Version 1

General Certificate of Education (A-level)
January 2012

Accounting ACCN3

(Specification 2120)

Unit 3: Further Aspects of Financial Accounting

Final

Mark Scheme

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January 2012 **ACCN3**

MARK SCHEME

INSTRUCTIONS TO EXAMINERS

You should remember that your marking standards should reflect the levels of performance of students, 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 students 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 student'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 student'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, students may set out their accounts in either a vertical or horizontal format. Both methods are acceptable.

Own Figure Rule

In cases where students are required to make calculations, arithmetic errors can be made so that the final or intermediate stages are incorrect. To avoid a student being penalised repeatedly for an initial error, students 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 students make correct conclusions or inferences from their incorrect calculations.

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 students to produce written material in English, students 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.

1 **Total for this task: 32 marks**

01 *Prepare the realisation account to record the dissolution of the partnership. (7 marks)*

Realisation account

	£			£	
Non-current (fixed) assets (*)	146 249		Bank: Non-current (fixed) assets	95 872	**(1)***
			Henry capital account: car at NBV	25 000	**(1)***
			Iris capital account: car at NBV (*)	16 000	
Inventory (stock) *	22 960		Bank: Inventory (stock)	25 650	**(1)***
Trade receivables (debtors) *	20 450		Bank: Trade receivables (debtors)	20 041	**(1)***
Dissolution costs	2 900	**(1)**	Henry capital account **(W1)**	7 497	**(1) OF**
			Iris capital account **(W1)**	2 499	**(1) OF**
	192 559			192 559	

(*) for the line both figures needed)

(W1) Split of the dissolution loss:

£207 727 – £197 731 = £9 996
Henry: £9 996 x ¾ = £7 497
Iris: £9 996 x ¼ = £2 499

7 marks

02 *Prepare the partners' capital accounts to record the dissolution of the partnership. (7 marks)*

Capital accounts

	Henry £		Iris £			Henry £		Iris £	
Current a/c			10 968	**(1)**	Bal b/d *	114 000		38 000	**(1)**
Vehicles *	25 000		16 000	**(1)**	Current a/c	18 816	**(1)**		
Realisation *	7 497		2 499	**(1) OF**					
Bank	100 319	**(1) OF**	8 533	**(1) OF**					
	132 816		38 000			132 816		38 000	

7 marks

03 *Prepare the bank account to record the dissolution of the partnership.* *(4 marks)*

Bank account

	£			£	
Realisation account: Non-current (fixed) assets *	95 872	**(1)**	Bal b/d	14 643	
Realisation account: Inventory (stock) *	25 650		Henry capital account	100 319	**(1) OF**
Realisation account: Trade receivables (debtors) *	20 041		Iris capital account	8 533	**(1) OF**
			Realisation account: Dissolution costs **	2 900	**(1)**
			Realisation account: Trade payables (creditors) **	15 168	
	141 563			141 563	

(*) 1 mark for all 3 figures
(**) 1 mark for both figures **4 marks**

04 *Apart from Henry's own contribution of capital, recommend* ***two*** *other sources of finance he could use for the purchase of non-current (fixed) assets. Justify your recommendations.* *(14 marks)*
(includes 2 marks for quality of written communication)

The business could negotiate a bank loan **(1)**. Repayments are made on a regular basis which assists with financial planning **(1)**. Security in the form of assets **(1)** is required as collateral to safeguard against potential default **(1)**. Interest is payable **(1)** at either a fixed or variable rate **(1)** which reduces profit for the business **(1)**. An arrangement fee could also be charged **(1)**. The loan would increase the liability structure of the business which is less desirable **(1)**. A business plan will need to be produced when making a loan application **(1)**.
Max 6 marks

A debenture loan **(1)** could be secured although this is less common for a Ltd business and does instead more usually relate to a PLC business **(1)**. This loan would represent a long term liability to the business **(1)** which would increase debt finance **(1)**. Gearing would also be increased **(1)** and this would thus lead to more risk exposure for the business **(1)**. This is because the fixed interest charge **(1)** has to be paid regardless of fluctuating financial performance **(1)**. The interest would represent an expense to the business **(1)** and so would reduce profits earned each subsequent year **(1)**. The debenture loan will have to be redeemed **(1)**. **Max 6 marks**

An overdraft **(1)** is a short term form of finance **(1)** used primarily to fund cash flow problems **(1)** and not to provide long-term investment **(1)**. It isn't necessarily therefore appropriate to finance the non-current (fixed) assets but could be negotiated to support the additional set up costs **(1)**. The overdraft would represent a current liability and so could decrease the current and acid test ratios **(1)** which, reduces the liquidity base of the business **(1)**. Again, interest will be payable which will reduce profits **(1)** but this is only paid on the balance outstanding and so would fluctuate accordingly **(1)**. An arrangement fee is also a possible hidden expense **(1)**. An overdraft is technically repayable on demand **(1)** and so this is a possible constraint **(1)**. **Max 6 marks**

A mortgage **(1)** is specifically negotiated to fund land and buildings **(1)**. This could be appropriate therefore if the business is intending to buy premises rather than leasing or renting them **(1)**. This would represent a long-term liability to the business **(1)**. Interest would be paid on the mortgage as an expense **(1)** which would reduce profit **(1)**. This may however be fixed, variable or on a tracker system **(1)**. A repayment mortgage would require the cash flow commitment **(1)** to repay interest and a capital portion of the borrowing on a monthly basis **(1)**, since endowment mortgages are no longer viable **(1)**. The loan commitment would typically be for at least a 20 year duration **(1)**. Early repayment is possible but usually incurs a penalty fee **(1)**. **Max 6 marks**

Ordinary shares **(1)** could be issued to private investors, including family and friends **(1)**. Dividends may need to be paid **(1)** at a variable rate **(1)** depending on profits **(1)**. These would help to reduce gearing **(1)**. However, the shares would have voting rights **(1)** which would influence the control of the business **(1)** and could lead to potential conflict over decision making **(1)**. **Max 6 marks**

Max 2 marks for a decision about the most appropriate source of finance to be used with justification.

Overall: 12 marks

QWC marks
2 marks (no more than 3 SPAG errors and at least one paragraph and written about two sources of finance)
1 mark (4 or more SPAG errors and at least one paragraph)
0 marks (language prevents an accurate understanding of the response) **Max 2 marks**

Overall max 14 marks

2 **Total for this task: 11 marks**

05	*Calculate the value of inventory (stock) at 30 November 2011 using the FIFO method.* *(4 marks)*

Periodic method:

Stock quantity

Opening stock + purchases – sales = closing stock

60 + (40 + 55) – (45 + 40) = 70

Stock from 19 Nov:

55* @ £173.50 **(1)** = 9 542.50

Stock from 3 Nov:

15* @ £165.50 **(1)** ***(1 for both)** = 2 482.50

12 025.00 **(1) OF**

4 marks

Perpetual method

Date	**Receipts**	**Issues**			
1 Nov	60 @ 159.50			=	£9 570.00
3 Nov	40 @ 165.50			=	£6 620.00
					£16 190.00
10 Nov		45 @ 159.50	15 @ 159.50	=	£2 392.50
					£6 620.00
					£9 012.50
19 Nov	55 @ 173.50			=	£9 542.50
					£18 555.00
26 Nov		15 @ 159.50	15 **(1)** @ 165.50 **(1)**	=	£2 482.50
		25 @ 165.50	55***** @ 173.50 **(1)**	=	£9 542.50
					£12 025.00 **(1) OF**

06	*Calculate the gross profit for the month ended 30 November 2011 using the FIFO method.* *(3 marks)*

	£		
Gross Profit using AVCO method	2 798.70		
Inventory (stock) using AVCO method	(11 739.00)	**(1)**	+ £286 **(2)**
Inventory (stock) using FIFO method	12 025.00	**(1) OF**	
Gross Profit using FIFO method	3 084.70	**(1) OF**	

3 marks

07	*Explain the guidance provided by a relevant International Accounting Standard (IAS) to help the directors of Alisid Ltd who are considering whether to change the method of valuing stock from AVCO to FIFO.* *(4 marks)*

IAS1 **(1)** refers to the presentation of financial statements **(1)**. It states that there must be compliance with accounting concepts **(1)** including consistency **(1)** and therefore the same inventory (stock) valuation method should be used for all accounting periods **(1)**.

Max 4 marks

Alternative response

IAS 8 **(1)** refers to accounting policies **(1)** and states that consistency **(1)** must apply unless a change would provide more reliable and relevant information **(1)**. In this case, a change would lead to an increase in both stock valuation and profit **(1)** which is against prudence **(1)**. Any change that relates to accounting policy must be identified in the notes to the financial statements **(1)**.

3 **Total for this task: 25 marks**

08	*Prepare an extract from the statement of cash flows for Hinault plc for the year ended 31 October 2011 showing net cash (used in)/from operating activities. The extract should be prepared in accordance with IAS7.* *(19 marks)* *(includes 1 mark for quality of presentation)*

Hinault plc
Extract from the statement of cash flows for the year ended 31 October 2011

	£	
Profit from operations **(W1)***	140 460	**(3) OF**
Depreciation **(W2)**	12 900	**(3) OF**
Loss on sale of non-current assets **(W3)**	800	**(2) CF**
Decrease in inventories (stock)	2 600	**(1)**
Increase in trade receivables (debtors)	(4 400)	**(1)**
Increase in trade payables (creditors)	3 520	**(1)**
Cash from operating activities	155 880	
Interest paid **(W4)**	(2 500)	**(3) OF**
Taxes paid **(W5)**	(30 660)	**(3) OF**
Net cash from operating activities *	122 720	**(1) OF**

(W1) Profit from operations

	£	
Profit for the year	105 000	
Taxation	32 960	**(1)**
Interest	2 500	**(1) OF**
Profit from operations	140 460	**(1) OF**

(W2) Depreciation

	£	
Non-current (fixed) assets NBV b/d	92 400	
NBV non-current (fixed) asset disposed	(3 600)	**(1)**
Non-current (fixed) assets NBV c/d	(75 900)	**(1)**
Depreciation charge	12 900	**(1) OF**

(W3) Loss on disposal

	£	
Net book value	3 600	
Sale proceeds	2 800	
	800	**(2) CF**

(W4) Interest paid

	£	
Original debenture loan: £40 000 x 5%	2 000	**(1)**
New debenture loan: £20 000 x 5% x 1/2	500	**(1)**
	2 500	**(1) OF**

OR

	£	
40 000 x 5% x 6/12	1 000	**(1)**
60 000 x 5% 6/12	1 500	**(1)**
	2 500	**(1) OF**

(W5) Tax paid

	£	
Tax charge	32 960	
Add: Income tax liability b/d	29 200	**(1)**
Less: Income tax liability c/d	(31 500)	**(1)**
Income tax paid	30 660	**(1) OF**

18 marks

QWC

Quality of presentation

***For one correct line description in the extract (either profit from operations or net cash from operating activities)** **1 mark**

Total 19 marks

09	*Explain **two** limitations of published financial statements for potential shareholders in Hinault plc.* *(6 marks)*

Published financial statements are in summary form **(1)** and therefore don't necessarily provide enough detailed relevant information **(1)** to assist with decision making **(1)** such as whether to buy or sell shares **(1)**.

The financial statements are quite technically complex **(1)** and so may not be understandable to some shareholders who may be less financially literate **(1)**.

Despite being audited, financial statements could still contain errors or bias **(1)** which might make them less reliable **(1)**, especially if the auditors report is qualified **(1)**.

Some aspects of the financial statements are subjective **(1)** including the measurement of profit **(1)** and this could hinder comparisons **(1)** being made between different investment opportunities **(1)**.

The financial statements are historic **(1)** and don't necessarily reflect the current performance levels **(1)**. This makes them more difficult to use for predicting the future **(1)** including an ability to pay dividends **(1)** and the impact on share prices **(1)**, external factors such as current economic climate, eg inflation **(1)**.

The financial statements don't show non-financial factors **(1)** which are not quantifiable but are qualitative instead **(1)**. These could therefore include factors which may impact on the future financial performance of the business indirectly **(1)**. For example, polluting the environment with industrial waste could impact adversely on a business reputation and thus lead to a loss of customers/revenue in the long term **(1)**.

Window dressing **(1)** is a method of making the financial statements look more attractive **(1)** to shareholders without being illegal **(1)**. The accounts are thus prepared to give the most favourable view of profit and cash flow **(1)** whilst still operating within the accounting standards framework **(1)**. An example could include under depreciating as an asset **(1)** which would increase profit and increase asset worth **(1)**. Whilst this is against prudence, it is possible to achieve by having the discretion to decide on an asset's useful life expectancy **(1)**.

Overall max 6 marks

4 **Total for this task: 22 marks**

10	*Prepare an income statement (trading and profit and loss account) for the year ended 31 December 2011. A balance sheet is **not** required.* *(22 marks)* *(includes 1 mark for quality of presentation)*

Alberto
Income Statement (trading and profit and loss account) for the year ended 31 December 2011

	£		£	
Revenue (sales) **(W1)**			65 375	**(1) CF**
Cost of sales				
Opening inventory (stock)	9 450	**(1)**		
Purchases	54 320	**(1) CF**		
Closing inventory (stock) **(W2)**	(11 470)	**(4) OF**	52 300	
Gross profit			13 075	
Less expenses				
Loss on disposal of non-current (fixed) asset **(W3)**	590	**(1)**		
Wages **(W4)**	25 000	**(3) OF**		
Depreciation **(W5)**	7 110	**(4) OF**		
Stolen cash **(W6)**	4 300	**(5) OF**	37 000	
Loss (net loss) for the year			(23 925)	**(1) OF**

(W1) Revenue (sales)

£52 300/80 x 100 = £65 375 **(1)**

(W2) Closing inventory (stock)

Cost of sales/average stock turnover x 2 – opening stock = closing stock

£52 300/5 **(1)** x 2 **(1)** – £9 450 **(1)** = £11 470 **(1) OF**

OR

$$\frac{\text{Cost of sales (£52 300)}}{\text{½ (1) (OP inventories £9 450 (1) + CI Inventories £11 470 (1))}} = 5 \textbf{ (1)}$$

(W3) Loss on disposal

Net book value	6 480	
Sale proceeds	(5 890)	
Loss on disposal	590	**(1)**

(W4) Wages

Wages paid	24 895	
Accrued b/d	(2 075)	**(1)**
Accrued c/d	2 180	**(1)**
Wages	25 000	**(1) OF**

(W5) Depreciation

NBV b/d	23 630	
Cost non-current (fixed) asset purchased	8 500	**(1)**
NBV c/d	(18 540)	**(1)**
NBV non-current (fixed) asset disposed	(6 480)	**(1)**
Depreciation charge	7 110	**(1) OF**

(W6) Stolen cash

Total sales	65 375	
Trade receivables (debtors) b/d	5 490	**(1)**
Trade receivables (debtors) c/d	(6 250)	**(1)**
Bank receipts	(47 220)	**(1)**
Cash takings banked	(13 095)	**(1)**
Stolen cash	4 300	**(1) OF**

Note: there are 3 marks for a figure of £47 980, ie credit sales.

21 marks

QWC
Quality of presentation
1 mark: Income statement title in full (name, document type and date) **1 mark**

Overall 22 marks