



ASSESSMENT and  
QUALIFICATIONS  
ALLIANCE

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**Mark scheme  
January 2004**

[www.PapaCambridge.com](http://www.PapaCambridge.com)

**GCE**

**Accounting**

**Unit ACC3**

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## 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: 16 marks

**REQUIRED**

Show in the table below how each of the items listed above will affect the balance sheet.

An example has been given.

|        | Fixed assets        | Current assets       | Current liabilities  | Capital              |
|--------|---------------------|----------------------|----------------------|----------------------|
| Item 1 | <i>No change</i>    | <i>No change</i>     | <i>Increase £400</i> | <i>Reduce £400</i>   |
| Item 2 | <b>No change</b>    | <b>Reduce £900</b>   | <b>No change</b>     | <b>Reduce £900</b>   |
| Item 3 | <b>No change</b>    | <b>Increase £250</b> | <b>No change</b>     | <b>Increase £250</b> |
| Item 4 | <b>Reduce £1500</b> | <b>Increase £900</b> | <b>No change</b>     | <b>Reduce £600</b>   |
| Item 5 | <b>Reduce £1600</b> | <b>No change</b>     | <b>No change</b>     | <b>Reduce £1600</b>  |

(1 mark each)

Overall max 16 marks

2

Total for this question: 8 marks

**REQUIRED**

(a) Explain what is meant by the principle of consistency.

Consistency means

**once an accounting policy has been decided, the business should use that policy each financial year.**

0-3 marks

(b) Explain why it is important to apply the principle of consistency when preparing final accounts.

It is important to apply the principle because

**it allows valid inter-year comparisons to be made.**

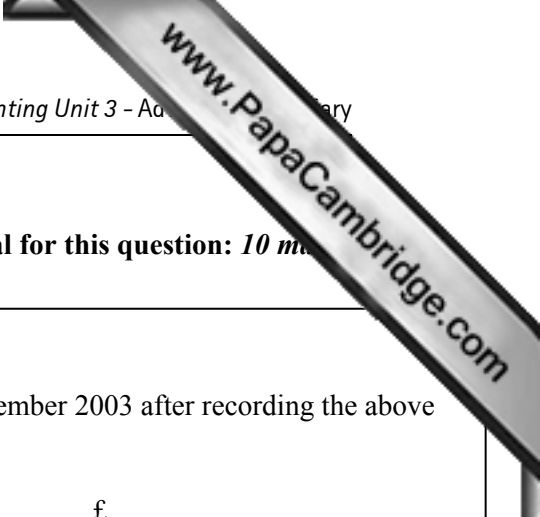
0-3 marks

(c) Give **one** example of the use of consistency in the preparation of final accounts.

An example of the use of the principle of consistency is

**using same method (1) or percentage (1) to calculate annual depreciation charge (1).**

2 marks



3

Total for this question: 10 marks

**REQUIRED**

- (a) Calculate the corrected net profit for the year ended 31 December 2003 after recording the above entries. Show **all** the adjustments.

|  |                      |                               |
|--|----------------------|-------------------------------|
|  | £                    |                               |
| Draft net profit for the year ended 31 December 2003     | 21 630               |                               |
| <b>Bad debts w/o</b>                                     | <b>(420)</b>         | <b>(1)</b>                    |
| <b>Provision for doubtful debts</b>                      | <b>(85)</b>          | <b>(1)</b>                    |
| <b>Wages accrued</b>                                     | <b>(720)</b>         | <b>(1)</b>                    |
| <b>Insurance paid in advance</b>                         | <b>135</b>           | <b>(1)</b>                    |
| Corrected net profit for the year ended 31 December 2003 | <u><b>20 540</b></u> | <b>(1) OF but no drawings</b> |

**5 marks**

- (b) Calculate the corrected total of net current assets as at 31 December 2003 after recording the above entries. Show **all** the adjustments.

|   |                     |               |
|---|---------------------|---------------|
|   | £                   |               |
| Draft net current assets as at 31 December 2003 | 4 260               |               |
| <b>Bad debts</b>                                | <b>(420)</b>        | <b>(1)</b>    |
| <b>Provision for doubtful debts</b>             | <b>(85)</b>         | <b>(1)</b>    |
| <b>Wages accrued</b>                            | <b>(720)</b>        | <b>(1)</b>    |
| <b>Insurance paid in advance</b>                | <b>135</b>          | <b>(1)</b>    |
| <b>Drawings</b>                                 | <b>(210)</b>        | <b>(1)</b>    |
| Corrected net assets as at 31 December 2003     | <u><b>2 960</b></u> | <b>(1) OF</b> |

**5 marks**

4

Total for this question: 12 marks

**REQUIRED**

- (a) Calculate the amount of provision for unrealised profit to be entered in the profit and loss account for the year ended 30 November 2003. What effect will the change have on the gross profit?

**£200 (2) subtracted (1) from gross profit.**

**3900 (1) – 3700 (1).**

3 marks

- (b) Show in detail how the information relating to **all** stocks should be shown on the balance sheet as at 30 November 2003.

**Tecyl Products**  
**Balance sheet extract as at 30 November 2003**

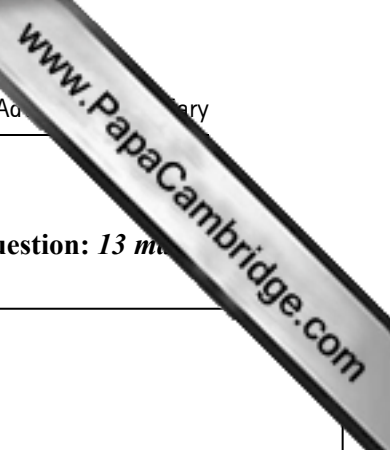
| Current assets – Stocks | £                   | £             |
|-------------------------|---------------------|---------------|
| Raw materials           |                     | 28 000 (1)    |
| Work in progress        |                     | 8 500 (1)     |
| Finished goods          | 23 400 (1)          |               |
| Less provision          | <u>3 900 (1) OF</u> | 19 500 (1) OF |

5 marks

- (c) Explain why it is necessary for Tecyl Products to provide for unrealised profit.

**Stocks must be valued at cost or NRV (1). Should not include profit element (1). Stocks of finished goods do (1). Prudent (1). Profit not yet realised (1). Profit is included in stock of finished goods (1), must be extracted (1).**

4 marks



5

Total for this question: 13 marks

**REQUIRED**

- (a) Calculate the profit or loss on disposal of the old machine.

**Profit (1)                    £2 000 (4)**

**5 marks**

**Workings**

$$\begin{array}{rclcl}
 W_1 \text{ 24 000 (1)} & - & 18\ 000 \text{ (1)} & = & 6\ 000 \text{ (W}_1\text{) (2)} \\
 & & & & \underline{8\ 000 \text{ (1)}} \\
 & & & & 2\ 000 \text{ (1) OF}
 \end{array}$$

- (b) Prepare a balance sheet extract as at 31 December 2003 showing **all** items relating to machinery. (No depreciation is to be charged on the new machine.)

**Gorg Hammann**  
**Balance sheet extract as at 31 December 2003**

| £                              |                           |                      |   |
|--------------------------------|---------------------------|----------------------|---|
| <b>Fixed assets (1)</b>        |                           |                      | <b>W<sub>1</sub>    170 000 (1)</b>       |
| <b>Machinery at cost</b>       | <b>176 000 (3)</b>        | <b>W<sub>1</sub></b> | <b>(24 000) (1)</b>                       |
| <b>Less depreciation</b>       | <b><u>123 500</u> (5)</b> | <b>W<sub>2</sub></b> | <b>30 000 (1)</b>                         |
|                                | <b>52 500</b>             | <b>W<sub>2</sub></b> | <b>105 000 (1)</b>                        |
|                                |                           |                      | <b>(18 000) (1)</b>                       |
|                                |                           |                      | <b>36 500 (3)    W<sub>3</sub></b>        |
|                                |                           | <b>W<sub>3</sub></b> | <b>146 000 (1) x 25% (1) = 36 500 (1)</b> |
| <b>Current liabilities (1)</b> |                           |                      |   |
| <b>Creditor – Abco Ltd</b>     | <b>11 000 (1)</b>         |                      |   |

**max 8 marks**

6

Total for this question: 10

**REQUIRED**

- (a) Explain to Arthur the difference between the authorised ordinary share capital and the issued share capital of Cerne plc.

**The authorised ordinary share capital is the capital that a company may issue (0-3), whereas the issued share capital is the capital that the company has actually issued (0-3).**

Overall 6 marks

- (b) Explain to Arthur why the authorised shares have a nominal value of only £1 each and yet they are being issued at a price of £2.50 each.

**The directors feel that the market will stand a price of £2.50 (1). The shares still have a nominal value of £1 (1), the extra £1.50 is a premium (1) which will be credited to a share premium account (1). The whole issue will raise £2.5 million (1).**

max 4 marks

7

Total for this question: 7 marks

**REQUIRED**

- (a) State the value of each item of stock to be included in Declan's closing stock figure.

**Item A should be valued at £190**

**Item B should be valued at £300**

**Item C should be valued at £400**

3 marks

- (b) Explain the importance of using the concept of prudence when valuing stock.

**Not to overvalue stock (1) which will result in overvaluing profit (1) which might lead to resources being removed from the business (1) in the form of drawings (1) or dividends in the case of a limited company (1), so the value at the lower of cost or NRV (1).**

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.