

# GCE 2005

## *January Series*



ASSESSMENT and  
QUALIFICATIONS  
ALLIANCE

# Mark Scheme

## Accounting

### ACC2 Financial Accounting: Introduction to Published Accounts of Limited Companies

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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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**January 2005**

AC

**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.

**Asterisks**

One asterisk \* denotes one mark.

**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:**

It is important for the accuracy of accounts that assets are correctly identified as either fixed or current.

**REQUIRED**

- (a) Give **one** example of a fixed asset. **e.g. Buildings \***. **1 mark**
- (b) Give **one** example of a current asset. **e.g. Stock \***. **1 mark**
- (c) Identify **two** characteristics of a fixed asset.

**Held for more than one year \*.**

**Not purchased to be resold \*.**

**Used within the business to generate profits \*.**

**max 2 marks**

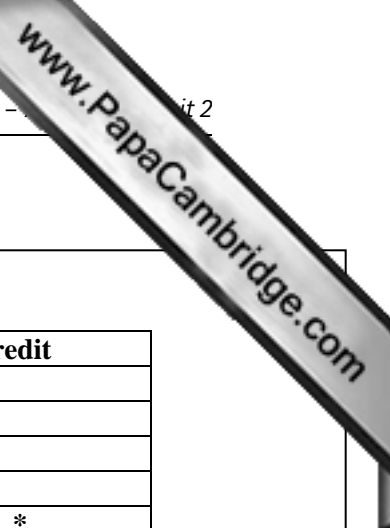
**2****Total for this question: 38 marks**

The following list of balances has been extracted from the books of Helen Jones Ltd as at 31 October 2004, the end of the first year of trading.

	£
Buildings	55 000
Carriage inwards	245
Cash at the bank	5 891
Creditors	2 670
Debtors	1 540
Motor vehicles	10 000
Purchases	22 000
Rates	4 000
Rent receivable	2 843
Returns inwards	790
Returns outwards	460
Salaries	13 500
Sales	46 500
Stock at 1 November 2003	2 745
VAT – amount due to HM Customs and Excise	238

**REQUIRED**

- (a) (i) Complete the entries for these balances in the trial balance for Helen Jones Ltd as at 31 October 2004.
- (ii) Calculate and enter the share capital.
- (iii) Show the final totals of the trial balance.



(2)

**Helen Jones Ltd  
Trial Balance as at 31 October 2004**

	Debit	Credit
	£	£
Buildings	55 000 *	
Carriage inwards	245 *	
Cash at the bank	5 891 *	
Creditors		2 670 *
Debtors	1 540 *	
Motor vehicles	10 000 *	
Purchases	22 000 *	
Rates	4 000 *	
Rent receivable		2 843 *
Returns inwards	790 *	
Returns outwards		460 *
Salaries	13 500 *	
Sales		46 500 *
Stock at 1 November 2003	2 745 *	
VAT - amount due to HM Customs and Excise		238 *
Share capital		63 000 *OF ** CF
<b>Totals</b>	<b>115 711 *</b>	<b>115 711</b>

CF = correct figure required.

17 marks

- (b) Prepare the trading and profit and loss account for Helen Jones Ltd for the year ended 31 October 2004.  
Stock at 31 October 2004 was £2360.

**Helen Jones Ltd  
Trading and Profit and Loss Account for the year ended 31 October 2004**

Sales		46 500 *	
Less returns inwards		790 *	
		45 710	
Less cost of sales			
Opening stock		2 745 *	
Purchases	22 000 *		
Add carriage in	245 *		
Less returns outwards	460 *	21 785	
		24 530	
Less closing stock		2 360 *	22 170
Gross profit			23 540 * OF no aliens labelled
Add rent receivable			2 843 *
			26 383
Less expenses			
Salaries		13 500 *	
Rates		4 000 *	17 500
Net profit	(labelled)	8 883	* OF no aliens

All items must be in correct section.

12 marks

(2)

(c) Prepare the balance sheet as at 31 October 2004.

**Helen Jones Ltd**  
**Balance Sheet as at 31 October 2004**

<b><u>Fixed assets</u></b>			
<b>Buildings</b>			<b>55 000</b>
<b>Motor vehicles</b>			<b>10 000</b>
			<b><u>65 000</u> *</b>
<b><u>Current assets</u></b>			
<b>Stock</b>		<b>2 360</b>	<b>*</b>
<b>Debtors</b>		<b>1 540</b>	<b>*</b>
<b>Bank</b>		<b>5 891</b>	<b>*</b>
		<b><u>9 791</u></b>	
<b><u>Less current liabilities</u></b>			
<b>Creditors</b>	<b>2 670</b>		<b>*</b>
<b>VAT</b>	<b><u>238</u></b>	<b><u>2 908</u></b>	<b><u>6 883</u></b>
			<b><u>71 883</u></b>
<b>Share capital</b>			<b>63 000</b> * OF
<b>Profit and loss account</b>			<b><u>8 883</u></b> * OF
			<b><u>71 883</u></b>

No aliens and/or right direction \*

Marks awarded if item in correct section

9 marks

3

Total for this question

The junior clerk of Jonathon Smith Ltd had prepared the profit and loss account for 30 November 2004 which showed a profit of £26 790. The chief accountant then discovered the following errors:

1. the sales account had been undercast by £450;
2. discount allowed of £140 had been entered in the credit of the discount allowed account;
3. wages of £2500 had been completely omitted from the books of account;
4. the cost of a fixed asset £9500 had been included in the purchases account;
5. a payment from B A Jones of £1200 had been entered in the account of C A Jones;
6. the closing stock had been entered as £2400; it was actually £2500.

**REQUIRED**

Calculate the corrected profit for Jonathan Smith Ltd. Show clearly whether **each** adjustment is added, subtracted or has no effect on the total.

Adjustment 1 has been completed as an example.

**Jonathon Smith Ltd**  
**Corrected Profit for the year ended 30 November 2004**

		£	
Profit calculated by junior clerk		26 790	
1. <i>Sales undercast</i>	<i>add</i>	450	
<b>2. Discount allowed</b>	<b>less</b>	<b>280</b>	*
<b>3. Wages</b>	<b>less</b>	<b>2 500</b>	*
<b>4. New fixed asset</b>	<b>add</b>	<b>9 500</b>	*
<b>5. No effect</b>			*
<b>6. Closing stock</b>	<b>add</b>	<b>100</b>	*
<b>Corrected profit</b>		<b>34 060</b>	* OF

6 marks

4

Total for this question

The balance sheet of Parkway Engineering plc includes the following.

Fixed Assets		
	£	£
<b>Investments</b>	<b>1 400 000</b>	
Other fixed assets	<u>7 000 000</u>	8 400 000
Current Assets		
Stocks	50 000	
Debtors	140 000	
<b>Investments</b>	<b>56 000</b>	
Bank	<u>20 000</u>	266 000

**REQUIRED**

Explain the difference between the **two** types of investments shown above.

**Investment as a fixed asset**

**Long term \***  
**Investment for future profits \***  
**To be retained for more than one year\***  
**Usually in a similar/subsidiary company \***

*but*  
*but*  
*but*  
*but*

**Investment as a current asset**

**Short term \*.**  
**For immediate profits \*.**  
**To be sold within a year \*.**  
**Any type of company/bank etc \*.**

**Fixed assets max 3 marks**

**Current assets max 3 marks**

**If not linked in a comparison, max 4 marks**  
**max 6 marks**



5

Total for this question: 14

Parkway Engineering plc has made a profit after tax of £378 00 for the year ended 31 October 2004; there were retained profits of £256 000 at 1 November 2003.

The Board of Directors has recommended the following:

- to pay the full dividend on 50 000 6% £1 preference shares for the year;
- to pay a 15p dividend per share on 2 million ordinary shares.

**REQUIRED**

- (a) Calculate the total amount to be paid in dividends to the preference shareholders.

*Dividends* **£3000 (3)**

*Workings*

**6% \* x £50 000 \* = £3000\* C/F (correct figure required)**

**3 marks**

- (b) Calculate the total amount to be paid in dividends to the ordinary shareholders.

*Dividends* **£300 000 (3)**

*Workings*

**2 million \* x 15p \* = £300 000\* C/F**

**3 marks**

- (c) Calculate the amount of retained profit to be shown in the balance sheet as at 31 October 2004.

*Retained profit* **£331 000 (4)**

*Workings*

<b>£256 000 * + £378 000*</b>	<b>=</b>	<b>£634 000</b>	
		<b>- £303 000</b>	<b>* OF (a) + (b)</b>
<b>Retained profit</b>		<b>£331 000</b>	<b>* OF</b>

**4 marks**

- (d) At the annual general meeting of the company, an ordinary shareholder complained that too much profit had been retained instead of being paid out in dividends. Explain how ordinary shareholders can benefit from retained profits.

**These profits will be reinvested in the business \* in replacing or buying new machinery/other developments \* and the shareholder should benefit from a stronger/more profitable company \* in the future and thus receive dividends \*. The share value/market price might rise\*.**

**max 4 marks**

6

Total for this question

**REQUIRED**

- (a) Identify **two** components, other than the profit and loss account, balance sheet and cash flow statement, which are found in the published accounts of a company.

**Any from: Chairman’s statement; directors’ report; auditor’s report etc. 2 marks**

- (b) Explain the term “earnings per share”.

**This is the profit after tax per ordinary share issued; it reflects how much of the profit is earned by each share. 0 - 2 marks**

- (c) Distinguish between capital and revenue reserves.

**Capital Reserves**

**Cannot be used for dividends\*.  
Earned from non trading activities\*.**

**Revenue Reserves**

**Can be used for dividends\*.  
Earned from trading activities\*.**

**Capital reserves max 2 marks  
Revenue reserves max 2 marks  
If not linked in a comparison, max 3 marks  
max 4 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.