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General Certificate of Education
January 2011

Accounting ACCN3

Unit 3: Further Aspects of Financial 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 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.

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January 2011 **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. 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.

Assessment Objectives (AOs)

The Assessment Objectives are common to AS and A Level. The assessment units will assess the following Assessment Objectives in the context of the content and skills set out in Section 3 (Subject Content) of the specification.

AO1: Knowledge and Understanding	Demonstrate knowledge and understanding of accounting principles, concepts and techniques.
AO2: Application	Select and apply knowledge and understanding of accounting principles, concepts and techniques to familiar and unfamiliar situations.
AO3: Analysis and Evaluation	Order, interpret and analyse accounting information in an appropriate format. Evaluate accounting information, taking into consideration internal and external factors to make reasoned judgements, decisions and recommendations, and assess alternative courses of action using an appropriate form and style of writing.
Quality of Written Communication (QWC)	In GCE specifications which require candidates to produce written material in English, candidates must: ensure that text is legible and that spelling, punctuation and grammar are accurate so that meaning is clear select and use a form and style of writing appropriate to purpose and to complex subject matter• organise information clearly and coherently, using specialist vocabulary when appropriate. In this specification, QWC will be assessed in all units. On each paper, two of the marks for prose answers will be allocated to 'quality of written communication', and two of the marks for numerical answers will be allocated to 'quality of presentation'. The sub questions concerned will be identified on the question papers.

Task 1 **Total for this task: 16 ma...**

0	**1**	Calculate the value of inventory (stock) at 31 December 2010 using the AVCO method. *(7 marks)*

Date	Purchases	Sales	Inventory (stock) valuation
1 Dec			500 @ £10.80 = £5400 **(1)**
8 Dec	250 units @ £11.40 each		500 @ £10.80 = £5400 250 @ £11.40 = £2850 **(1)** 750 @ £11**(1 OF**) = £8250
14 Dec		480 @ £11	750 @ £11 = £8250 (480 @ £11 = £5280) 270 @ £11 (**1OF***) = £2970
16 Dec	330 units at@ £11.80 each		270 @ £11 = £2970 330 @ £11.80 = £3894 **(1)** 600 @ £11.44**(1OF**)** = £6864
22 Dec		400 @ £11.44	600 @ £11.44 = £6864 (400 @ £11.44 = £4576) 200 @ £11.44 = £2288 (1 CF)

7 marks

Marker notes

If candidate has a final result of £2288 award 7 marks
*14 Dec award 1 mark where the candidate uses their own figure for the average cost from 8 Dec in the calculation of the new closing inventory.
** 16 Dec award 1 mark for the updated average cost (of) as long as this figure is used in the calculation of the final inventory on 22 Dec.
*** 22 Dec the final figure (£2288) has to be correct (CF = correct figure) to be awarded the final 1 mark.
If candidate uses the FIFO method of inventory valuation they maximum mark that can be obtained will be 3 (ie 1 mark opening inventory on 1 Dec £5400, 1 mark on 8 Dec for the purchase calculation £2850, 1 mark for the purchase calculation on 16 Dec £3894)
Where a candidate has only shown numbers of units (and no values) throughout the schedule there will be 0 marks if the final answer (£2288) is incorrect.

0	2	Prepare an extract from the income statement (trading account) for the month ended 31 December 2010, to show the gross profit. *(9 marks)*

Extract from the income statement

	£		£	
Sales			12 320	**(3OF) W1**
Cost of Sales				
Opening Inventory (Stock)	5 400			
Purchases	6 744	**(3)W2**		
Closing Inventory (Stock)	2 288	**(1OF)**		
			9 856	**(1OF)**
Gross Profit			2 464	**(1OF)**

W1

Sales: £9856 **(**1OF for using their own cost of sales**)** x 100/80**(1)** = £12 320 **(1OF)**

Alternative:[(480 x £11 ie £5280)+ (400 x £11.44, ie £4576) **(1OF)]** x 100/80 **(1)** = £12320 **(1OF)**

W2

Purchases: (250 x £11.40, ie £2850) **(1CF)** + (330 x £11.80, ie £3894) **(1CF)** = £6744 **(1OF)**

9 marks

Marker notes:

Closing inventory figure must match own figure from question **01**.

If no workings to support the sales figure and the sales figure is incorrect, 0 marks.

Purchases calculation: correct figures (CF) required for elements in the calculation, but final figure can be OF.

Alternative answers where candidate has used mark up instead of margin to calculate sales:

- Where candidate has correct cost of sales (£9856) their answer will be: £11,827.20 **(2)**
- Gross profit based on this wrong approach will be £1971.20 **(1)**
- Where the candidate uses their cost of sales figure as the sales figure award 1 mark for the sales figure; 1 mark for gross profit (which will be £0).

Task 2 **Total for this task: 26**

| 0 | 3 | Prepare the partners' current accounts for the year ended 30 November 2010. |

(18 marks)
(for quality of presentation: plus 2 marks)

Partners' Current Accounts

	Jacob	**Caleb**	**Ethan**			**Jacob**	**Caleb**	**Ethan**	
Bal b/d			11 000	**(1)**	Bal b/d	30 000	25 000		**(1 for both)**
Drawings	18 500	19 000	11 000	**(1)** for line	Salary			3 203	**(1)** W2
Interest on drawings	370	380	220	**(1)** for line W1	Interest on capital	7 000	3 920	3 000	**(1)** for line W3
Bal c/d	45 801	32 324			Profit share pre *	13 010	13 010	6 505	**(10)**W4
					Profit share post *	14 661	9 774	4 887	W4
					Bal c/d			4 625	
	64 671	51 704	22 220			64 671	51 704	22 220	
Bal b/d			4 625	**(1OF)**		45 801	32 324		**(1 for both)**

Profits could be shown as a single figure for each partner (J £ 27 671; C £22 784; E £11 392)

W1
£18500 x 2% = £370 + £19 000 x 2% = £380 + £11 000 x 2% = £220 **(1).**

W2
£6406 x ½ = £3203 **(1).**

W3
£175 000 x 4% = £7000 + £98 000 x 4% = 3920 + £75 000 x 4% = £3000 **(1).**

W4
Net profit £78 000 + interest on drawings £970 **(1)** – interest on capital £13 920 **(1)** = remaining profit £65 050 **(1OF).**

From 1 December to 31 May: £65 050 / 2 = £32 525.

From 1 June to 30 November: £32 525 – salary of £3203 **(1)** = £29 322.

Jacob (£32 525 x 2/5) = £13 010 **(1)** + (£29 322 x 3/6) = £14 661 **(1).**

Caleb (£32 525 x 2/5) = £13 010 **(1)** + (£29 322 x 2/6) = £9774 **(1).**

Ethan (£32 525 x 1/5) = £6505 **(1)** + (£29 322 x 1/6) = £4887 **(1).**

18 marks

Quality of presentation:
2 marks if every entry has a 'reasonable' narrative (accept abbreviations etc).
1 mark if at least 4 have a reasonable narrative (this can be applied even to a vertical presentation)
0 if less than 4 narratives
Label the mark you allocate QP eg 1QP **2 marks**

Max 20 marks

Marker notes:
Balances must be brought down to achieve marks; if a candidates own figures for balances brou... down are all credits (or debits) they can still achieve 2 marks for balances brought down.

If an item is shown on the wrong side in the current accounts (eg drawings credited rather debited) no mark(s) for that item; the exception is the profit shares where the maximum marks will be 9 overall if profit is debited rather than credited.

Reversals: marks can be allocated to the workings but items within the current accounts will lose marks.

Current accounts shown as a vertical list: treat as workings and mark items correctly added or subtracted – or if workings given allocate marks within those workings.

Accept separate current accounts for each partner.

Where candidate provides an appropriation account.

Profit and Loss Appropriation Account for the year ended 30 November 2010

	1st half year		2nd half year		
	£	£	£	£	
Profit (net profit)		39 000		39 000	
Interest on drawings					
J	185		185		
C	190		190		
E	110		110		
		485		485 **(1)**	**For both 485 figures**
		39 485		39 485	
Interest on capital					
J	3 500		3 500		
C	1 960		1 960		
E	1 500		*1 500*		
		(6 960)		(6 960)**(1)**	**For both 6960 figures**
		32 525		32 525	**1(OF) for subtotals**
Salary				(3 203)**(1)**	**Must be 2nd half year**
Remaining profit					
J	13 010 **(1OF)**		14 661**(1OF**)		**OFs must be in the correct ratio**
C	13 010 **(1OF)**		9 774**(1OF)**		
E	6 505 (**1OF)**		4 887**(1OF)**		
		32 525		29 322	

Profit and Loss Appropriation Account for the year ended 30 November 2010

	£	£	£	£	
Profit (net profit)		78 000			
Interest on drawings					
J	370				
C	380				
E	220				
		970 **(1)**			
		77 030			

Interest on capital					
J	7 000				
C	3 920				
E	3 000				
		(13 920)**(1)**			
		65 050**(1)OF**			
	1st half year		2nd half year		
Salary				(3 203)**(1)**	**Must be 2nd half year**
Remaining profit					
J	13 010 **(1OF)**		14 661**(1OF)**		**OFs must be in the correct ratio**
C	13 010 **(1OF)**		9 774**(1OF)**		
E	6 505 **(1OF)**		4 887**(1OF)**		
		32 525		29 322	

A common error is for a candidate to split the residual profit using just one of the ratios given in the question, allocate **3 (own figure marks)** maximum

0 4	Explain the purpose of a partnership capital account.	*(3 marks)*

A partner's capital account tends to be a fixed account **(1)** which includes the initial investment into the business by each partner **(1)**. This account would then only change with either the introduction of extra capital **(1)** or due to a change in the structure of the partnership such as a new partner joining **(1)** an existing partner retiring **(1)** or the partnership being dissolved **(1**). These changes could include adjustments for revaluation of non-current (fixed) assets **(1),** goodwill **(1)** and realisation profit/loss on a dissolution **(1)**. Used as a means of calculating interest on capital **(1).**

Max 3 marks

0 5	Explain the purpose of a partnership current account.	*(3 marks)*

A current account is a fluctuating account **(1)** which is used to record the allocation of profit to the partners from the appropriation account **(1)**. These allocations can include partners' salaries/interest on capital/profit shares/interest on drawings **(1)** It is then used by the partners for drawings **(1)**.

Max 3 marks

Overall max 6 marks

Task 3 **Total for this task: 17 ma...**

0 6	Identify the accounting standard to be applied to each of the items (1) to (3). *(3 marks)*

Item 1: IAS2 Inventories **(1)**
Item 2: IAS38 Intangible assets **(1)**
Item 3: IAS10 Events after the reporting period (balance sheet date) **(1)**

3 marks

Marker note:

Award 1 mark in each case for either the correct number or the correct label

Where a candidate answer is contradictory (eg IAS36 Intangible assets) – ie number and label do not match – no mark

Some discretion allowed on the correct labelling of IAS10

0 7	Explain, with reference to the relevant accounting standard, how each of the items (1) to (3) should be treated in the financial statements. *(12 marks)* *(for quality of written communication: plus 2 marks)*

Item 1: IAS2 states that inventories (stock) should be valued at the lower of cost and net realisable value **(1)**. The net realisable value would be the selling price of £62 400 less the cost to convert the stock of £12 500 = £49 900 **(1)**. As the NRV is lower than cost then £2100 (£52 000 – £49 900) **(1)** would be deducted from inventories in current assets **(1)** and also deducted from retained earnings **(1)**. This is an application of prudence (1)

Max 4 marks

Item 2: IAS38 states that the patent cost of £62 000 represents a purchased intangible asset **(1)** which is recognised in the financial statements at cost price **(1)**. It is capitalised in the balance sheet if this cost can be reliably measured **(1)** and if there are probable future economic benefits **(1)**. If the patent has a finite life **(1)** then it can be written down via amortisation **(1)**. If instead it has an indefinite life **(1)** then it is not amortised **(1)**.

Max 4 marks

Item 3: IAS10 states that if material events exist at the balance sheet date **(1)** and if the outcome is known before the accounts have been approved **(1)** then the impact can be adjusted in the financial statements **(1)**. £35 000 would be deducted from trade receivables in current assets **(1)** and also deducted from retained earnings **(1)**.

Max 4 marks
Overall max 12 marks

Quality of written communication (QWC):
For well structured prose responses and accurate spelling, punctuation and grammar.

For 2 marks: candidate must have written about all three items, no more than 2 spelling errors/punctuation/grammatical errors
For 1 mark: candidate must have written about at least two items, with no more than 2 spelling errors/punctuation/grammatical errors
0 marks: where candidate's response is limited and/or difficult to understand

Max 2 marks
Overall max 14 marks

Marker note:

Where a candidate makes an error in **06** concerning the relevant standard, it is still possible for marks for to be awarded in the answer to **07** if valid points are made about how to deal with the problems raised in the question.

Task 4 **Total for this task: 31 ma...**

0 8	Prepare a statement of cash flows for the year ended 31 December 2010, in accordance with the requirements of IAS7. *(23 marks)*

Statement of Cash Flows for Morpeth Ltd for the year ended 31 December 2010

	£		£	
Profit from operations			64 500	
Depreciation (**W1**)			25 000	**(4OF)**
Loss on disposal of a non current asset			5 400	**(1)**
Decrease in inventories (stocks)			2 700	**(1)**
Increase in trade receivables (debtors)			(2 300)	**(1)**
Increase in trade payables (creditors)			800	**(1)**
Cash from operations			96 100	
Interest paid			(5 700)	**(1)**
Income taxes paid (**W2**)			(16 500)	**(4OF)**
Net cash from operating activities			73 900	
Cash flow from investing activities				
Purchase of non-current (fixed) assets (**W3**)	(114 700)	**(4OF)**		
Proceeds from the sale of non-current (fixed) assets	10 200	**(1)**		
Net cash used in investing activities			(104 500)	
Cash flow from financing activities				
Proceeds from the issue of share capital	12 000	**(1)**		
Proceeds from long term borrowing	5 100	**(1)**		
Dividends paid	(2 400)	**(1)**		
Net cash from financing activities			14 700	
Net decrease in cash and cash equivalents			(15 900)	**(1OF)**
Cash and cash equivalents at the beginning of the year			9 700	**(1 both*)**
Cash and cash equivalents at the end of the year			(6 200)	

W1

Depreciation: 39 500 **(1)** + 4 400 **(1)** – 18 900 **(1)** = 25 000 **(1OF)**

W2

Income taxes paid: 15 900 **(1)** + 18 200**(1)** – 17 600**(1)** = 16 500 **(1OF)** (this figure must be shown as a negative in the main statement for this OF mark)

W3

Purchases of non-current assets: 163 600 **(1)** + 20 000 **(1)** – 68 900 **(1)** = 114 700 **(1OF)** (this figure must be shown as a negative in the main statement for this OF mark)

23 marks

Marker note:

Marks for numerical items within the statement of cash flows are only awarded the marks shown if they have been treated correctly (arithmetically).
For the proceeds of the share issue accept a fragmented approach: issues of shares £10,000, share premium £2,000.
Proceeds from long-term borrowing could also be fragmented: ie the old borrowing paid off £27,600, and a new loan taken out 32,700.
Accept a different layout where the candidate produces a reconciliation statement before the statement of cash flows and then transfers the figure of (say) £96 100 to the beginning of the statement of cash flows.
There is an own figure mark for the net decrease in cash and cash equivalents as long as there is no new alien item affecting the cash flow statement; a label for this item is not essential.
Alien items: items can be wrongly sequenced within its own section; however, items outside its own section gain no marks. The sections are the list down to 'cash from operations'; the adjustments before 'net cash from operating activities', investing activities; financing activities. However, the 3 items which are allocated 4 marks (depreciation, incomes taxes paid, purchases of non-current assets) will gain maximum 3 marks for correct workings (each) if they are recorded in the wrong section.
Narratives: there are no marks for labelling subtotals; subheadings for the sections are not allocated any marks, but are required in order for the marker to identify the correct section; there is flexibility about the labelling of each item (eg inventories instead of 'decrease in inventories; taxes paid instead of 'income taxes paid').
* At the end of the statement of cash flows there is 1 mark for both the cash and cash equivalents at the beginning £9,700 and end of the year (£6,200).

0 9 Assess **two** sources of finance being used by Morpeth Ltd.	*(8 ma...*

Award 1 mark for identifying two valid sources of finance

Retained profits have increased by £38 800 **(1)**. These support the financial stability of the business **(1)** and effectively have no cost **(1)** as they have been generated from previous trading activities **(1)**. This is an internal source of finance (1). Reduces gearing (1). Potential drawback is that retaining profits could impact on dividend payments which may affect shareholders' interest.

Max 4 marks

Ordinary shares have been sold at a price higher than the nominal par value (**1**) raising £12,000 **(1)** this has an impact on the share premium account **(1)** which has increased by £2,000. This is a permanent source of finance **(1)** and it is an external source of finance **(1)** However, the cost of share issue can be expensive **(1).** If they are being sold to new shareholders it will lead to a dilution of business ownership **(1)**. The directors may feel obliged to pay dividends each year **(1)** although these can be variable in amount **(1)** which reduces retained profits **(1)**. The share issue will have reduced Morpeth Ltd's gearing **(1).**

Max 4 marks

Debenture loans have raised £5,100 **(1)** and represent a long term liability(**1);** they are usually repaid in full at an agreed redemption date **(1)**. They have a fixed rate of interest **(1)** which has to be paid regardless of profits **(1)**. This increases the risk to the business **(1)** and raises the gearing level **(1).** Debentures are an external source of finance **(1).** Debentures are often secured on a non-current asset (**1**).

Max 4 marks

The bank overdraft facility of £6,200 **(1)** is being used. It is a short term source of finance (ie used to cover fluctuating working capital requirements) **(1)** which is flexible **(1)**. Interest only has to be paid on the balance outstanding **(1)**. However, bank overdrafts can be repayable on demand **(1)** and usually there is an imposed overdraft limit **(1).** An overdraft is an external source of finance **(1).**

Max 4 marks

For each source of finance the candidate must identify at least 1 benefit and 1 drawback to achieve maximum of 4 marks; maximum 3 marks where only benefits/drawbacks are identified.

Marker note:

Separate justification: if candidate adds a final and separate justification award maximum 2 marks for any new points raised.
These are the only sources of finance which can be identified from the statement of cash flows and that are within the specification (but accept trade payables as a valid point)
If the candidate writes about more than two sources of finance, mark the responses and base the final mark on the best two responses.