GCE 2004
June Series

ASSESSMENT and QUALIFICATIONS ALLIANCE

Mark Scheme

Accounting
Unit ACC3

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.

Further copies of this Mark Scheme are available from:

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June 2004

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:** *5*

Jack Myers sold a van for £3500. The van had been used in Jack's business for four years. The van had cost £18 000 and had been depreciated at 20% per annum using the straight-line method.

REQUIRED

(a) Calculate the profit or loss on disposal of the van.

Loss £100 **4 marks**

Workings

18 000		**3 600**	**(2) OF**
(14 400)		**(3 500)**	**(1)**
3 600	**(2) 1 OF**	**100**	**(1) OF**

(b) State how the answer to (a) should be treated in the profit and loss account.

Deducted from GP as an expense in P&L a/c (1) **1 mark**

2 **Total for this question:** ***5 marks***

REQUIRED

Explain the usefulness of applying accounting principles and concepts when preparing a set of final accounts for a business.

Very useful because:
it allows comparisons to be made (0-3);
users know same principles are applied (0-3) universally;
should make window-dressing more difficult (0-3) etc.

Identification 1 mark
Development (may be example) further 2 marks

max 5 marks

3 **Total for this question: 2**

The following trial balance has been extracted from the books of account of Siobhan Huggett on 30 April 2004.

	£	£
Vehicles at cost	160 000	
Fixtures and fittings at cost	85 000	
Provisions for depreciation		
vehicles		80 400
fixtures and fittings		21 000
Provision for doubtful debts		310
Stock 1 May 2003	7 800	
Debtors and creditors	9 000	7 150
Purchases and sales	149 400	293 100
Wages and general expenses	116 200	
Business rates	13 510	
Bad debts	750	
Bank balance		11 450
Drawings	18 500	
Capital		146 750
	560 160	560 160

Additional information and instructions

(1) At 30 April 2004 stock had been valued at cost, £8700. However, Siobhan believes that it could be sold for £11 500.

(2) No adjustment has been made for goods taken from the business by Siobhan, cost price £3000, for her private use.

(3) On 17 January 2004 Siobhan purchased fixtures for £23 000. This amount is included in the purchases figure on the trial balance.

(4) Wages and general expenses accrued and due at 30 April 2004 amounted to £1600.

(5) Business rates paid in advance on 30 April 2004 amounted to £180.

(6) Depreciation is to be provided on the value of fixed assets held at the financial year end as follows:
fixtures and fittings 10% straight line;
vehicles 40% reducing balance.

(7) Provision for doubtful debts is to be maintained at 3% on debtors outstanding at the financial year end.

REQUIRED

(a) Prepare a trading and profit and loss account for the year ended 30 April 2004.

Siobhan Huggett
Trading and Profit and Loss Account for the year ended 30 April 2004 (1)

		£		£		£	
Sales						**293 100**	**(1)**
Less cost of sales							
Stock		**7 800**	**(1)**				
Purchases	**W1**	**123 400**	**(3)**				
		131 200					
Stock		**8 700**	**(1)**			**122 500**	
Gross profit (must say)						**170 600**	**(1) OF**
Overprovision for doubtful debts						**40**	**(2) W5**
						170 640	
Less expenses							
Wages and general exp	**W2**			**117 800**	**(2)**		
Business rates	**W3**			**13 330**	**(2)**		
Bad debts				**750**	**(1)**		
Depreciation	**F&fg**	**10 800**	**(1)**				
	Veh W4	**31 840**	**(3)**	**42 640**			
						174 520	
Net loss (must say)						**3 880**	**(1) OF**

W1	**149 400**	**(1)**	**W2**	**116 200**	**(1)**
	(23 000)	**(1)**		**1 600**	**(1)**
	(3 000)	**(1)**		**117 800**	
	123 400				
W3	**13 510**	**(1)**	**W4**	**160 000**	**(1)**
	(180)	**(1)**		**(80 400)**	**(1)**
				79 600	
	13 330			**x 40%**	**(1)**
				31 840	
W5	**310**	**(1)**			
	(270)	**(1)**			
	40				

20 marks

(b) Identify **one** example of capital expenditure and **one** example of revenue expenditure from the accounts of Siobhan.

An example of capital expenditure is
purchase of fixtures etc **1 mark**

An example of revenue expenditure is
payment of wages etc **1 mark**

(c) Explain why it is important to distinguish between capital and revenue expenditure when preparing a set of final accounts.

It is important to distinguish between capital and revenue expenditure because

capital expenditure is expenditure on fixed assets (1), revenue expenditure is on the everyday expenses of the business (1): so capital expenditure is shown on the balance sheet (1) whilst revenue expenditure is shown on the trading and profit and loss accounts (1). If they are confused, the net profit will be incorrect (1) and also the balance sheet (1). The users of the accounts will not get a 'true and fair view' of either (2).

max 5 marks

4 **Total for this question:** ***39 marks***

The following balances have been extracted from the books of account of Pafftol Ltd **after** a draft trading and profit and loss account was prepared for the year ended 31 March 2004.

	£
Issued share capital:	
ordinary shares £1 each fully paid	500 000
7% debentures (2015-2018)	400 000
Plant and machinery at cost	1 420 000
Vehicles at cost	710 000
Provision for depreciation:	
plant and machinery	192 000
vehicles	150 000
Net profit for the year	676 000
Profit and loss account 1 April 2003	439 000
Bank balance (debit)	113 600
General reserve	250 000
Share premium account	100 000
Stock 31 March 2004	211 000
Debtors	24 900
Creditors	16 500
Interim ordinary dividend paid	30 000

Additional information and instructions

The following have not been included in the balances shown above:

(1) directors' fees £200 000;
(2) debenture interest paid £14 000;
(3) debenture interest accrued £14 000;
(4) proposed ordinary dividend £60 000;
(5) corporation tax payable £102 000;
(6) transfer to general reserve £50 000.

REQUIRED

(a) Prepare a profit and loss appropriation account for the year ended 31 March 2004.

Pafftol Ltd
Profit and Loss Appropriation Account for the year ended 31 March 2004 (1)

	£		£	
Net profit W1			**448 000**	**(2)**
Corporation tax			**102 000**	**(1)**
Profit after tax			**346 000**	
Dividends interim	**30 000**	**(1)**		
Final	**60 000**	**(1)**	**90 000**	
			256 000	
Transfer to general reserve			**50 000**	**(1)**
Retained profit for year			**206 000**	**(1) OF**

W1 **676 000**
(200 000) **(1)**
(28 000) **(1)**

8 marks

(b) Prepare a balance sheet as at 31 March 2004.

Pafftol Ltd
Balance Sheet as at 31 March 2004 (1)

	£ Cost		£ Depn		£	
Fixed assets*						
Plant and machinery	**1 420 000**	**(1)**	**192 000**	**(1)**	**1 228 000**	**(1)**
Vehicles	**710 000**	**(1)**	**150 000**	**(1)**	**560 000**	**(1)**
	2 130 000		**342 000**		**1 788 000**	
Current assets *						
Stock			**211 000**	**(1)**		
Debtors			**24 900**	**(1)**		
Bank balance			**113 600**	**(1)**		
			349 500			
Current liabilities *						
Creditors	**16 500**	**(1)**				
Deb int	**14 000**	**(1)**				
Prop'd dividend	**60 000**	**(1)**				
Corporation tax	**102 000**	**(1)**	**192 500**		**157 000**	
					1 945 000	
Less long term liabilities *						
7% debentures (2015-2018)					**400 000**	**(1)**
					1 545 000	
Share capital and reserves *						
Ordinary shares					**500 000**	**(1)**
P&L %					**645 000**	**(2)**
General reserve					**300 000**	**(2)**
Share premium account					**100 000**	**(1)**
					1 545 000	

max 23 marks
2 marks for all headings marked *
1 mark for 3 or 4 headings

The directors of Pafftol Ltd wish to raise £600 000 additional capital. They are unsure whether to:

(1) issue a further 200 000 ordinary shares with a nominal value of £1 each at a premium of £2 each;

or

(2) issue 6% debentures.

REQUIRED

(c) Advise the directors which of the two options would be the most beneficial to the company.

Advice based on argument 1:

Shares – advantages	**Permanent capital (1); no need to pay dividend (1) if insufficient profits (1); dividend only paid on 200 000 shares (2); increase ownership (1).**
disadvantage	**Dividends will need to keep up with inflation (2); possible change in control (2).**

Any other useful comments to be rewarded.

max 5 marks

Advice based on argument 2:

Debentures – advantages	**Can repay in future (1); interest (£36 000) will be less in real terms in future (2); does not dilute ownership (1); lower interest than currently paid (1).**
disadvantage	**must be serviced (1), if not liquidation may follow (1); must be repaid in future (1).**

max 5 marks

Overall max 7 marks plus advice 1

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.