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**General Certificate of Education**

**Accounting ACC2**

**Unit 2 Financial Accounting: Introduction to  
Published Accounts of Limited  
Companies**

**Mark Scheme**

*2008 examination - January 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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## 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: 18 marks

The following information relates to Rafik Khan Limited at 31 December 2007.

**Authorised share capital**

- 2 000 000 ordinary shares of 25p each
- 500 000 8% preference shares of £1 each

**Issued share capital**

- 800 000 ordinary shares of 25p each, fully paid
- 300 000 8% preference shares of £1 each, fully paid

In addition to the share capital, the following balances were extracted from the books of Rafik Khan Limited at 31 December 2007:

	<b>£000</b>
10% Debentures (repayable 31 January 2009)	40
Bank loan (repayable 2012)	15
Trade creditors	23
Revaluation reserve	10
Share premium	25
Retained profits before appropriations	73

The directors propose the following:

- (a) payment of the full dividend due on the 8% preference shares;
- (b) payment of 3% dividend on the ordinary shares.

**REQUIRED**

1(a) Calculate the amount of the proposed preference share dividend.

**£0.08p per share (2)**

or

**300 000 (1) x 8% = 24 000 (1)**

**2 marks**

1(b) Calculate the amount of the proposed ordinary share dividend.

**£0.075p per share (2)**

or

**800 000 x 25p = 200 000 (1) x 3% = 6 000 (1)**

**2 marks**

1(c) Prepare a balance sheet extract at 31 December 2007 to show **only** the share capital and reserves section.

<b><u>Capital and Reserves</u></b>	<b>£000</b>	
<b>800 000 ordinary shares of 25p each, fully paid</b>	<b>200</b>	<b>(1)</b>
<b>300 000 8% preference shares of £1 each, fully paid</b>	<b>300</b>	<b>(1)</b>
<b>Share premium</b>	<b>25</b>	<b>(1)</b>
<b>Revaluation reserve</b>	<b>10</b>	<b>(1)</b>
<b>Profit and loss account (73 (1) – 6 (1 OF) – 24 (1 OF))</b>	<b>43</b>	
	<b><u>578</u></b>	<b>(1 OF)</b>

**1 mark for exact correct order**

**9 marks**

1(d) Explain the usefulness of the published accounts to the debenture holders of Rafik Khan Limited.

**Debenture is due for repayment next year (1) so debenture holders would want to assess risk (1) to satisfy themselves that**

- **there are no other lenders requiring repayment (1)**
- **sufficient profits (1) and positive cash flows (1) were being made to generate funds for repayment of interest (1) and capital (1).**

**max 5 marks**

2

**Total for this question: 12 marks**

### REQUIRED

2(a) Distinguish between fixed asset investments and current asset investments.

**Fixed asset investments are those where the intention is to hold them for more than one year (1). Current asset investments are likely to be sold within twelve months of the balance sheet date (1).**

**2 marks**

2(b) Distinguish between tangible fixed assets and intangible fixed assets. Give **one** example of each type of fixed asset.

**Tangible fixed assets are assets that have a material substance (1).**

**Appropriate example (1).**

**Intangible fixed assets are assets that do not have a material substance (1).**

**Appropriate example (1).**

**4 marks**

2(c) State **two** items that would appear as a source of finance in a cash flow statement.

- **Raising or increasing loan capital.**
- **Receipts from the issue of share capital.**

**2 marks**

2(d) Identify **two** advantages and **two** disadvantages to a shareholder of owning preference shares rather than ordinary shares.

#### **Advantages**

- **Prior claim to dividends.**
- **Rate of dividend is fixed.**
- **In the event of liquidation, prior claim to repayment.**

**max 2 marks**

#### **Disadvantages**

- **Not able to vote at the AGM so no control or influence.**
- **Potentially higher dividends attach to ordinary shares when the company is successful.**

**max 2 marks**

**max 4 marks**

3

Total for this question: 18 marks

The bookkeeper of Gartside Bedding Ltd has prepared the following trial balance at 31 December 2007. The trial balance contains errors and the difference has been entered in a suspense account.

**Trial balance at 31 December 2007**

	<b>Dr £</b>	<b>Cr £</b>
Bank overdraft	4 620	
Carriage inwards		2 690
Carriage outwards	8 950	
Directors' fees	14 400	
Discounts allowed		3 730
Discounts received	2 420	
Issued ordinary share capital		50 000
Mortgage on premises		74 200
Premises		165 000
Property repairs		12 040
Purchases	73 550	
Rent received		7 200
Retained profits at 1 January 2007		20 300
Returns inwards		1 690
Returns outwards		1 410
Sales	202 400	
Stock at 1 January 2007	43 120	
Suspense account	15 640	
Trade creditors		14 990
Trade debtors	18 710	
VAT (due from HM Revenue and Customs)	1 550	
Wages and salaries		32 110
	<b>385 360</b>	<b>385 360</b>

**REQUIRED**

3(a) Prepare a corrected trial balance.

**Trial balance at 31 December 2007**

	<b>Dr £</b>	<b>Cr £</b>
<b>Bank overdraft</b>		<b>4 620</b>
<b>Carriage inwards</b>	<b>2 690</b>	
<b>Carriage outwards</b>	<b>8 950</b>	
<b>Directors' fees</b>	<b>14 400</b>	
<b>Discounts allowed</b>	<b>3 730</b>	
<b>Discounts received</b>		<b>2 420</b>
<b>Issued ordinary share capital</b>		<b>50 000</b>
<b>Mortgage on premises</b>		<b>74 200</b>
<b>Premises</b>	<b>165 000</b>	
<b>Property repairs</b>	<b>12 040</b>	
<b>Purchases</b>	<b>73 550</b>	
<b>Rent received</b>		<b>7 200</b>
<b>Retained profits at 1 January 2007</b>		<b>20 300</b>
<b>Returns inwards</b>	<b>1 690</b>	
<b>Returns outwards</b>		<b>1 410</b>
<b>Sales</b>		<b>202 400</b>
<b>Stock at 1 January 2007</b>	<b>43 120</b>	
<b>Suspense account</b>		
<b>Trade creditors</b>		<b>14 990</b>
<b>Trade debtors</b>	<b>18 710</b>	
<b>VAT (due from HM Revenue and Customs)</b>	<b>1 550</b>	
<b>Wages and salaries</b>	<b>32 110</b>	
	<b>377 540</b>	<b>377 540</b>

1 mark for every two correct answers

**10 marks**

Gartside Bedding Ltd has traded for many years and has employed the same accounting staff since the business began. Brian Gartside, the managing director, is now considering the introduction of a computerised accounting system for the business.

### REQUIRED

3(b) Explain **two** possible positive **and two** possible negative reactions of the staff to the proposed introduction of a computerised accounting system.

#### Positive reactions (max 4 marks)

- **Opportunity to develop new skills because of provision of training by the employer.**
- **Saving personal time and personal expense to develop additional skills.**
- **Increased job satisfaction – resulting in increased motivation through feeling more valued.**
- **Enhanced career prospects through personal development.**

#### Negative reactions (max 4 marks)

- **Fewer personnel possibly needed – resultant stress through threat of redundancy.**
- **Lack of necessary skills – unwillingness to undertake personal development.**
- **Health and safety issues – eyestrain / backache etc.**
- **Disruption at the changeover time – resulting in increased workloads and stress.**
- **De-motivation - lack of the personal touch.**

1 mark for identification, 1 mark for development of each point.

**max 8 marks**



4

Total for this question 28 marks

Seddon Ltd sells sports equipment. The following list of balances has been extracted from the books at 31 December 2007 and from information supplied by the directors of the company.

	£
8% debenture (repayable 2016)	200 000
Bank loan (repayable October 2008)	6 000
Bank overdraft	78 440
Discounts received	4 930
Dividends paid	10 000
Fixtures and fittings	724 000
General expenses	6 220
Gross profit for the year	193 200
Issued ordinary share capital	300 000
Issued preference share capital	100 000
Light and heat	8 150
Motor expenses	18 600
Rent and rates	12 400
Retained profits at 1 January 2007	344 640
Share premium	22 000
Stock at 31 December 2007	426 500
Trade creditors	56 920
Trade debtors	43 100
VAT(due from HM Revenue and Customs)	5 260
Wages and salaries	51 900

**REQUIRED**

4(a) Prepare profit and loss and appropriation accounts for the year ended 31 December 2007.

**Seddon Ltd****Profit and loss and appropriation accounts for the year ended 31 December 2007 (1)**

	£	£
Gross profit		193 200 (1)
Discount received		<u>4 930 (1)</u>
		198 130
<b>Less: Expenses</b>		
General expenses	6 220 (1)	
Light and heat	8 150 (1)	
Motor expenses	18 600 (1)	
Rent and rates	12 400 (1)	
Wages and salaries	<u>51 900 (1)</u>	<u>97 270</u>
Net profit (1)		100 860 (1 OF)
Dividend paid		<u>10 000 (1)</u>
Retained profit for the year (1)		<u>90 860 (1 OF)</u>

**13 marks**

4(b) Prepare a balance sheet at 31 December 2007.

**Seddon Ltd****Balance sheet at 31 December 2007**

	£	£
<b><u>Fixed Assets</u> *</b>		
Fixtures and fittings		724 000 (1)
<b><u>Current Assets</u> *</b>		
Stock	426 500 (1)	
Trade debtors	43 100 (1)	
VAT(due from HM Revenue and Customs)	<u>5 260 (1)</u>	
	<u>474 860</u>	
<b><u>Creditors amounts falling due in less than one year</u> *</b>		
Bank loan (repayable October 2008)	6 000 (1 or 0)	
Bank overdraft	78 440 (1)	
Trade creditors	<u>56 920 (1)</u>	
	<u>141 360</u>	
Net current assets		<u>333 500 (1 OF)</u>
		1057 500
<b><u>Creditors amounts falling due in more than one year</u> *</b>		
8% debenture (repayable 2016)		<u>200 000 (1)</u>
		<u>857 500</u>
<b><u>Capital and Reserves</u> *</b>		
Issued ordinary shares		300 000 (1)
Issued preference shares		100 000 (1)
Share premium		22 000 (1)
Retained profits 344 640 (1) + 90 860 (1)OF		<u>435 500</u>
		<u>857 500</u>

\* Plus 1 mark for all five headings

**15 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.

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, 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)?