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General Certificate of Education

Accounting ACC3

**Unit 3 Financial Accounting: Determination
of Income**

Mark Scheme

2008 examination - June series

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ACC

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 (**OF**). **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.

1

Total for this question: 24 marks

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

Senisub Ltd
Profit and Loss Appropriation Account for the year ended 31 December 2007

	£		£
Net profit for the year			310 000 (1)
Corporation tax			<u>65 000 (1)</u>
Net profit after tax			245 000
Less appropriations			
Transfer to general reserve	27 000 (1)		
Dividends – interim preference	10 000 (1)		
final preference	10 000 (1)		
final ordinary	<u>48 000 (3)W1</u>		<u>95 000</u>
Retained profit for the year			<u>150 000 (1OF)</u>

W1 6p (1) x 800 000 (1) = 48 000 (1)

9 marks

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

Senisub Ltd
Balance sheet at 31 December 2007

	£		£	£
*Fixed assets				700 000 (1)
*Current assets			933 000 (1)	
*Creditors: amounts falling due within one year				
Trade creditors	112 000 (1)			
Taxation	65 000 (1)			
Preference dividend	10 000 (1)			
Ordinary dividend	<u>48 000 (1OF)</u>	<u>235 000</u>		<u>698 000</u>
				1 398 000
*Creditors: amounts falling due in more than one year				
6% debentures (2023)				<u>100 000 (1)</u>
				<u>1 298 000</u>
*Share capital and reserves				
Ordinary shares of 50 pence each fully paid				400 000 (1)
8% preference shares of £1 each fully paid				250 000 (1)
General reserve				27 000 (1)
Profit and loss account		W1	<u>621 000 (3OF)</u>	
				<u>1 298 000</u>

W1 471 000 (1) + 150 000 (1OF) = 621 000 (1)

13 marks

Quality of presentation (QWC)

*1 mark for all headings

1 mark for correct order of share capital and reserves

0-2 marks
Overall max 15 marks

2

Total for this question: 11 marks

2(a) Calculate the value of stock held at 31 March 2008.

The value of stock held was **£7110**.**Stock valuation**

	£
	6000 (1)
	1000 (1)
W1	<u>110 (3OF)</u>
	<u>7110 (1OF)</u>

6 marks

W1 150 (1) – 40 (1) = 110 (1OF)

2(b) Identify **one** concept that is used in the valuation of stock.A concept used in the valuation of stock is **prudence (1) or consistency. (1)****1 mark**

2(c) Calculate the correct gross profit for the year ended 31 March 2008.

Draft gross profit		£ 112 760
Less	W1	<u>400 (3OF)</u>
Corrected gross profit		£ <u>112 360 (1OF)</u>

4 marks

W1 7510 (1) – 7110 (1OF) = 400 (1OF)

3

Total for this question: 45 marks

3(a) Prepare a corrected manufacturing account.

Alec Smart			
Manufacturing account for the year ended 31 March 2008 (1)			
	£		£
Stocks of raw materials 1 April 2007			9 380 (1)
Purchases			<u>42 790 (1)</u>
			52 170
Stocks of raw materials 31 March 2008			<u>8 420 (1)</u>
*Cost of raw materials consumed			43 750 (1)
Direct labour		W1	131 100 (2OF)
Royalties		W3	<u>4 500 (4)</u>
*Prime cost			179 350 (1OF)
Overheads			
Supervisory wages	W2	43 700 (1OF)	
Other indirect costs		84 600 (1)	
Depreciation of machinery	W4	<u>20 000 (3)</u>	<u>148 300</u>
			327 650
Less increase in work in progress			<u>400 (2)</u>
*Production cost			327 250 (1OF)
Factory profit			<u>65 450 (1OF)</u>
*Transfer price			<u>392 700 (1OF)</u>

23 marks

* 1 mark for all headings

W1	174 800 x $\frac{3}{4}$	=	131 100 (2)	
W2	174 800 x $\frac{1}{4}$	=	43 700 (1)	
W3	5000 (1) – 500 (1)	=	4500 (1)	Plus 1 mark for correct position in prime cost
W4	200 000 (1) x 10% (1)	=	20 000 (1)	

3(b) Calculate the amount of the provision for unrealised profit to be entered in the profit and loss account for the year ended 31 March 2008. Indicate whether the amount will increase or decrease the net profit for the year.

The amount to be entered in the profit and loss account is **£160**.
It will decrease the net profit.

7 marks
1 mark

Workings

£17 640 (1) x $\frac{20}{120}$ (1)	=	£2940 (1OF)	OR	£18 600 (1) - £17 640 (1) = £960 (1)
£18 600 (1) x $\frac{20}{120}$ (1OF)	=	<u>£3100 (1OF)</u>	OR	<u>£960 x 20 (1) = £160 (2)</u> 120(1)
		<u>£160 (1OF)</u>		

3(c) Assess the benefits that the managers of a business might hope to gain by transferring goods from the factory to the trading account at production cost plus factory profit.

The transfer price should reflect the price at which the goods might be purchased from an outside supplier (0-2) this will enable managers to evaluate a “make or buy” decision (0-2). The profit loaded transfer price should be more realistic (0-2) unless a set percentage price is used (2).

The transfer price recognises the part that the factory contributes to the overall profitability of the business (0-2).

Realistic factory profits can be used to motivate factory managers and other workers (0-2). However, the use of this technique does not improve overall profitability of the business (0-2).

Can give an unrealistic view of the factory profitability unless other production prices are researched and used to set the transfer price (0-2).

For each point, award 1 mark for identification, 1 mark for development.

max 10 marks

Assessment (0-2)

2 marks

Quality of written communication (QWC)

For using good English – spelling, punctuation and grammar

0-2 marks

Overall max 14 marks