 000	
Less expenses			
Wages and salaries	29 000	(1)	
Discount allowed	2 000	(1)	
Carriage outwards	<u>3 000</u>	(1)	34 000
Net profit		<u>21 000</u>	(1) OF (must be labelled)

13 marks

(5)

(b) Explain **two** differences between fixed assets and current assets. Give **one** example of each.

Difference 1:

Fixed assets are items owned by the business which it intends to keep for more than one year, whereas current assets are of a short-term nature.

(1 + 1 for development)

Difference 2:

Fixed assets are used in the course of the business, not intended for resale(1). Current assets are easily turned into cash.

(1 + 1 for development)

(Other valid differences will be accepted.)

Example of fixed asset: any valid example (1)

Example of current asset: any valid example (1)

6 marks

(c) Explain the term long-term liabilities. Give **one** example.

Explanation:

Amounts owed by the business (1) which are due for repayment more than one year hence (1).

Example: bank loan over more than 1 year, mortgage etc (1).

3 marks

QUALITY OF WRITTEN COMMUNICATION

After the candidate's script has been marked, the work should be assessed for the Quality of Written Communication, using the following criteria.

Marks

- 0** Accounts and financial statements are unclear and poorly presented.
There is little or no attempt to show workings or calculations.
Descriptions and explanations lack clarity and structure.
There is very limited use of specialist vocabulary.
Answers may be legible but only with difficulty.
Errors in spelling, punctuation and grammar are such that meaning is unclear.
- 1-2** There is some attempt to present accounts and financial statements in an appropriate format.
Workings are missing or are not clearly linked to the answers.
Descriptions and explanations are understandable but they lack a logical structure.
There is some use of specialist vocabulary but this is not always applied appropriately.
In most cases answers are legible, but errors in spelling, punctuation and grammar are such that meaning may be unclear.
- 3** Accounts and financial statements are generally well presented but there are a few errors.
Workings are shown and there is some attempt to link them to the relevant account(s).
Descriptions and explanations are usually clearly expressed but there are some weaknesses in the logical structure. There is a good range of specialist vocabulary which is used with facility.
Answers are legible. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed.
- 4** Accounts and financial statements are well organised and clearly presented.
Workings are clearly shown and easy to follow. Descriptions and explanations are clearly expressed.
Arguments are logically structured. There is wide use of specialist vocabulary which is used relevantly and precisely.
Answers are clearly written and legible. Spelling is accurate and the standard conventions of punctuation and grammar are followed so that meaning is clear.

