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**General Certificate of Education**

**Accounting ACC2**

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

**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.

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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## 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 36

Fashiontrend Limited operates shops selling ladies' fashions. A trading and profit and loss account for the year ended 30 April 2007 has been prepared and shows a net profit of £28 510.

After completion of the trading and profit and loss account, the following balances remain:

	£
8% debentures (repayable 2020)	10 000
8% preference shares of £1 each fully paid	20 000
Balance at bank	6 110
Computer equipment	3 100
Mortgage on premises (repayable 2012)	20 000
Ordinary shares of 50p each fully paid	30 000
Premises	126 700
Profit and loss account at 1 May 2006	9 500
Revaluation reserve	35 000
Stock at 30 April 2007	14 200
Trade creditors	5 210
Trade debtors	7 450
VAT (amount due from HM Revenue and Customs)	660

The authorised share capital of the company is:

200 000 ordinary shares of 50p each;  
80 000 8% preference shares of £1 each.

The directors have agreed the following:

- to propose a final dividend of 4p per share on the ordinary shares
- to pay the full amount of the preference dividend due for the year
- to revalue the premises to £140 000.

**REQUIRED**

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

**Fashiontrend Limited**  
**Profit and loss appropriation account for the year ended 30 April 2007 (1)**

Net profit		28 510 (1)
Ordinary share dividend (60 000 shares (1) x 0.04 (1))	2 400 (3)	
Preference share dividend	<u>1 600 (1)</u>	<u>4 000</u>
Retained profit for the year ( <i>must be labelled</i> )		<u>24 510</u> (1 OF)

7 marks

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

**Fashiontrend Limited**  
**Balance sheet at 30 April 2007 (1)**

<b>FIXED ASSETS *</b>		
Premises (126 700 (1) + 13 300 (1))		140 000 (3)
Computer equipment		<u>3 100 (1)</u>
		143 100
<b>CURRENT ASSETS *</b>		
Stock	14 200	(1) for both
Trade debtors	7 450	
VAT (HM Revenue and Customs)	660 (1)	
Bank	<u>6 110 (1)</u>	
	<u>28 420</u>	
<b>CURRENT LIABILITIES*</b>		
Trade creditors	5 210 (1)	
Dividends payable (2400 (1 OF) + 1600 (1 OF))	<u>4 000 (3 OF)</u>	
	<u>9 210</u>	
<b>NET CURRENT ASSETS</b>		<u>19 210</u>
		162 310
<b>LONG TERM LIABILITIES*</b>		
8 % Debentures	10 000 (1)	
Mortgage on premises (repayable 2012)	<u>20 000 (1)</u>	<u>30 000</u>
		<u>132 310</u>
<b>SHARE CAPITAL AND RESERVES*</b>		
60 000 ordinary shares of 50p each		30 000 (1)
20 000 8% preference shares of £1 each		20 000 (1)
Revaluation reserve (35 000 (1) + 13 300 (1 OF))		48 300 (3 OF)
Profit and loss account (9 500 (1) + 24 510 (1 OF))		<u>34 010 (3 OF)</u>
		<u>132 310</u>

\* Balance sheet headings – all five present 1 mark.

23 marks

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

1(c) Explain **two** other benefits that the company would expect after computerising the 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: 9 marks

The managing director of Fashiontrend Limited has asked you to provide him with information relating to a cash flow statement.

**REQUIRED**

2(a) Identify **four** main headings that appear on a cash flow statement.

- Title
- Operating activities
- Return on investments and servicing of finance
- Taxation
- Capital investment and financial investment
- Acquisitions and disposals
- Equity dividends paid
- Management of liquid resources
- Financing

*(1 mark for each correct heading)*

**max 4 marks**

2(b) Explain the usefulness of a cash flow statement to the shareholders of the company.

**Enables shareholders to assess the performance of the company in managing its cash balances (1) and to assess the viability of continuing to hold the investment (1) by:**

- Assessing the liquidity of the business
- Gauging the ability of the company to generate cash from its operating activities
- Assessing the amount spent on capital expenditure that should increase future profitability
- Seeing the amount of dividends paid
- Assessing the reasons why profit is not necessarily the same as cash.

*(1 mark for identifying relevant point, 0 – 3 marks for development)*

**max 5 marks**

3

Total for this question: 17 marks

Guildpen Ltd sells sports goods. The accounts clerk has extracted the following trial balance from the books at 31 May 2007.

	Dr £	Cr £
Bank balance	16 160	
Capital reserve		18 000
Carriage inwards	410	
Carriage outwards	1 430	
Current asset investments	2 000	
Fixed asset investments	8 000	
Fixed assets	24 000	
Ordinary share capital		10 000
Profit and loss account		26 450
Purchase ledger control account		11 300
Purchases	53 870	
Returns inwards	310	
Returns outwards		880
Sales		105 200
Sales ledger control account	24 980	
Stock	8 800	
Sundry expenses	7 320	
VAT		2 110
Wages	26 660	
	<u>173 940</u>	<u>173 940</u>

On looking through the above list of balances, the managing director asks a series of questions.



**REQUIRED**

Prepare answers to the following questions.

- 3(a) "How do I know whether the company has money in the bank or a bank overdraft?"  
**Money in the bank is a debit balance (asset); bank overdraft is a credit balance (liability).** 1 mark
- 3(b) "Did the company make a profit of £26 450 this year?"  
**No (1) the profit for the year has not yet been computed (1). £26 450 is the total of retained profits brought forward from previous years (1).** max 2 marks
- 3(c) "I thought you told me that the closing stock figure was £15 000. Why does it only show £8800 on the trial balance?"  
**£8800 is the opening stock figure (1).** 1 mark
- 3(d) "What is a capital reserve?"  
**Capital reserves are created as a result of non-trading activities (1) or unrealised profits (1). Capital reserves may be distributed in the form of bonus shares (1), but they cannot be used to fund dividend payments (1).** max 3 marks
- 3(e) "What are returns inwards and returns outwards?"  
Returns inwards **is the value of goods that have been sold but subsequently returned by the customer (1).**  
Returns outwards **is the value of goods purchased that have been returned to the supplier (1).** 2 marks
- 3(f) "What is the difference between a current asset investment and a fixed asset investment?"  
**Current asset investment – investment held for a short time period (1);**  
**Fixed asset investment – investment intended to be retained on a continuing basis (1).** 2 marks

3(g) "I believe that although the totals of the trial balance agree, there could be some errors in the books of account". Explain **three** examples of errors that will not be shown by the trial balance.

- **Error of omission** – a transaction is completely omitted from the accounting records
- **Reversal of entries** – debit and credit entries made, but to the wrong side of the two accounts concerned
- **Error of commission** – correct amount is posted to incorrect personal account
- **Error of principle** – entries are debited or credited to the wrong class of account
- **Error of original entry** – the entry in the book of prime entry is incorrect (it is different to the source document)
- **Compensating error** – error(s) on the debit side of the records equal error(s) on the credit side and they cancel each other out.

*(1 mark for each example, plus 1 mark for a valid explanation)*

**max 6 marks**

4

Total for this question: 14 marks

The following information has been extracted from the books of Kingmart plc.

	<b>£ 000</b>
Carriage inwards	2 775
Carriage outwards	1 460
Purchases	96 446
Returns inwards	2 405
Returns outwards	1 766
Sales	212 485
Stock at 1 April 2006	44 350
Stock at 31 March 2007	47 510

Two errors were identified after the above information was extracted.

- Returns inwards of £300 had been debited to returns outwards
- Carriage inwards account had been undercast by £100.

### REQUIRED

Prepare a trading account for the year ended 31 March 2007, after taking account of the two errors.

#### Kingmart plc Trading Account for the year ended 31 March 2007 (1)

	£000		£000	
<b>Sales</b>			<b>212 485.0</b>	
<b>Less: Returns inwards (2 405.0(1) + 0.3(1))</b>			<b>(2 405.3)</b>	(3)
<b>Turnover</b>			<b>210 079.7</b>	
<b>Stock at 1 April 2006</b>	<b>44 350.0</b>	(1)		
<b>Purchases</b>	<b>96 446.0</b>	(1)		
<b>Less: Returns outwards (1 766.0(1) + 0.3(1))</b>	<b>(1 766.3)</b>	(3)		
<b>Carriage inwards (2 775.0(1) + 0.1(1))</b>	<b>2 775.1</b>	(3)		
	<b>141 804.8</b>			
<b>Stock at 31 March 2007</b>	<b>47 510.0</b>	(1)		
<b>Cost of goods sold</b>			<b>94 294.8</b>	
<b>Gross profit (must be labelled)</b>			<b>115 784.9</b>	(1 OF)

**14 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 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)?