General Certificate of Education

Accounting ACCN1

Unit 1 Introduction to Financial Accounting

Mark Scheme

2009 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 2009

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.

1   **Total for this question: 1**

Eifion Jones owns a business repairing motor vehicles. The following transactions took place ...
December 2008.

REQUIRED

1 (a) Identify the source document for each of the following transactions. An example is given.

Transaction	Source document
Parts from a supplier purchased on credit	*Purchases invoice*
Eifion returned parts to a supplier which had previously been purchased on credit	**(Purchases) credit note** **Not debit note** **Not C/N or other abbreviations**
Cash deposited by Eifion into the business bank account	**Paying-in counterfoil/Slip/Book/Stub.** **Bank Statements** **Not cash receipt**
Payment from a customer by credit transfer	**Bank statement** **Advice slip**
Work done for a customer to be paid next month	**Invoice (copy/sales)**

1 mark for each correct answer   **4 marks**

1(b) Complete the table by entering the appropriate details in the spaces provided. An example has been given.

Transaction	Account to be debited	Account to be credited
Workshop equipment purchased from Apex on credit for £22 000	*Fixed assets – workshop equipment*	*Apex – creditor's account*
£50 000 paid into the business bank account from Eifion's savings	**Bank (account)** **Cash book – Bank column** **But not cash book only**	**Capital (account)** **Not Eifion's savings**
£312 repairs to a customer's car to be paid in January	**Debtor's (account)** **Debtor/Sales ledger control account** **Customer (Account).**	**Sales / work done (account)#**
Paid rent of £2000 by standing order	**Rent (payable) (account)** **Rent and rates (Account)**	**Bank (account)** **Cash book – Bank column** **But not cash book only**

1 mark for each correct answer

                                                                                        6 marks

NOTE: For all responses, must be the name of an acceptable account.
* Do not accept cash book/bank book.
 # Do not accept sales book. Do not accept repairs account.

2   **Total for this question: 15**

Karen Lamb owns a business selling books. She operates a manual accounting system. The sales ledger control account for the month ended 30 November 2008 does not agree with the total of the debit balances extracted from the sales ledger.

The following errors have been discovered.

(1) The balance brought down in the sales ledger control account should have been £13 560.

(2) Discount allowed of £140 had been completely omitted from the books of account.

(3) A bad debt of £50 had been written off, but had not been entered in the sales ledger control account.

(4) Discount received of £205 had been posted to the credit side of both the sales ledger control account and the purchases ledger control account.

(5) The sales returns day book had been overcast by £200.

(6) A debit balance of £85 in the sales ledger had been entered as a contra item in the purchases ledger. No entry had been made in the sales ledger control account.

(7) A cheque from a customer for £415 had been dishonoured. This had not been entered in the sales ledger control account.

REQUIRED

2(a) Correct the sales ledger control account and balance the account.

Dr   **Sales ledger control account**   **Cr**

Date	Details	£		Date	Details	£	
30 Nov	Balance b/d	13 650		**30 Nov**	**Balance adjustment**	90	(1)
30 Nov	**Discount received**	205	(1)	**30 Nov**	**Discount allowed**	140	(1)
30 Nov	**Sales returns day book**	200	(1)	**30 Nov**	**Bad debt**	50	(1)
30 Nov	**Returned cheque**	415	(1)	**30 Nov**	**Contra**	85	(1)
				30 Nov	**Balance c/d***	14 105	*(1OF) both
		14 470				14 470	
1 Dec	**Balance b/d***	14 105					

8 marks

- **Ignore dates and narratives**
- **If item entered on both sides: 0 marks**
- **Accept 13650 credit with 13560 debit**
- **Do not accept 13650 crossed out replaced with 13560**

2 (b)   State **three** benefits of preparing a sales ledger control account.

- **Verifies the arithmetical accuracy of the ledger (1).**
- **Assists in the prevention of fraud (1).**
- **Detects errors in individual ledgers (1)**
- **Provides management with total debtors (1) and helps in the preparation of the balance sheet/final accounts (1)**

1 mark for each benefit   **max 3 marks**

2 (c)   State and explain **two** errors in the sales ledger that would **not** be identified by preparing a sales ledger control account.

Error of omission (1) where a transaction is completely omitted from the records (1).
Compensating error (1) where equal and opposite errors cancel each other out (1).
Error of commission (1) where an amount is posted to an incorrect account of the correct type (1).
Error of original entry (1) where an error is made transferring an amount from the source document into the books of original entry (1).

1 mark for each error plus 1 mark for development

- **Not error of principle**
- **Not error of reversal**

max 4 marks

3   **Total for this question: 37 m**

Liam O'Brien owns a business selling musical instruments. The following trial balance has been extracted from the books of account at 31 October 2008.

	Dr £	Cr £
Bank balance		19 281
Capital account at 1 November 2007		61 489
Carriage inwards	480	
Carriage outwards	2 110	
Discounts	664	811
Drawings	28 650	
Fixtures and fittings - at cost	62 200	
Fixtures and fittings - provision for depreciation		27 990
General expenses	8 594	
Purchases and sales	129 745	206 543
Rent and rates	10 926	
Returns	375	619
Stock at 1 November 2007	48 560	
Trade debtors and trade creditors	11 285	16 407
Wages and salaries	29 551	
	333 140	333 140

Additional information not yet recorded in the accounts at 31 October 2008

(1) Stock at 31 October 2008 was valued at £55 350.

(2) Wages owing amounted to £830.

(3) General expenses paid in advance amounted to £180.

(4) Depreciation should be provided on fixtures and fittings at 15% per annum using the straight-line method.

REQUIRED

3(a) Prepare a trading and profit and loss account for the year ended 31 October 2008.

<div align="center">

Liam O'Brien
Trading and Profit and Loss Account for the year ended 31 October 2008

</div>

	£		£	
Sales			206 543	(1)
Less: returns inwards			(375)	(1)
			206 168	
Cost of sales*				
(Opening) stock	48 560	(1)		
Purchases	129 745	(1)		
Less: returns outwards	(619)	(1)		
Carriage inwards	480	(1)		
	178 166			
(Closing) stock	(55 350)	(1)	122 816	
Gross profit*			83 352	(1)OF
Add: discounts received			811	(1)
			84 163	
Less: expenses				
Carriage outwards	2 110	(1)		
Discounts allowed	664	(1)		
General expenses (8594(1)-180(1))	8 414	(3)		
Rent and rates	10 926	(1)		
Wages and salaries (29 551(1)+830(1))	30 381	(3)		
Depreciation (62 200 x 15%)	9 330	(2 or 0)	61 825	
Net profit *			22 338	(1)OF
			21 marks	

Quality of presentation (QWC)
Plus 1 mark for all three headings (*) in full
Notes:
- **Accept cost of sales after closing stock**
- **Do not accept abbreviations for three * headings**
- **Accept discounts received as negative expense**
- **General expenses: the following responses will gain the following marks (in brackets): £8594 (1), £8774 (2), £8414 (3).**
- **Wages and salaries: the following responses will gain the following marks (in brackets): £29 551 (1), £28 721 (2), £30 381 (3).**
- **Accept discount received of 147 (2) (i.e 811 – 664).**
- **OF mark can be awarded for gross profit as long as trading is not corrupted by any item.**
- **OF mark can be awarded for net profit as long as profit and loss account is not corrupted by any item.**

3(b) Prepare an extract from the balance sheet at 31 October 2008 showing the capital se
only.

Liam O'Brien
Balance Sheet extract at 31 October 2008

CAPITAL

	£	
Balance at 1 November 2007	**61 489**	
Add: Net profit	**22 338**	**(1)OF**
	83 827	
Less: Drawings	**(28 650)**	**(1)**
Balance at 31 October 2008	**55 177**	**(1)OF**

- **Ignore narratives**
- **Alien rule applies**   **3 marks**

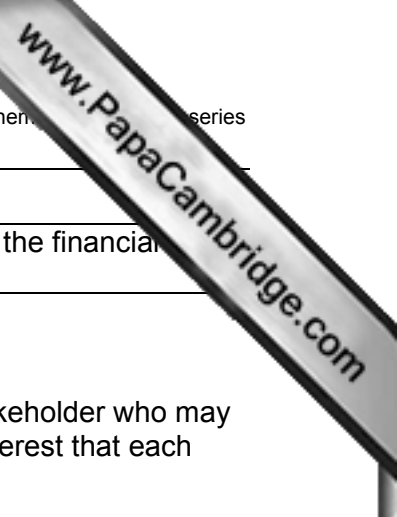3 (c) Prepare an extract from the balance sheet at 31 October 2008 showing the current assets section **only**.

Liam O'Brien
Balance Sheet extract at 31 October 2008

CURRENT ASSETS

	£	
Stock	**55 350**	**(1)**
Trade debtors	**11 285**	**(1)**
Prepayments	**180**	**(1)**
	66 815	**(1)OF**

- **Ignore narratives**
- **Bank overdraft is a current liability. Treat as an alien if in current assets – no mark for total.**

                                                    4 marks

Liam O'Brien has asked you about stakeholders who may have an interest in the financial statements of his business.

REQUIRED

3(d) Write a memorandum to Liam O'Brien advising him of **three** types of stakeholder who may have an interest in the financial statements of his business. State **one** interest that each may have.

Memorandum

To: Liam O'Brien
From: Student's name
Date: 9 January 2009
Subject: Stakeholders and their interest in the financial statements

Suppliers: to assess whether the business is able to pay for supplies.
Customers: to ensure that the business is sound and that their orders will be fulfilled.
Bank: to ensure that the overdraft will be repaid together with interest due.
Employees/Manager: to assess the security of their jobs and wages.
Government: to assess taxes due.
Competitors: to compare the success of their own business.
Allow owner, but <u>not</u> owners
Do not allow potential investors

Max 2 marks for each stakeholder. If more than 3 stakeholders, reward best 3.

1 mark for identification plus 1 mark for development: <u>max 6 marks</u>

Quality of written communication (QWC) **2 marks**
Plus 1 mark for spelling punctuation and grammar
Plus 1 mark for memorandum format
  • **All four headings required: date in full; (not abbreviations)**
                           subject must refer to 'stakeholders' and 'interest'.

4 **Total for this question: 18**

The balances in Paul Ashton's three column cash book at 3 December 2008 were as follows.

	£
Cash in hand	367
Bank overdraft	2414

The following transactions took place.

3 Dec Paid rent by cheque £1550.

4 Dec Cash sales £240.

5 Dec Banked £340 cash from the till.

5 Dec Received a cheque of £3745 from Mills in full settlement of a debt of £3855.

8 Dec Paid insurance by direct debit £48.

8 Dec Paid Collins by cheque £285 after deducting 5% cash discount.

10 Dec Withdrew £1000 cash from the bank for business use.

10 Dec Paid wages £942 in cash.

REQUIRED

4   Enter the above transactions in the cash book on page 10 and balance the cash book at 10 December 2008.

4

Cash Book

Dr

Date	Details	Discount £	Cash £	Bank £
3 Dec	Balance b/d		367 (#)	
4 Dec	Cash sales		240 (1)	
5 Dec	Cash c			340 (1)
5 Dec	Mills	110 (1)		3 745 (For both correct)
10 Dec	Bank c		1 000 (1)	
10 Dec	Balance c/d			1 212 (1)
		110 (1OF)	1 607	5 297
11 Dec	Balance b/d		325 (**)	

Cr

Date	Details	Discount £	Cash £	Bank £
3 Dec	Balance b/d			2 414 (#)
3 Dec	Rent			1 550 (1)
5 Dec	Bank c		340 (1)	
8 Dec	Insurance			48 (1)
8 Dec	Collins	15	(1)	285 (For both correct)
10 Dec	Cash c			1 000 (1)
10 Dec	Wages		942 (1)	
10 Dec	Balance c/d		325 (1)	
		15 (1OF)	1 607	5 297
11 Dec	Balance b/d			1 212 (**)

1 mark for **both correct balances**
** 1 (OF) mark for **each** balance b/d providing it agrees with c/d figures.
Quality of presentation (QWC)
Plus 1 mark for quality of presentation of dates and narrative. Must be correct date and an appropriate narrative for each entry
Marks for discount column totals only rewarded if columns NOT balanced

17 marks
Overall 18

13