GCE

Accounting

Mark Scheme for January 2012

Annotations

Annotation	Meaning
	Unclear
	Benefit of Doubt
	Cross
	Own figure rule
	Repeat
	Tick
	Seen

Subject-specific Marking Instructions

Every working box – whether it contains working or not – must be stamped as 'seen'.

Accept updated terminology per IAS where appropriate e.g. Non-Current Assets.

Question			Answer		Marks	Guidance
1	(a)*		**Fly by Night** Trading and Profit and Loss Account for the year ended 30 September 2011		38	Horizontal format as well as vertical format acceptable for both P&L a/c and B/S.
			Sales	434,230		All marks are for figure plus reasonable narrative. Where
			Opening stock	26,300		marks are given for sub totals or
			Purchases	<u>176,450</u> **(1)**		totals, these are for the correct
				202,750		figure only i.e. they are **NOT** own
			Purchase returns	<u>8,050</u> **(1)**		figure unless specifically
				194,700		indicated.
			Closing stock	<u>24,700</u>		Adjustment for purchase returns
			Cost of Sales	<u>170,000</u>		must appear above closing stock.
			Gross Profit	264,230 **(1)**		If purchases figure includes
			Discounts received	<u>6,270</u> **(1)**		adjustment for purchases returns,
				270,500		168,400 **(2).**
						Accept discounts received as a
			Electricity	3,134		negative expense. Discounts
			Discounts allowed	2,730 **(1)**		received is also acceptable below
			Motor expenses	1,890 **(1)**		the sub-total for expenses i.e.
			Salaries	120,000 **(2)**		immediately before Net Profit.
			Insurance	14,000 **(2)**		
			Bad debts	2,900 **(2)**		
			General expenses	3,900 **(2)**		NB The provision for doubtful
			Loan interest	18,000 **(2)**		debts remains unchanged. So no
			Depreciation Buildings	12,000 **(2)**		entry in the P&L.
			Depreciation Equipment	5,750 **(2)**		
			Depreciation Motor vehicles	<u>5,100</u> **(2)**		
				<u>189,404</u> **(1)**		For expenses, where appropriate
			Net Profit	<u>81,096</u> **(1)**		the net figure must be shown to gain the mark eg salaries appear as two line items (110,000 & 10,000) **(0)** marks.
						Accept combined totals for depreciation eg 22,850 **(6)**.

Question	Answer	Marks	Guidance

	Balance Sheet as at 30 September 2011
	Fixed Assets
	Land and Buildings 372,000 **(1)**
	Equipment 5,750 **(1)**
	Motor vehicles 7,650 **(1)**
	                                      385,400 **(1)**
	
	Current Assets
	Stock 24,700
	Debtors 107,864 **(2)**
	Bank 28,342
	Prepaid: Insurance 3,500 **(1)**
	               164,406
	
	Current Liabilities
	Creditors 99,300
	Accruals: General expenses 620
	           Salaries 10,000 **(2)**
	           Loan interest 3,000 **(2)**
	               112,920
	Working Capital 51,486
	                        436,886
	
	Long Term Liabilities
	9% Loan 200,000 **(1)**
	                      236,886
	
	Financed by:-
	Capital 195,290
	Net Profit 81,096 **(1)**
	                      276,386
	Drawings 39,500 (**1**)
	                      236,886
			For Land & Buildings accept Land 120,000, Buildings 252,000 **(1).**
			
			Where **(2)** marks are available the total must be shown and no part marks should be awarded.
			
			Accept combined totals for accrued expenses eg 13,620 **(4)**.
			
			The Loan must appear under Long Term Liabilities to gain mark.
			
			Show QWC mark(s) just below the end of the balance sheet. If (0) marks for the question then QWC must also be (0) and if (0) signify with an X.
			
			Please ensure that you check all pages for this question. Place 'SEEN' at the foot of each blank page.

	QWC Total Marks	2 40	

Question	Answer	Marks	Guidance
(b)	**Item (i):** Accruals/Matching concept **(1).** The matching of receipts and payments within an accounting period **(1)**. Adjustments have to be made regarding early and late transactions **(1)** both at the start and at the end of the accounting period **(1)**. £10,000 of unpaid salaries has to be accrued **(1)** in order to get the correct value of salaries expenses for the financial year **(1)**. **Item (iii):** Business Entity concept **(1)**. Only the transactions of the business should be recorded in the accounts of the business **(1)**. The owner's private holiday is not a business expense **(1)** and must be shown as drawings **(1)** which reduces the amount of capital the owner has invested in the business **(1)**. **Item (v):** The Prudence concept **(1)** requires a business to understate, rather than overstate, profit **(1)**. Writing off a bad debt is an example of this **(1)**, as this will increase expenses **(1)** and thus reduce net profit **(1)**. This action will also reduce the value of debtors and hence current assets in the balance sheet **(1)**. **(1 for identifying concept, plus up to 2 for development) x 3**	9	If the wrong concept is identified **(0)** per item. If the correct concept is not named but its treatment is correctly explained, **Max (2)** per item. **Item (iii)**: Do not accept 'Drawings concept' **Re – Item (V):** No development marks if prudence described as not understating (as well as not overstating) profit/asset values.

Question			Answer	Marks	Guidance
2	(a)	(i)	**Machinery** Balance b/d　15,000 **(1)**　Disposal　　8,000 **(1)** Bank　　　　8,800 **(1)**　Balance c/d　25,400 Bank　　　　9,600 　　　　　　33,400　　　　　　　　　33,400	3	**Q2 (all parts):-** Where a mark is awarded for Balance b/d the following are also acceptable – Bal b/d, Balance b/f, Bal b/f. **DO NOT** accept Balance or Bal without b/d or b/f or vice versa. This principle also applies for Balance c/d. **All** marks are for figure plus reasonable narrative on the correct debit or credit side e.g. accept P&L. There are no **(of)** marks for this question. **Q2(a)(i)** Accept Bank 18,400 **(1)**.
		(ii)	**Provision for Depreciation of Machinery** Disposal　　5,750 **(1)**　Balance b/d　10,500 **(1)** Balance c/d　7,250　　　　Profit & Loss　2,500 **(4)** 　　　　　　13,000　　　　　　　　　　13,000	6	Depreciation workings: M1: 7000 @ 12.5%:　　　875 **(1)** M2: 8000 @12.5% x 6/12:　500 **(1)** M3: 8800 @ 12.5% x 9/12: 825 **(1)** M4: 9600 @12.5% x 3/12:　300 **(1)** 　　　　　　　　　　　　　2,500 If P&L entry is incorrect check for workings in workings box above. Accept recognisable permutations eg 1,375 **(2)**, £1,700 **(2)** Accept individual figures for Profit & Loss entry.
		(iii)	**Machinery Disposals** Machinery　　　8,000 **(1)**　Depreciation　5,750 **(2)** Profit & Loss **(1)**　1,750 **(1)**　Bank　　　　4,000 **(1)** 　　　　　　　9,750　　　　　　　　　9,750	6	

Question	Answer	Marks	Guidance
(b)	Profit & Loss Account extract: Revenues Profit on disposal of fixed asset **(1)** 1,750 Expenses Depreciation of machinery **(1)** 2,500	2	Marks are for reasonable narrative only under the correct heading. For 'Revenues' accept reasonable alternatives including indication that Profit on disposal is an addition to Gross Profit.

(c)	Balance Sheet extract:
	
	Fixed Assets **(1)**
	Machinery Cost 25,400 **(1)**
	                Depreciation 7,250 **(1)**
	                NBV 18,150
		3	Accept Machinery 18,150 **(2)**.

(d)*	4 x 3 (Max 9) • the accounts show a true and fair view. • the fixed asset values are not overstated in the Balance Sheet. • the business is not overvalued. • provide information for management about fixed asset values. For example, written down value, estimate of the current/resale value or an indication of when fixed assets might be due for replacement. • profit is not overstated in the profit and loss account. • to spread the capital cost over the estimated useful life of an asset. • to avoid large fluctuations in profit (i.e. by charging capital expenditure in the profit and loss account in the year incurred). • estimating is preferable to not showing any reduction in asset values in the accounts. • to comply with the prudence concept. • to comply with the accruals/matching concept. One mark for a valid point plus up to two marks for development. QWC Total Marks	9 2 11	**N.B.** Although not the topic for this question, where a candidate discusses causes of depreciation (wear and tear obsolescence etc), award maximum of **(1)** per point + **(2)** for development. No marks for description of the bookkeeping process for, or calculation/methods of, depreciation. No development marks if prudence described as not understating (as well as not overstating) profit/asset values.
	Total	**80**	