

# General Certificate of Education

## Accounting 6121

### *ACC5 Further Aspects of Financial Accounting*

## Mark Scheme

### *2006 examination - January 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 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.

**January 2006**

## **MARK SCHEME**

### **INSTRUCTIONS TO EXAMINERS**

You should remember that your marking standards should reflect the levels of performance of Advanced Level candidates, mainly 18 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 (QWC)**

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.

#### **Synoptic Assessment**

Synoptic assessment is located in the last question. Candidates will be required to integrate their knowledge, understanding and skills learned in different parts of the A Level course.

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1

Total for this question

The following details regarding subscriptions received during the year ended 31 December 2006 have been extracted from the cash book of the Volley Tennis Club.

Subscriptions received for the year ended	<b>£</b>
31 December 2004	288
31 December 2005	15 648
31 December 2006	192

**Additional information**

- (1) At the year ended 31 December 2004, subscriptions amounting to £624 remained unpaid, while subscriptions totalling £240 had been paid for the year ended 31 December 2005.
- (2) Members whose subscriptions for the year ended 2004 remained unpaid at 31 December 2005 had their membership withdrawn and their subscriptions, which totalled £384, are to be written off.
- (3) Nine members' subscriptions, amounting to £432, remained unpaid at the year end 31 December 2005.

**REQUIRED**

- (a) Prepare a subscriptions account for the year ended 31 December 2005.

<b>Subscriptions</b>					
<b>Balance b/d</b>	<b>624</b>	<b>(1)</b>	<b>Balance b/d</b>	<b>240</b>	<b>(1)</b>
<b>Income and expenditure a/c (1)</b>	<b>16 368</b>	<b>(1 OF)</b>	<b>Cash</b>	<b>16 128</b>	<b>(1)</b>
			<b>Subscriptions written off</b>	<b>384</b>	<b>(1)</b>
<b>Balance c/d</b>	<b>192*</b>	<b>(1)</b>	<b>Balance c/d</b>	<b>432**</b>	<b>(1)</b>
	<u><b>17 184</b></u>			<u><b>17 184</b></u>	
<b>Balance b/d</b>	<b>432**</b>		<b>Balance b/d</b>	<b>192*</b>	

8 marks

1 mark for both \*

1 mark for both \*\*

(1)

The treasurer of the Volley Tennis Club is considering the introduction of a life membership scheme. He has suggested a one-off payment of £400, with equal amounts being transferred annually to the income and expenditure account over ten years. He asks your advice.

(b) Advise the club treasurer whether or not the club should introduce a life membership scheme.

**Advantages include:**

**Annual subscription is £48, so the one-off payment represents just over 8 years annual subscriptions. No problem getting members to pay each year (0-3).**

**Large lump sum, if members do subscribe, allowing major projects to be undertaken, eg new floodlights, pavilion upgrades, etc, without relying on external means of finance (0-3).**

**Disadvantages include:**

**One-off payment so life members make no further payments after eight years (0-3).  
Income and expenditure account will show transfer from the fund each year, swelling surplus (or reducing deficit), without a similar increase in the current liquid position; this could encourage spending in the future when the cash may not be available (0-4).**

**Advice (0-2)**

**max 10 marks  
2 marks**

2

Total for this question

Mei, Janet and Michael have been in partnership for a number of years, sharing profits and losses in the ratio 3:2:1 respectively.

The summarised partnership balance sheet at 30 September 2005 is shown below.

	£	£
Fixed assets		60 000
Bank	1 000	
Other current assets	28 000	
	<u>29 000</u>	
Current liabilities	<u>24 000</u>	5 000
		<u>65 000</u>
Capital accounts: Mei		40 000
Janet		20 000
Michael		5 000
		<u>65 000</u>

Janet retired from the partnership at close of business on 30 September 2005. Mei and Michael continued in partnership; they shared profits in the ratio 2:1 respectively. The three partners agreed that the following asset valuations applied at 30 September 2005.

	£
Fixed assets	130 000
Goodwill	75 000
Current assets (excluding bank)	27 000

It was further agreed that goodwill would not appear in the books of account. Mei and Michael were unsure how any debt owed to Janet should be settled. In the short term, the amount was transferred to a temporary loan account.

### REQUIRED

- (a) Prepare the three partners' capital accounts at 30 September 2005, showing the effects of Janet's retirement.

#### Capital accounts

	Mei £	Janet £	Michael £		Mei £	Janet £	Michael £
<b>Goodwill</b>	50 000		25 000	<b>Balances b/d</b>	40 000	20 000	5 000
	(1)		(1)		(1)	(1)	(1)
<b>Loan a/c</b>		68 000		<b>Revaluation a/c</b>	34 500	23 000	11 500
		(1)OF			(1)	(1)	(1)
<b>Balance c/d</b>	<u>62 000</u>	(1) *OF	<u>4 000</u>	<b>Goodwill</b>	<u>37 500</u>	<u>25 000</u>	<u>12 500</u>
	112 000	68 000	29 000		112 000	68 000	29 000
				<b>Balances b/d</b>	62 000	*both	4 000

11 marks

(2)

Mei and Michael are considering three alternative methods of funding the amount owed to Janet.

These are:

- (1) to borrow sufficient funds from a bank in the form of a long-term loan, repayable in equal monthly instalments over ten years at 8% interest per annum;
- (2) to use overdraft facilities (the bank has agreed to this if required);
- (3) to leave the amount due in Janet's loan account, repayable over ten years in equal half-yearly instalments at 7% interest per annum.

**REQUIRED**

(b) Advise Mei and Michael how the debt owed to Janet should be settled.

**Bank loan**

**Will affect cash flow each month – capital and interest payments – (could be £600 - £650) each month (0-3)**

**Repayments will get less onerous with the passage of time (0-3)**

**Can budget easily for the regular equal instalments (0-2)**

**max 4 marks**

**Bank overdraft**

**Greater interest rates but may prove to be cheaper as interest is only calculated on overdraft outstanding (0-3)**

**Can vary repayments to suit liquidity position (0-3)**

**max 4 marks**

**Janet's loan**

**Cheaper than bank at 7% but larger less frequent repayments, so may cause problems if larger amounts are not available when required (0-3)**

**Will Janet interfere? – was a partner – still has a cash stake in the business so may feel that she is still entitled to her say in how the business is being run (0-3)**

**max 4 marks**

**Overall max 9 marks**

**Advice (0-2)**

**2 marks**

3

Total for this question

Cindy Tofe does not keep proper books of account. However, she keeps an accurate record of sales and bank transactions, except for personal drawings, in a cash book. She is able to provide the following information for the year ended 31 December 2005.

Assets and liabilities	at 1 January 2005	at 31 December 2005
	£	£
Equipment	24 000	20 000
Vehicles	60 000	56 000
Stock	2 998	?
Trade debtors	6 546	7 219
Trade creditors	5 982	5 433
Cash at bank	1 726	?
Cash in hand	142	169
Interest-free long-term loan	-	15 000
Rent paid in advance	160	420
Wages owing	831	762

Cindy has drawn a cheque from the bank each week for her own personal use. She is unsure of the exact amount withdrawn over the year, but she believes it to be between £17 000 and £18 000. All other bank transactions have been recorded accurately.

Cindy provides the following summary of her business bank transactions during the year ended 31 December 2005.

	£		£
Cash and cheques banked	186 784	General expenses	1 604
Loan from parent (interest-free, to be repaid 2011)	15 000	Wages	23 110
		Drawings	?
		New vehicle	13 500
		Payments to creditors	142 911
		Rent	4 940
Total receipts	<u>201 784</u>	Total withdrawals except drawings	<u>186 065</u>

At the end of the financial year, the bank statement received from Cindy's bank showed that she was overdrawn by £668. Cindy knows there was an unrepresented cheque for £291. She has also noted that takings of £1084, paid into the bank on 31 December 2005, did not appear on the bank statement.

### REQUIRED

- (a) Prepare a bank reconciliation statement to determine the bank balance as per Cindy's cash book at 31 December 2005.

	£	
<b>Balance as per bank statement</b>	<b>(668)</b>	<b>(1)</b>
<b>Add cheques not yet credited</b>	<b>1084</b>	<b>(1)</b>
	<u>416</u>	
<b>Less unrepresented cheque</b>	<b>291</b>	<b>(1)</b>
<b>Balance as per Cindy's cash book</b>	<u><b>125</b></u>	<b>(1) OF</b>

4 marks

(3)

**REQUIRED**

(b) Calculate the amount of Cindy's drawings from her bank account.

<b>Bank account</b>			
	£		
<b>Balance 1 January 2005</b>	1 726	(1)	<b>Payments</b>
<b>Receipts</b>	201 784	(1)	<b>Drawings</b>
	<u>203 510</u>		<b>Balance 31 December 2005</b>
			186 065 (1)
			17 320 (1 OF)
			<u>125 (1 OF)</u>
			<u>203 510</u>
			<b>5 marks</b>

Cindy was unable to carry out a stock-take on 31 December 2005 because of illness. The stock-take was completed on 8 January 2006, when the stock was valued at £2986.

The following transactions took place in the period 1 January 2006 to the close of business on 7 January 2006.

	£
Purchases of goods for resale	1036
Purchases returns	140
Sales (marked up by 40%)	2520
Sales returns (marked up by 40%)	504
Sale to Frank Fearless, a fellow trader, at cost plus 10%	858

**REQUIRED**

(c) Calculate the value of stock at 31 December 2005.

	£		
<b>Stock as per stock-take</b>	2986	(1or0)	
<b>Less purchases</b>	(1036)	(1)	
<b>Add purchases returns</b>	140	(1)	
<b>Add sales</b>	1800	(2)	2520 (1) ÷ 1.4 (1)
<b>Less sales returns</b>	(360)	(2)	504 (1) ÷ 1.4 (1 OF)
<b>Add sales (FF)</b>	<u>780</u>	(2)	858 (1) ÷ 1.1 (1)
<b>Stock at 31 December</b>	<u>4310</u>	(1OF)	

**10 marks**

During the year ended 31 December 2005, vehicle ZT 52 SMH, book value £12 000, was accepted by Foxhall's garage in part exchange for a new vehicle PQ 55 JJH costing £25 000. Cindy paid £13 500 by cheque.

**REQUIRED**

(d) Calculate the profit or loss on disposal of vehicle ZT 52 SMH.

<b>Disposal account</b>			
<b>Vehicle</b>	12 000	(1)	<b>Trade in</b>
	<u>12 000</u>		11 500 (3)
			25 000 (1) – 13 500 (1)
			<u>500 (1)</u>
			<u>12 000</u>

**5 marks**



(3)

Before banking her takings, Cindy paid £11 022 in cash during the year for the following:

	£
Motor expenses	3040
General expenses	5162
Cash purchases	740
Her own private use	2080

**REQUIRED**

- (e) Prepare a trading and profit loss account for the year ended 31 December 2005. A balance sheet is **not** required.

**Cindy Tofe**  
**Trading and profit and loss account for the year ended 31 December 2005**

Sales (W <sub>1</sub> )	£	£	£	
			198 506	(8 OF)
Less cost of sales				
Stock		2 998		(1 or 0)
Purchases (W <sub>2</sub> )		<u>143 102</u>		(5 OF)
(142 362 (4) + 740 (1))			146 100	
Stock		<u>4 310</u>	(1 OF)	
Gross profit (must say)			<u>141 790</u>	
Less expenses			56 716	(1 OF)
Rent (W <sub>3</sub> )		4 680		(4)
Wages (W <sub>4</sub> )		23 041		(4)
General expenses		6 766		(1)
Motor expenses		3 040		(1)
Loss on sale of vehicle		500		(1 OF)
Depreciation				
Equipment	4 000			(1)
Vehicles (W <sub>5</sub> )	<u>17 000</u>	(5)	<u>21 000</u>	
Net loss (must say)			<u>59 027</u>	
			2 311	(1) OF

34 marks

## Workings

		<b>Cash</b>				<b>W<sub>1</sub> Debtors</b>	
<b>Balance</b>	142	(1)	<b>Expenses</b>	11 022	(1)	<b>Balance</b>	6 546
<b>Takings</b>	197 833	(1)	<b>Banked</b>	186 784	(1)	<b>Sales</b>	198 506
			<b>Balance</b>	169	(1)		<u>205 052</u>
	<u>197 975</u>			<u>197 975</u>		<b>Balance</b>	7 219
<b>Balance</b>	169						
		<b>W<sub>2</sub> Creditors</b>				<b>W<sub>3</sub> Rent</b>	
<b>Cash</b>	142 911	(1)	<b>Balance</b>	5 982	(1)	<b>Balance</b>	160
<b>Balance</b>	5 433	(1)	<b>Purchases</b>	142 362	(1)	<b>Cash</b>	4 940
	<u>148 344</u>		<b>Balance</b>	5 433			<u>5 100</u>
						<b>Balance</b>	420
		<b>W<sub>4</sub> Wages</b>				<b>W<sub>5</sub> Vehicles</b>	
<b>Cash</b>	23 110	(1)	<b>Balance</b>	831	(1)	<b>Balance</b>	60 000
<b>Balance</b>	762	(1)	<b>P&amp;L a/c</b>	23 041	(1)	<b>New veh</b>	25 000
	<u>23 872</u>		<b>Balance</b>	762			<u>85 000</u>
						<b>Balance</b>	56 000

## 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.
- 3-4** 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.
- 5** 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 (including spelling, punctuation and grammar)?

Is there a grasp of Accounting terminology (eg avoiding slang, avoiding text language, avoiding abbreviations in prose answers)?

Are arguments logically argued?