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# General Certificate of Education

## Accounting 6121

### *ACC5 Further Aspects of Financial Accounting*

# Mark Scheme

## *2006 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 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.

June 2006

ACC5

## 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: 20

Tom and Geraldine have been in partnership for a number of years as building contractors. They share profits and losses equally. The balances on their current accounts at 30 April 2006, after the preparation of their draft final accounts, were Tom £3720 (cr) and Geraldine £1450 (dr).

In early May 2006, the following information became available.

- (1) During the financial year ended 30 April 2006, the partnership had built an office for business use. The building materials used cost £12 450 and had been included in the purchases account; the labour costs of £18 240 had been included in the wages account.
- (2) No entry had been made in the accounts to record the use of materials from business stock for work done in Geraldine's home. The materials cost £2780.
- (3) Included in Tom's drawings was a payment of £600 cash to his son for work carried out on behalf of the partnership.
- (4) A piece of equipment, purchased on 1 May 2003 at a cost of £20 000, was sold on 30 April 2006 for £8000. The only entries relating to the sale of the equipment were:
  - Debit – cash £8000
  - Credit – sales £8000

The equipment had been depreciated at 25% per annum using the straight-line method up to 30 April 2006.

### REQUIRED

- (a) Prepare a statement showing (i) the effect of **each** of items (1) to (4) on the draft net profit **and** (ii) the change in net profit for the year ended 30 April 2006.

		£		
<b>Adjustment</b>	(1)	30 690	(2)	12 450 (1) + 18 240 (1)
	(2)	2 780	(1)	
	(3)	(600)	(1)	
	(4)	(8 000)	(1)	
		3 000	(3)	£20 000 (1) - (£15 000 (1) + £8000 (1))
<b>Increase (1) in profit</b>		27 870	(1) OF	

10 marks

(1)

- (b) Prepare current accounts of Tom and Geraldine at 30 April 2006 to record the adjustments that may be necessary because of the four items.

## Current accounts

	Tom	Geraldine		Tom	Geraldine
	£	£		£	£
Balance b/d		1 450 (1)	Balance b/d	3 720 (1)	
Goods own use		2 780 (1)	Wages (son)	600 (1)	
Balances c/d	<u>18 255</u> (1) OF	<u>9 705</u> (1) OF	Extra prof	<u>13 935</u> (1) OF	<u>13 935</u> (1) OF
	<u>18 255</u>	<u>13 935</u>	Balances b/d	18 255 (1) both	9 705

9 marks

- (c) Evaluate the usefulness of maintaining separate capital and current accounts.

## Benefits include:

Capital accounts show capital transactions (1) and adjustments (1)  
 Current accounts contain distributions of profits (1) and drawings of profits (1) } max 2 marks

Distinction highlights partners who withdraw more profits than they have earned (0 – 2)  
 Makes calculation of interest on capital much easier (0 – 2)  
 On the other hand – more work needed (1) so more time-consuming (1)  
 no point unless interest on capital is included in partnership agreement (0-2) } max 2 marks

Judgement (0 – 2) must make use of arguments used. max 2 marks

Overall max 6 marks

2

Total for this question: 20

The treasurer of Shugtown Social Club has never kept proper books of account. He is only able to provide the following information for the financial year ended 31 March 2006.

<b>Assets and liabilities</b>	<b>at 31 March 2005</b>	<b>at 31 March 2006</b>
	<b>£</b>	<b>£</b>
Bar stocks at cost	3400	3950
Bar creditors	1570	880
Subscriptions in arrears	240	120
Equipment at valuation	5400	9360
Stock of stationery at cost	110	85
Cash at bank	1800	340
5% loan	-	5000

**Additional information**

- (1) Equipment costing £5000 was purchased on 1 April 2005. It was financed fully by a loan taken out on that date. At the year end 31 March 2006, no payment of capital or interest had been made.
- (2) Included in the bar stocks at 31 March 2006 were items costing £120 that were out of date; they were sold in April 2006 for £30.

(2)

**REQUIRED**

- (a) Prepare a balance sheet at 31 March 2006. Show clearly the surplus or deficit for the year ended 31 March 2006. An income and expenditure account is **not** required.

**Shughtown Social Club**  
**Balance sheet at 31 March 2006**

	£	£	£	
<b>Fixed assets</b>				
Equipment at valuation			9 360	
<b>Current assets</b>				W <sub>1</sub> 3 950 (1)
Bar stock W <sub>1</sub>		3 860 (3)		(90) (1)
Stock of stationery		85		<u>3 860</u> (1)
Cash at bank		340		
Subscriptions		<u>120</u> (1)		W <sub>2</sub> 5 000 (1)
		4 405		<u>x 5%</u> (1)
<b>Current liabilities</b>				<u>250</u> (1)
Bar creditors	880			
Loan interest W <sub>2</sub>	<u>250</u> (3)	<u>1 130</u>	<u>3 275</u>	
			12 635	W <sub>3</sub> 3 400
<b>Long-term liability – loan</b>			<u>5 000</u> (1)	(1 570)
			<u>7 635</u>	240
<b>Accumulated fund W<sub>3</sub></b>			9 380 (2)	5 400
Less deficit (1) OF			<u>1 745</u> (1) OF	110
			<u>7 635</u>	1800
				6 = 2 marks
				5 = 1 mark

12 marks

- (b) Advise the treasurer of the Shughtown Social Club whether or not he should change his method of financial record-keeping.

**Against change**

Very simple method (1) list of assets and liabilities at year end (1)

Accurate (1)

No accounting or bookkeeping knowledge needed (1)

max 2 marks

**For change**

No detail given (1) of financial aspects of club activities (1) so no remedial actions can be taken if things are not going well (1)

Members have no idea how deficits or surpluses have arisen (1) – how income has been generated (1), how their funds have been used (1).

Generally not satisfactory for stewardship (1) and decision-making (1)

max 4 marks

Advice (0 – 2) based on arguments.

2 marks

Overall max 8 marks

3

Total for this question: 5

Michael Wong is the proprietor of a retail gift shop. He has one outlet and a small warehouse where he keeps his stock.

Michael does not keep full accounting records, but he is able to provide the following information for the year ended 31 March 2006.

**Summarised Bank Account for the year ended 31 March 2006**

	£		£
1 April 2005 Balance b/fwd	784	Payments to creditors	178 943
Cash banked	253 641	Warehouse rent	7 800
Received from debtors	2 356	Advertising and wrapping materials	12 340
		Rates and insurances	11 870
		Purchase of vehicle	30 000
		Motor expenses	12 659
31 March 2006 Balance c/fwd	4 393	General expenses	7 562
	261 174	1 April 2006 Balance b/fwd	261 174
			4 393

**Additional information**

	at 1 April 2005	at 31 March 2006
(1) Assets and liabilities	£	£
Premises	103 600	100 800
Fixtures and fittings	12 000	10 000
Vehicles	20 000	28 500
Stock	4 562	4 328
Trade creditors	12 403	11 987
Trade debtors	458	476
Warehouse rent unpaid	700	-
Insurances paid in advance	760	840
Cash at bank	784	-
Bank overdraft	-	4 393
Cash in hand	260	320

- (2) During March 2006, one of the vehicles, with a value of £12 000, was involved in an accident. The vehicle and all of the goods being carried in the vehicle had to be written off. The goods had cost £1560.

The insurance company agreed to pay £7200 for the loss of the vehicle; the payment was made at the end of April 2006.

Unfortunately, Michael was not insured for the loss of the goods.

- (3) On 1 September 2005, a new vehicle was purchased for £30 000.
- (4) Before paying the shop takings into the bank account, Michael used some of the cash received to pay the following.

	£
Cash for personal use	1500 per calendar month
Staff wages	2650 per calendar month

- (5) During December 2005, Michael took goods costing £368 from stock to give as Christmas presents to his friends and relatives.

(3)

**REQUIRED**

(a) Prepare the following accounts for the year ended 31 March 2006:

(i) a cash account;

<b>Cash account</b>			
	£		£
<b>Balance b/d</b>	260	<b>(1)</b>	<b>Banked</b>
<b>Takings</b>	303 501	<b>(1) OF</b>	<b>253 641</b>
			<b>(1) or (0)</b>
			<b>Drawings</b>
			<b>18 000</b>
			<b>(1)</b>
			<b>Wages</b>
			<b>31 800</b>
			<b>(1)</b>
			<b>Balance c/d</b>
			<b>320</b>
			<b>(1) or (0)</b>
	<b>303 761</b>		<b>303 761</b>
<b>Balance b/d</b>	320	<b>(1) or (0)</b>	

7 marks

**Vertical presentation max 4 marks**

(ii) a total debtors account (control account);

<b>Total debtors account</b>			
<b>Balance b/d</b>	458	<b>(1)</b>	<b>Cash</b>
<b>Sales</b>	2 374	<b>(1) OF</b>	<b>2 356</b>
			<b>(1)</b>
			<b>Balance c/d</b>
			<b>476</b>
			<b>(1) or (0)</b>
	<b>2 832</b>		<b>2 832</b>
<b>Balance b/d</b>	476	<b>(1) or (0)</b>	

5 marks

**Vertical presentation max 3 marks**

(iii) a total creditors account (control account);

<b>Total creditors account</b>			
<b>Cash</b>	178 943	<b>(1)</b>	<b>Balance b/d</b>
<b>Balance c/d</b>	11 987	<b>(1) or (0)</b>	<b>12 403</b>
			<b>(1)</b>
			<b>Purchases</b>
			<b>178 527</b>
			<b>(1) OF</b>
	<b>190 930</b>		<b>190 930</b>
			<b>Balance b/d</b>
			<b>11 987</b>
			<b>(1) or (0)</b>

5 marks

**Vertical presentation max 3 marks**

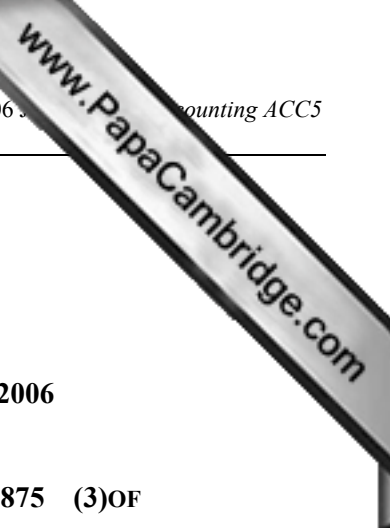
(iv) a vehicles account.

<b>Vehicles account</b>			
<b>Balance b/d</b>	20 000	<b>(1)</b>	<b>Disposal</b>
<b>Bank</b>	30 000	<b>(1)</b>	<b>12 000</b>
			<b>(1)</b>
			<b>Depreciation</b>
			<b>9 500</b>
			<b>(1) OF</b>
			<b>Balance c/d</b>
			<b>28 500</b>
			<b>(1)</b>
	<b>50 000</b>		<b>50 000</b>
<b>Balance b/d</b>	28 500	<b>(1)</b>	

6 marks

**Vertical presentation max 3 marks**





(3)

(b) Prepare a trading and profit and loss account for the year ended 31 March 2006.

**Michael Wong**  
**Trading and profit and loss account for the year ended 31 March 2006**

	£		£
Sales	303 501 (1) OF + 2 374 (1) OF = 305 875 (1)		305 875 (3)OF
Less cost of sales			
Stock	4 562		(1) both
Purchases W <sub>1</sub>	176 599 (4)OF		
	181 161		
Stock	4 328		176 833
Gross profit (must say)			129 042 (1)OF
Less expenses			
Wages	31 800		
Rent W <sub>2</sub>	7 100 (3)		
Advertising and wrapping materials	12 340		
Insurances W <sub>3</sub>	11 790 (4)		
Motor expenses	12 659		
General expenses	7 562		
Damaged goods	1 560 (1)		
Loss on sale of vehicle W <sub>4</sub>	4 800 (3)		
Depreciation – premises	2 800		(1) both
fixtures	2 000		
vehicles	9 500 (1)		
Net profit (must say)			103 911
			25 131 (1) OF

W <sub>1</sub>	178 527	(1) OF
	(368)	(1)
	(1 560)	(1)
	176 599	(1)

W <sub>2</sub>	7 800	(1)
	(700)	(1)
	7 100	(1)

W <sub>3</sub>	11 870	(1)
	760	(1)
	(840)	(1)
	11 790	(1)

W <sub>4</sub>	12 000	(1)
	(7 200)	(1)
	4 800	(1)

max 23 marks

(3)

Over the past few years, there has been a growth in the number of retail outlets selling similar goods to those sold by Michael. As a result, Michael's profitability has been declining. This is shown in the following table.

Year ended 31 March	2003	2004	2005
Gross margin	45%	44%	44%
Net margin	19%	15%	14%

Michael, who is 62 years of age, is considering whether or not the time has come for him to sell his business and retire. An estate agent has recently valued the business and believes that it could be sold as a going concern for £150 000.

**REQUIRED**

(c) Advise Michael whether or not he should sell his business and retire.

Use ratios where appropriate to support your argument.

**For retirement (max 4 marks)**

Gross margin is falling (1), now 42.12% (1) OF

Net margin is falling (1), now 8.2% (1) OF

Expenses as a proportion of sales are increasing (1), up 8% OF in 4 years (1)

So this might be an appropriate time to retire (1) before business becomes less attractive to a potential buyer (1)

**Against retirement (max 4 marks)**

Currently living off £18 368 (1)

Profits are £25 131 so ROCE is 19.43% (1) (18.47% or 18.94%) which is much better (1) than could be gained from a risk-free investment eg building society (1)

If he invested the proceeds of a sale, he could earn 5% or 6% (1) OF which would yield £7500 - £9000 (1) OF, half of what he appears to need at current level of drawings (1)

Non-financial factors (maximum 2 x 2 marks)  
eg leisure time; stress; quality time etc

Overall max 7 marks

Advice – from a financial view-point he should not retire (0-2). However, same marks could be gained for a good reasoned argument for retirement, but not purely on the basis of his age (0-2).

2 marks.

Total for Q3 (c): 9 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.
- 3-4** 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.