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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 - 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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June 2008

ACC2

## 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.

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1

Total for this question: 8 marks

An accounts clerk of Addison Hardware Ltd has asked about trial balances.

**REQUIRED**

1(a) Explain the purpose of a trial balance.

- To check the arithmetic accuracy of the bookkeeping. (2)
- To aid the preparation of the profit and loss account and balance sheet. (1)

**max 2 marks**

The managing director of Addison Hardware Ltd is considering computerising the accounting records of the business.

**REQUIRED**

1(b) State and explain **three** advantages to the company of computerising the **purchases ledger records** of the business.

- **Accuracy – less possibilities for errors due to only one entry required for each transaction, leading to less likelihood of making incorrect payments to suppliers.**
- **Speed – built in database quicker to access than manual system, saving time and minimising the risk of missing discounts receivable.**
- **Automatic document production – leading to increased accuracy and more professional image to suppliers.**
- **Up-to-date information – leading to more efficient management and better credit control.**
- **Legibility – less possibility of errors through misreading figures.**
- **Accessibility – more than one person can view accounts at the same time.**

1 mark for identification, 1 mark for development specific to purchases ledger.

**max 6 marks**

2

Total for this question: 31 marks

The following information has been extracted from the books of account of Rayhana Patel Ltd at 31 May 2008.

	£
Balance at bank	10 600
Carriage inwards	8 900
Carriage outwards	2 800
Directors' salaries	184 200
Discounts allowed	11 400
Discounts received	18 900
General expenses	88 700
General reserve	20 000
Issued share capital	
ordinary shares of 50p each fully paid	120 000
5% preference shares of £1 each fully paid	80 000
Motor vehicles	120 000
Purchases	515 000
Rent receivable	5 200
Returns inwards	6 200
Returns outwards	8 700
Sales	1 134 000
Staff wages and salaries	182 400
Stock at 1 June 2007	141 000
Stock at 31 May 2008	166 000
Trade creditors	46 200
Trade debtors	39 900
VAT (amount due to HM Revenue and Customs)	11 700

#### Additional information

- (1) Authorised share capital:  
800 000 ordinary shares of 50p each;  
200 000 5% preference shares of £1 each.
- (2) The directors propose the following:
- a full year's dividend on the preference shares
  - a dividend of 3p per ordinary share
  - a transfer to the general reserve of £21 000.

**REQUIRED**

2(a) Prepare a trading account for the year ended 31 May 2008.

**Rayhana Patel Ltd**  
**Trading Account for the year ended 31 May 2008 (1)**

	£		£
Sales			1 134 000 (1)
Returns inwards			<u>(6 200) (1)</u>
			1 127 800
<b>Cost of sales (1)</b>			
Opening stock	141 000	(1)	
Purchases	515 000	(1)	
Returns outwards	(8 700)	(1)	
Carriage inwards	<u>8 900</u>	(1)	
	656 200		
Closing stock	<u>(166 000)</u>	(1)	<u>490 200</u>
Gross profit ( <i>must be labelled</i> )			<u>637 600 (1 OF)</u>

**10 marks**

2 (b) Prepare a profit and loss and appropriation account for the year ended 31 May 2008.

**Rayhana Patel Ltd**  
**Profit and Loss and Appropriation Account for the year ended 31 May 2008**

	£	£
<b>Gross profit (<i>must be labelled</i>)</b>		<b>637 600</b>
Discounts received		18 900 (1)
Rent receivable		5 200 (1)
		<b>661 700</b>
<b>Less expenses</b>		
Staff wages and salaries	182 400 (1)	
General expenses	88 700 (1)	
Carriage outwards	2 800 (1)	
Directors' salaries	184 200 (1)	
Discount allowed	11 400 (1)	
		<b>469 500</b>
<b>Net profit (<i>must be labelled</i>)</b>		<b>192 200 (1 OF)</b>
Preference share dividend	4 000 (2) W1	
Ordinary share dividend	7 200 (2) W2	
		<b>11 200</b>
		<b>181 000</b>
Transfer to general reserve		21 000 (1)
<b>Retained profit for the year (1)</b>		<b>160 000 (1 OF)</b>

**15 marks**

W1    £80 000 (1) x 5% (1) = £4 000

W2    £120 000 / £0.50 = 240 000 shares (1) x £0.03 (1) = £7 200

2(c) State **two** differences between a capital reserve and a revenue reserve. Give **one** example of each type of reserve.

Capital reserve – **statutory reserve (1) created as a result of non-trading profits (1).**

**Cannot be used to fund dividend payments (1).** **max 2 marks**

Example (1) **share premium, revaluation reserve etc.**

**3 marks**

Revenue reserve – **created, at directors' discretion (1), from trading profits (1). Can be used to fund dividend payments (1).**

**max 2 marks**

Example (1) **retained profits, general reserve etc.**

**3 marks**

3

Total for this question: 17 marks

The bookkeeper of Stuart Ltd prepared the following balance sheet. It contains errors.

**Stuart Ltd**  
**Balance Sheet for the year ended 31 May 2008**

	£000	£000
<b>Fixed assets</b>		600
<b>Current assets</b>		
Stock	120	
Trade creditors	110	
VAT (amount due from HM Revenue and Customs)	60	
Bank overdraft	<u>310</u>	
	<u>600</u>	
<b>Current liabilities</b>		
Trade debtors	180	
Revaluation reserve	140	
8% debentures (2015)	<u>100</u>	
	<u>420</u>	
<b>Net current assets</b>		180
<b>Long term liabilities</b>		
Premises		<u>(240)</u>
		<u>540</u>
<b>Capital and Reserves</b>		
Issued ordinary shares of £1 each fully paid		170
Issued 8% preference shares of £1 each fully paid		50
Retained profits		<u>320</u>
		<u>540</u>

**Additional information**

- (1) A cheque for £2000 paid to a creditor in May 2008 had been entered in the accounting records as £6000.
- (2) A cheque for £5000 for the purchase of machinery had been posted to staff wages.
- (3) Machinery costing £8000 had been purchased on credit on 31 May 2008. No entries had been made in the accounting records.



**REQUIRED**

3(a) Prepare a corrected balance sheet, taking account of the additional information.

**Stuart Ltd**  
**Balance Sheet at 31 May 2008 (1)**

	£000		
<b><u>Fixed Assets</u></b>		853	(3)W1
<b><u>Current Assets</u></b>			
Stock	120		
Trade debtors	180	(1)	
VAT (amount due from HM Revenue and Customs)	60		
	360		
<b><u>Creditors: amounts falling due in less than one year</u></b>			
Bank overdraft	306	(2)W2	
Trade creditors	122	(3)W3	
	428		
<b>Net current liabilities (<i>must be labelled</i>)</b>		(68)	(10F)
<b><u>Creditors: amounts falling due after more than one year</u></b>			
8% debentures (2015)		(100)	(1)
		685	
<b><u>Share Capital and Reserves</u></b>			
Issued ordinary shares of £1 each fully paid		170	
Issued 8% preference shares of £1 each fully paid		50	
Revaluation reserve		140	(1)
Retained profits W4		325	(1)
		685	

W1  $600 + 240 (1) + 5 (1) + 8 (1) = 853$

W2  $310 (1) - 4 (1) = 306$

W3  $110 (1) + 4 (1) + 8 (1) = 122$

W4  $320 + 5 = 325 (1)$

**14 marks**

The additional information on page 8 refers to three accounting errors.

**REQUIRED**

3(b) State the type of error referred to in each case.

Error 1 - **Original entry (1)**

Error 2 - **Principle (1)**

Error 3 - **Omission (1)**

**3 marks**

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**4****Total for this question: 20 marks**

A friend has asked for some information about private limited companies.

**REQUIRED**

4(a) State who owns a private limited company.

**Shareholders (1)**

**1 mark**

4(b) State who is responsible for the day-to-day management of a private limited company.

**Directors (1)**

**1 mark**

4(c) Explain the term 'limited liability'.

**Shareholders (1) can only lose the amount of their investment commitment (1)  
in the company. Personal assets are not at risk (1)**

**3 marks**

4(d) Identify **four** statements contained in the annual report and accounts of a limited company **other** than the profit and loss account and balance sheet.

**1) Directors' report (1)**

**2) Auditors' report (1)**

**3) Cash flow statement (1)**

**4) Notes to the accounts (1)**

**4 marks**

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A friend has recently inherited £10 000.

**REQUIRED**

4(e) Explain **two** differences between ordinary shares and preference shares.  
Recommend to your friend which of the two types of investment would be most suitable to minimise risk.

**Ordinary shares**

- Shareholders can vote at AGM
- Potential increase in value if the company is successful
- Potential high dividends if company makes high profits
- Variable dividends
- Last to be repaid if company is insolvent.

max 4 marks

**Preference shares**

- Fixed rate of dividend guaranteed
- In case of insolvency, repaid in full before any monies returned to ordinary shareholders
- Cannot vote at AGM
- Less prospects for capital growth.

max 4 marks

**Explanations: 1 mark for each difference and max 3 marks for development of each.**

max 8 marks

**Recommendation: 1 mark for recommendation, max 2 marks for development**

- Cautious investor therefore preference shares more appropriate, due to regular guaranteed income and less risk.

Overall max 11 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)?