

Version 3.0



**General Certificate of Education
June 2010**

Accounting ACCN2

**Unit 2: Financial and Management
 Accounting**

Final

Mark Scheme

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 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.

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ACCN2

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.

NOTE FOR TEACHERS

Please note that this mark scheme contains very detailed information for the benefit of examiners, which is designed to guide them when deciding what are acceptable responses and what are not.

Inevitably some of this guidance for examiners recommends the acceptance of candidates' responses which are only valid in the context of this particular examination. Centres are advised that these responses should not necessarily be seen as good practice.

1

Total for this question: 10

Michael owns a local newsagents/corner shop. He is a sole trader. He is considering converting his business to a private limited company with himself as the only shareholder.

REQUIRED

- 1 Explain **two** advantages and **two** disadvantages, to Michael, of converting his business to a private limited company.

1 mark for advantage/disadvantage + 0-2 marks for development / explanation.

Advantages include:	Possible development/explanation (0-2 marks)
Michael will have limited liability (1)	If the business fails (1) then Michael will only lose his initial investment(1) not his personal possessions (1) unlike a sole trader (1)
Michael can still make all the decisions (1)	Michael does not have to consult anyone about business decisions (1) as he is the only shareholder (1) he will still keep all the profits(1)
Prestige of being an owner of a limited company (1)	Michael may feel "good" about owning a limited company (1) rather than being self employed (1)
The company is a separate legal entity (1)	If there is any legal action then the company will be "sued" (1) and not Michael himself (1) A sole trader's business ends with the owners retirement or death(1), whilst a limited company carries on (1) so Michael could pass the business on (1)
Raising finance (1)	Michael may be able to raise finance more easily in future(1) as a limited company, many institutions are more willing to lend to limited companies. (1)
Disadvantages include:	
Cost of setting up the company (1)	There are costs involved in setting up a limited company both in terms of time (1) and money. (1) Michael could buy an off the shelf company (1) relatively cheaply (1) but there are still costs involved (1).
Increased "red tape" (1)	There is a significant amount of paperwork (1) involved in setting up and running a business. (1)
Publish accounts (1)	Michael will have to prepare accounts (1) and keep proper accounting records (1). He will also have to send his accounts to Companies House (1) and may have to have them audited (1).

Max 8 marks

Quality of written communication: plus 2 marks

To award 2 marks the candidate must:

Write about both advantages and disadvantages; use accounting terminology appropriately, have no more than two spelling/grammatical errors.

Award 0 marks where the quality of communication makes understanding difficult or is a very limited response eg 1 sentence.

Overall max 10 marks

2

Total for this question: 25

Oanh owns a retail business. She has calculated the gross profit for the year ended 31 March 2010 as £85 650.

She has a computerised system of inventory (stock) control, which automatically updates the inventory (stock) records whenever a sale is made. The closing inventory (stock) value from the computer system of £13 850 was used in the calculation of gross profit.

On 31 March 2010, a physical stocktake was carried out and the inventory (stock) was valued at £12 650.

The following balances have been extracted from the books of account at 31 March 2010.

	£
Motor vehicles - at cost	60 000
- provision for depreciation	25 000
Fixtures - at cost	25 560
- provision for depreciation	8 750
Trade receivables (debtors)	20 900
Provision for doubtful debts	556
Operating expenses	28 650
Rent received	4 400

Adjustments have yet to be made for the following.

- (1) Rent receivable due at 31 March 2010 is £400.
- (2) Operating expenses paid in advance at 31 March 2010 amounted to £365.
- (3) During the year, bad debts recovered amounted to £360.
- (4) At 31 March 2010, bad debts to be written off amounted to £880.
- (5) Motor vehicles are depreciated at a rate of 50% using the reducing balance method.
- (6) Fixtures are depreciated at a rate of 15% using the straight-line method.
- (7) The provision for doubtful debts is maintained at 5% of trade receivables (debtors).

REQUIRED

- 2 (a) Prepare an income statement (profit and loss account) for the year ended 31 March 2010.

Oanh
Income statement (Profit and loss account) for the year ended 31 March 2010

		£		£	Alternative answer £
Gross profit				84 450 (1)	85 650
Other income					
Rent	W1			4 800 (2OF)	
Bad debts recovered				<u>360 (1)</u>	
				89 610	<u>90810</u>
Less expenses					
Operating expenses	W2	28 285 (2OF)			
Provision for doubtful debts	W3	445 (4OF)			
Depreciation - Motor vehicles	W4	17 500 (3OF)			
Depreciation - Fixtures	W5	3 834 (2or 0)			
Bad debts		<u>880 (1)</u>			
				<u>50 944</u>	
Profit for the year (net profit)				<u>38 666 (2CF)(1OF)</u>	39866

18 Marks

QWC plus 1 mark

W1 Rent
 $4400(1)+400(1)= £4800$
 (only award 1 mark if 4400 and 400 shown separately. Award one mark for 4000)

W2 Operating expenses
 $28650(1) - 365(1)= £28285$
 (award 1 mark for 29015)

W3 Provision for doubtful debts
 $20900-880(1)\times 5\%(1)=1001-556(1)= £445(1 \text{ for correct treatment})$
 Award 3 marks if 445 shown as income

Award 2 marks for 1045 } Award 1 mark less if shown as other income
 Award 3 marks for 489 }

W4 Depreciation motor vehicles
 $60000 - 25000 = 35000(1) \times 50\%(1) = 17500(1OF)$
 If calculated as straight-line eg $60\ 000 \times 50\% = £30\ 000$ award 2 marks

Quality of presentation

Plus 1 mark for title: including name, and date in full (no abbreviations accepted except we can allow "&" in the title).

Alternative answer if bad debts recovered is set-off against bad debts.

	£	£	£
Gross profit		84 450 (1)	85 650
Other income			
Rent		4 800 (2OF)	
		<u>89 250</u>	<u>90 450</u>
Less expenses			
Operating expenses	28 285 (2OF)		
Provision for doubtful debts	445 (4OF)		
Depreciation – Motor vehicles	17 500 (3OF)		
Depreciation – Fixtures	3 834 (2 or 0)		
Bad debts	<u>520 (2)</u>		
		<u>50 584</u>	
Net profit		<u>38 666 (2CF)</u>	39 866
		<u><u>38 666 (1OF)</u></u>	

18 marks

- 2 (b) Explain **two** reasons why the computerised inventory (stock) records may be different from the physical stocktake.

1 mark for each reason +

0-2 for development/examples

Reason	Possible development/examples
Inventory (stock) may have been stolen (1)	This will not be recorded on the computer system so the computer system will show stock that does not exist (1) – this will be revealed by the stock take. (1) This could account for the £1200 adjustment to Oanh's stock. (1)
Inventory (stock) may have been taken by the owner for her personal use. (1)	The goods taken for own use may not have been recorded on the computer system (1) as the owner has removed them. This would be shown when the physical stock take is made. (1)
Inventory (stock) may have been damaged (1)	The physical condition of the stock will not be recorded in the computer system (1) and the stock value may have to be reduced (1) to comply with the prudence concept eg lower of cost/NRV. (1)
There may have been errors inputting data (1)*	The computer system may be inaccurate as the data has been input incorrectly (1) For example error of: Transposition(1) Original entry(1) or sales not recorded correctly. (1)
The physical count could be incorrect (1)	Stock may have been missed when the stock-take was carried out (1). This could be the cause of the £1200 reduction in stock. (1)
The inventory (stock) may be obsolete (1)	The fact that the stock is out of date or no longer marketable may not be shown on the computerised records, (1) but could be identified during the stock take.(1) Or the out of date stock could be identified on the computerised records (1) and not picked up during the stock take. (1)
Customers have returned goods. (1)	Goods may have been returned and not "booked" back into the computer records (1). The goods will however be counted and included in the physical stock take. (1)
Computer software problems. (1)	The computer stock could be incorrect due to the software program. (1) Data loss for example virus or hacking. (1)

* Some candidates are giving these two types of error as their 2 reasons. Accept these answers as two separate reasons and award marks accordingly.

Max 6 marks

3

Total for this question: 8

Geraldine owns an electrical retail shop. She is concerned that her closing inventory (stock) is much higher than her opening inventory (stock) and that the business is becoming inefficient. Last year her rate of inventory (stock) turnover was 10 times.

She provides the following extract from her income statement (trading and profit and loss account) for the current year.

	£	£
Sales		148 550
Opening inventory (stock)	12 850	
Purchases	84 550	
Closing inventory (stock)	<u>18 650</u>	
Cost of sales		<u>78 750</u>
Gross profit		<u><u>69 800</u></u>

REQUIRED

3 (a) Calculate the rate of inventory (stock) turnover for the current year. State the formula used.

$$\frac{\text{Cost of sales(1)}}{\text{Average stock}} = \frac{78\,750(1)}{15\,750(1)} = 5 \text{ times (1OF)}$$

$$\text{Average stock} = \frac{12\,850 + 18\,650(1)}{2} = 15\,750$$

Alternative answer

$$\frac{\text{Average stock} \times 365 (1)}{\text{Cost of sales}} = \frac{15\,750 (1) \times 365}{78\,750 (1)} = 73 \text{ days (or 10.4 weeks / 2.4 months)(1OF)}$$

$$\text{Average stock} = \frac{12\,850 + 18\,650(1)}{2} = 15\,750$$

5 marks

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- 3 (b) Comment on the change in the rate of inventory (stock) turnover and explain to Geri whether her business is becoming less efficient.

Comment on inventory turnover:

The rate of stock turnover has deteriorated. (1) She is selling her stock more slowly this year (1) eg 5 times compared with 10 in the previous year.

Explain whether her business is less efficient:

It would appear to be less efficient (1) as the stock turnover ratio has fallen this year. This means the average time taken to sell her stock has doubled. (1)

Max 3 marks

4

Total for this question: 37

The Directors of Verinder Ltd have to repay a long-term loan of £350 000 in February 2011. They propose to make a rights issue on 1 January 2011 on the basis of 1 new share for every 3 shares in issue at a premium of 15p per share.

The share capital of Verinder Ltd at 31 December 2010 was:

	£
Authorised share capital	
Ordinary shares of 50p each	1 000 000
Issued share capital	
Ordinary shares of 50p each	600 000

REQUIRED

4 (a) Calculate the cash to be received from the rights issue assuming that it is fully subscribed.

$$600\,000 \times 2 = \frac{1\,200\,000(1)}{3(1)} = 400\,000 \times 65p(1) = \pounds 260\,000(1OF)$$

Marking a response where the candidate fails to notice the original shares have a face value of 50p

$$\frac{600\,000}{3(1)} = 200\,000 \times 65p(1) = \pounds 130\,000(1)$$

4 marks

The Directors also propose to pay a dividend in March 2011 of 5p per share based on the shares in issue in March 2011.

REQUIRED

4 (b) Calculate the dividend to be paid.

$$1\,200\,000(1) + 400\,000(1OF) = 1\,600\,000 \times 5p(1) = \pounds 80\,000(1)$$

Marking alternative answers:

(using alternative answer above)

$$600\,000 \text{ shares} + 200\,000 \text{ shares}(1) = 800\,000 \times 5p(1) = \pounds 40\,000(1)$$

(variation on this answer)

$$1\,200\,000 \text{ shares}(1) + 200\,000 \text{ shares}(1) = 1\,400\,000 \times 5p(1) = \pounds 70\,000(1)$$

4 marks

The Directors are concerned about the liquidity of the business. They provide the following forecast information for each of the 6 months ending 31 March 2011.

Forecasts for	2010			2011		
	October £	November £	December £	January £	February £	March £
Sales	80 000	90 000	100 000	60 000	65 000	70 000
Purchase of inventory (stock)	45 000	50 000	30 000	32 500	35 000	40 000
Operating expenses (excluding depreciation)	20 000	22 500	25 000	15 000	16 250	17 500
Depreciation	2 800	2 800	2 800	2 800	2 800	2 800

1. Sales are made on the basis of 30% for cash and the remainder on credit. Of the credit customers 80% are expected to pay one month after the sale and the remainder two months after the sale.
2. Purchases of inventory (stock) are expected to be paid one month after the purchase.
3. Operating expenses are expected to be paid in the month they are incurred.
4. The bank balance at 1 January 2011 is expected to be £32 500.

REQUIRED

- 4 (c) Prepare a cash budget for **each** of the three months ending 31 March 2011. Assume that the rights issue is fully subscribed and that the proposed dividend is paid.

Cash Budget for Verinder Ltd for the three months ending 31 March 2011

	January	February	March
	£	£	£
Receipts			
Cash sales	18 000 (1)	19 500 (1)	21 000 (1)
Credit sales - 1 month(W1)	56 000 (1)	33 600 (1)	36 400 (1)
Credit sales - 2 months(W2)	12 600 (1)	14 000 (1)	8 400 (1)
Rights issue	260 000 (1OF)		
	<u>346 600</u>	<u>67 100</u>	<u>65 800</u>
Payments			
Purchases	30 000 (1)	32 500 (1)	35 000 (1)
Operating expenses	15 000	16 250	17 500 (1) for row
Dividend payment			80 000 (1OF)
Loan repayment		350 000 (1)	
	<u>45 000</u>	<u>398 750</u>	<u>132 500</u>
Net cash flow	301 600	(331 650)	(66 700)
Opening balance	32 500 (1)	334 100	2 450
Closing balance	<u>334 100</u> (1OF)	<u>2 450</u> (1OF)	<u>(64 250)</u> (1OF)

20 marks

for quality of presentation: plus 1 mark

(Quality of presentation: 1 mark for labelling Receipts/Income, Payments/Expenditure + £ signs in columns)

Overall max 21 Marks

4 (d) Assess the liquidity position of Verinder Ltd as shown by the cash budget.

Analysis 0-6 marks

For identifying closing position/balance eg overdrawn/in credit – 1 mark + 1 for using data

For describing change from opening to closing balance eg over the period the balance has decreased: 1 mark + 1 for using data

For discussing net cash flows eg net cash flows are positive: 1 mark + 1 for using data

For identifying significant receipts/payments (0-3 marks)+ 1 for data (see marker note below)

For discussion of receivables (debtors) credit period eg 20% of credit customers take 2 months to pay compared with payables (creditor) credit period of one month. (0-2 marks)

Max 6 marks

Assessment 0-2 marks

1 mark for assessment eg liquidity position good/bad + 1 mark for justification

Max 8 marks
