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**General Certificate of Education**

**Accounting ACC1**

**Unit 1 Financial Accounting: The  
Accounting Information System**

**Mark Scheme**

*2007 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 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.

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June 2007

## 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

Gill Norton owns a shop selling ladies' fashions. The following information has been extracted from her books of account at 30 April 2007.

	£
Balance at bank	6 110
Capital at 1 May 2006	112 700
Computer equipment	3 100
Discounts received	810
Drawings	8 200
General expenses	8 640
Mortgage on premises (repayable 2015)	20 000
Premises	126 700
Purchases	63 160
Rates	10 400
Returns outwards	480
Sales	133 620
Stock at 1 May 2006	16 450
Stock at 30 April 2007	14 200
Trade creditors	5 210
Trade debtors	7 450
VAT (due from HM Revenue and Customs)	660
Wages	21 950

**REQUIRED**

1(a) Prepare a trading and profit and loss account for the year ended 30 April 2007.

<b>Gill Norton</b>			
<b>Trading and Profit and Loss account for the year ended 30 April 2007 (1)</b>			
<b>Sales</b>			<b>133 620 (1)</b>
<b>Stock at 1 May 2006</b>	<b>16 450</b>	<b>(1)</b>	
<b>Purchases</b>	<b>63 160</b>	<b>(1)</b>	
<b>Returns outwards</b>	<b><u>(480)</u></b>	<b>(1)</b>	
	<b>79 130</b>		
<b>Stock at 30 April 2007</b>	<b><u>(14 200)</u></b>	<b>(1)</b>	
<b>Cost of sales</b>			<b><u>64 930</u></b>
<b>Gross profit (<i>must be labelled</i>)</b>			<b>68 690 (1 OF)</b>
<b>Discounts received</b>			<b><u>810</u> (1)</b>
			<b>69 500</b>
<b>Wages</b>	<b>21 950</b>	<b>(1)</b>	
<b>Rent and rates</b>	<b>10 400</b>	<b>(1)</b>	
<b>General expenses</b>	<b><u>8 640</u></b>	<b>(1)</b>	
<b>Net profit (<i>must be labelled</i>)</b>			<b><u>28 510</u> (1 OF)</b>

**12 marks**

1(b) Prepare a balance sheet at 30 April 2007.

<b>Gill Norton</b>			
<b>Balance Sheet at 30 April 2007 (1)</b>			
<b>FIXED ASSETS *</b>			
<b>Premises</b>			<b>126 700 (1)</b>
<b>Computer equipment</b>			<b><u>3 100</u> (1)</b>
			<b>129 800</b>
<b>CURRENT ASSETS *</b>			
<b>Stock</b>	<b>14 200</b>	<b>(1)</b>	
<b>Trade debtors</b>	<b>7 450</b>	<b>(1)</b>	
<b>VAT Revenue and Customs</b>	<b>660</b>	<b>(2)</b>	
<b>Balance at bank</b>	<b><u>6 110</u></b>	<b>(1)</b>	
	<b><u>28 420</u></b>		
<b>CURRENT LIABILITIES *</b>			
<b>Trade creditors</b>	<b><u>5 210</u></b>	<b>(1)</b>	
<b>NET CURRENT ASSETS (<i>must be labelled</i>)</b>			<b><u>23 210</u> (1 OF)</b>
			<b>153 010</b>
<b>LONG TERM LIABILITIES *</b>			
<b>Mortgage on premises (repayable 2015)</b>			<b><u>20 000</u> (1)</b>
			<b><u>133 010</u></b>
<b>CAPITAL ACCOUNT</b>			
<b>Brought forward</b>			<b>112 700 (1)</b>
<b>Net profit for the year</b>			<b><u>28 510</u> (1 OF)</b>
			<b>141 210</b>
<b>Less: Drawings</b>			<b><u>8 200</u> (1)</b>
			<b><u>133 010</u></b>

Headings – all four for 1 mark

**15 marks**

Gill Norton purchased the computer equipment in March 2007 and has already computerised the sales ledger and the stock records of the business. As a result, her accounting records are more accurate.

1(c) Explain **two** other benefits that Gill Norton would expect after computerising her sales ledger and stock records.

**Speed – faster processing enabling better credit control, stock control, improved cash flow, less likelihood of bad debts.**

**Presentation – neater, resulting in less likelihood of errors.**

**Report generation – resulting in better overall management control leading to better image, less likelihood of stock-outs, better credit control.**

*(max 3 marks for each benefit – 1 for identification, 2 for development)*     **max 6 marks**

2

Total for this question: 18 marks

The bank columns of Western Products' cash book show a debit balance of £3426.67. The balance shown on the bank statement at 31 May 2007 did not agree with the cash book balance.

On investigation, the following were discovered.

- (1) A cheque paid for fuel on 27 May 2007 for £64.14 had been entered in the cash book, but had not yet been presented to the bank.
- (2) Cheques received from customers totalling £1325.50 had been entered in the cash book and paid into the bank on 31 May 2007. These cheques were not shown on the bank statement.
- (3) A cheque paid for advertising for £132.90 had been entered in the cash book as £123.90.
- (4) The bank had paid a direct debit for a subscription of £55.00 on 19 May 2007, but no entry had been made in the cash book.
- (5) On 31 May 2007, the bank had debited the account with bank charges of £115.00 and credited the account with bank interest of £34.50. Neither of these amounts had been entered in the cash book.

**REQUIRED**

2(a) Make the necessary entries in the cash book of Western Products and show the updated balance.

**Cash Book (bank columns only)**

Date	Details	£	p		Date	Details	£	p	
31 May	Balance b/d	3426	67		20 May	Advertising	9	00	(2)
31 May	Bank interest	34	50	(1)	19 May	DD Subscriptions	55	00	(1)
					31 May	DD Bank charges	115	00	(1)
					31 May	Balance c/d	3282	17	
		<u>3461</u>	<u>17</u>				<u>3461</u>	<u>17</u>	
1 June	Balance b/d	3282	17	1(OFF) for both balances					

**6 marks**

2(b) Prepare a bank reconciliation statement that clearly shows the balance on the bank statement at 31 May 2007.

**Bank Reconciliation Statement at 31 May 2007 (1)**

Balance per cash book	3282.17	(1 OF)
Add: unrepresented cheques	64.14	(1)
Deduct: uncredited lodgements	<u>(1325.50)</u>	(1)
Balance per bank statement	<u>2020.81</u>	(1 OF)

**5 marks**

2(c) Write a memorandum to the manager of Western Products, explaining why it is important to prepare a bank reconciliation statement.

**MEMORANDUM**

**To:** A Manager

**From:** A Student

**Date:** 6 June 2007

**Subject:** Importance of preparing bank reconciliation statements.

*(1 mark for memorandum format)*

- **To check the accuracy of the bank columns in the cash book (1)**  
**This involves comparing entries in the cash book with the bank statement (1), and missing entries accounted for (1)**
- **Bank errors can be identified (1) and the bank notified for correction (1) and updating (1)**
- **Acts as a deterrent to fraud (1) – bank statement is an independent accounting record (1) prepared by the bank (1)**
- **Any other relevant comments to be rewarded.**

max 6 marks



3

Total for this question: 13 marks

Ling Cao sold goods to Prima Fashions on 1 May 2007. She agreed to allow the customer 20% trade discount in addition to 2% cash discount for settlement within 14 days.

Prima Fashions paid the invoice on 8 May 2007.

The invoice is shown below.

<b>SALE INVOICE</b>			
Ling Cao, Unit 22, West Parade, Manchester, M1 6DS			
Telephone 0161 111 2222			
Prima Fashions 62 High Street Birmingham B6 1AH			
Account No. P312			
Date: 1 May 2007			
Invoice No: 05/001		VAT Registration No: 111 2323 456	
Quantity	Details	Unit Price £	Total £
16	Ladies' suits	40.00	640.00
10	Dresses	12.00	<u>120.00</u>
			760.00
		Trade discount	<u>152.00</u>
			608.00
		VAT at 17.5%	<u>104.27</u>
			<u>712.27</u>
Settlement terms: 2% discount for settlement within 14 days			

**REQUIRED**

3(a) Enter the invoice and the payment received from Prima Fashions in the books of Ling Cao.

**Sales Day Book**

Date	Customer	Total £	VAT £	Net £
<b>1 May</b>	<b>Prima Fashions</b>	<b>712.27</b>	<b>104.27</b>	<b>608.00</b>
		(1)	(1)	(1)

**Bank Account**

Dr			Cr		
Date	Details	£	Date	Details	£
<b>8 May</b>	<b>Prima Fashions</b>	<b>700.11</b>			
		(1 OF)			

**Sales Account**

Dr			Cr		
Date	Details	£	Date	Details	£
			<b>1 May</b>	<b>Sales day book</b>	<b>608.00</b>
					(1 OF)

**Discount Allowed Account**

Dr			Cr		
Date	Details	£	Date	Details	£
<b>8 May</b>	<b>Prima Fashions</b>	<b>12.16</b>			
		(2)			

**VAT Account**

Dr			Cr		
Date	Details	£	Date	Details	£
			<b>1 May</b>	<b>Sales day book</b>	<b>104.27</b>
					(1 OF)

**Prima Fashions**

Dr			Cr		
Date	Details	£	Date	Details	£
<b>1 May</b>	<b>Sales day book</b>	<b>712.27</b>	<b>8 May</b>	<b>Bank</b>	<b>700.11</b>
		(1 OF)			(1 OF)
			<b>8 May</b>	<b>Discount allowed</b>	<b>12.16</b>
					(1 OF)

**11 marks**

3(b) Explain the term 'trade discount'.

**An amount allowed as a reduction in price (1) when goods are sold to another business rather than a member of the public (1); will be offered when an established trading relationship exists (1) or to reflect bulk quantities (1).**

**max 2 marks**

4

Total for this question: 12 marks

The following petty cash information relates to Harris Engineering for the week ended 25 May 2007.

21 May	Petty cash in hand £14.37
21 May	Cash received from cashier to restore the imprest to £100
22 May	Payment for postage £11.50 (no VAT), voucher 124
24 May	Payment for petrol £20.00 (plus VAT at 17.5%), voucher 125
25 May	Payment for stationery £14.57 (including VAT at 17.5%), voucher 126

**REQUIRED**

4(a) Make the necessary entries in the petty cash book on the opposite page. Total and balance the petty cash book at 25 May 2007. **(Please see page 12).**

4(b) Enter the total of the VAT column from the petty cash book into the VAT account shown below.

Dr			VAT Account		Cr	
Date	Details	£	Date	Details	£	
25 May	Petty Cash Book (1)	5.67	21 May	Balance	814.56	
		(1 OF)				

**2 marks****max 12 marks**

## Petty Cash Book

Received		Date	Details	Voucher	Total		VAT		Petrol		Postage		Stationery	
£	p				£	p	£	p	£	p	£	p	£	p
14	37 (1)	21 May	Balance b/d											
85	63 (1)	21 May	Cash received											
		22 May	Postage	124	11	50 (1)					11	50		
		24 May	Petrol	125	23	50 (1)	3	50 (1)	20	00				
		25 May	Stationery	126	14	57	2	17 (1)					12	40
					49	57 (1 OF)	5	67	20	00	11	50	12	40
		25 May	Balance c/d		50	43								
100	00				100	00								
50	43 (1 OF) for both balances	26 May	Balance b/d											

**10 marks**

1 OF mark for all voucher details and narrative correctly entered.

1 OF mark for correct analysis of expenses.

## 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.

To help them to make judgements, examiners should focus on the following issues.

Are there clear presentations of formats and prose answers?

Are there clear and logical workings, where appropriate?

Is the whole script legible and understandable and logically argued (including spelling, punctuation and grammar)?

Is there a grasp of accounting terminology (eg avoiding slang, avoiding text language, avoiding abbreviations in prose answers)?