A-LEVEL
Accounting

ACCN2 - Unit 2 Financial and Management Accounting

Mark scheme

2120

June 2018

Version/Stage: 1.0 Final

Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Assessment Writer.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' 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.

Further copies of this mark scheme are available from aqa.org.uk

1 (a) *Prepare the cash budget for the month of July 2018.*

[10 marks]

	£	
Receipts		
Fee income with cash discount	2 880	**(1)W1**
Credit fee income 1 month	3 500	**(1)W2**
Credit fee income 2 months	1 176	**(1)W3**
Capital introduced	3 800	**(1)**
	11 356	
Payments		
Wages	750	**(1)W4**
Rent	1 050	**(1)W5**
Overheads	3 500	
Purchase of computer	1 800	**(1)**
Drawings	2 250	**(1)W6**
	9 350	
Opening balance	(3 800)	**(1)**
Net cash flow	2 006	
Closing balance	(1 794)	**(1)OF***

#OF marks – award this mark for the balancing process. It should be arithmetically correct and include the overheads figure of £3500 and not include any extraneous items such as depreciation (car £300, computer £50 per month), car introduced, bad debts, discount allowed or the overdraft facility.

Marker note:
If total fee income of £7 556 shown award 3 marks.

Workings

W1 Fee income with discount

	£			Discount		
July fee income	9 000	x $^{1}/_{3}$	= 3 000	x.96	= 2 880	**(1)**

W2 Credit fee income 1 month

	£					
June fee income	7 500	x $^{2}/_{3}$	= 5 000	x 70%	= 3 500	**(1)**

W3 Credit sales 2 months

	£					Bad debts		
May fee income	6 000	x $^{2}/_{3}$	= 4 000	x 30%	= 1 200	.98	= 1 176	**(1)**

W4 Wages

	£			
June fee income	7 500	x 10%	= 750	**(1)**

W5 Rent

	£		Monthly	Increase		
Annual rent	12 000	÷12	= 1 000	5%	= 1 050	**(1)**

W6 Drawings

	£			
July fee income	9 000	x 25%	= 2 250	**(1)**

Alternative layout

If students adopt the approach of including the opening balance in the body of the budget.

	£	
Opening balance	(3 800)	**(1)**
Receipts		
Fee income - cash discount	2 880	**(1)**
Credit fee income 1 month	3 500	**(1)**
Credit fee income 2 months	1 176	**(1)**
Capital introduced	3 800	**(1)**
	7 556	
Payments		
Overheads	3 500	
Wages	750	**(1)**
Rent	1 050	**(1)**
Purchase of computer	1 800	**(1)**
Drawings	2 250	**(1)**
	9 350	
Closing balance	(1 794)	**(1)OF***

1 (b) *Assess the impact that the change from being a sole trader to entering into a partnership with Nouran would have on Marwen's:*

(i) personal liability for business debts ***[3 marks]***

(ii) control of the business ***[3 marks]***

(iii) profit sharing. ***[3 marks]***

(i) Personal liability for business debts

Identification **1 mark**	**Assessment** **0-2 marks**
1 mark for stating that Marwen will still have unlimited liability **For example** Marwen will still have unlimited liability .	**0-2 marks for assessment** **For example** Unlimited liability will be shared with Nouran **(1)**. Marwen could still be liable for all the debts of the partnership if Nouran is unable to pay her share **(1)**. However, if Marwen is not able to pay then Nouran would be liable **(1)**. Provided the business trades successfully this would not be a problem **(1)**.

[3 marks]

(ii) Control of the business

Identification **1 mark**	**Assessment** **0-2 marks**
1 mark for stating that Marwen will lose control of the business **For example** Marwen will no longer control (make all the decisions in) the business. **Or** Marwen will share control/decision making of the business with Nouran	**0-2 marks for assessment** **For example** The amount of control that Marwen has in the partnership will depend on the partnership agreement **(1)**. However it would be expected that decisions will be made jointly **(1)**. This could be good for Marwen as it will ease the burden on him **(1)** and he may benefit from Nouran's expertise **(1)**. This could cause a problem if Nouran and he cannot reach agreement or continually disagree **(1)** or it takes time to make decisions **(1).**

[3 marks]

(iii) Profit sharing

Identification **1 mark**	**Assessment** **0-2 marks**
1 mark for stating that Marwen will have to share profits **For example** Marwen will no longer be entitled to 100% of the profit. Marwen will share the profits with Nouran.	**0-2 marks for assessment** **For example** How the profits are shared will be determined by the partnership agreement **(1)**. If there is no agreement then profits must be shared equally **(1)**. This could be bad for Marwen if his share of profits is less than his current business **(1).** This could be good for Marwen if the business is successful as his share may be more than the profits from his current business **(1)**.

[3 marks]

Marker note:

The focus of the question is on assessment of the impact and this should be fully rewarded. Students will need to state the impact somewhere in their answer, but this could be included in their assessment.

Award a maximum of 3 marks.
1 mark for identification of the issue
0-2 marks for assessment

2 *Prepare the balance sheet of Massaro Ltd at 30 April 2018 after making any amendments necessary for items 1-6 on page 6.*

[22 marks]
[includes 2 marks for quality of presentation]

Massaro Ltd
Balance sheet at 30 April 2018*

	Valuation		Depreciation to date		Net book value	
Non-Current Assets*	**£**		**£**		**£**	
Land and buildings	1 000 000	**(1)**	20 000	**(1)W1**	980 000*	
Current assets*						
Inventory			92 500	**(1)W2**		
Trade receivables			20 500	**(1)W3**		
Provision for doubtful debts			(410)	**(2)W4**		
Other receivables			1 300	**(1)W5**		
			113 890			
Current liabilities*						
Other payables			10 400	**(1)W6**		
Bank			8 740	**(2)W7**		
			19 140			
Net current assets					94 750	
					1 074 750	
Non-current liabilities*						
Bank loan					75 000	**(1)W8**
Net assets					999 750	
Equity*						
Ordinary shares of 50p each					300 000	**(1)W9**
Share premium					75 000	**(2)W10**
Revaluation reserve					616 000	**(1)W11**
Retained earnings					8 750	**(5)W12**
					999 750	

***Quality of presentation marks**

Award 1 mark for the balance sheet title – it must include Massaro Ltd; Balance sheet; at (not for year end) and correct date written in full, eg April

Award 1 mark for correctly labelling all the subheadings in the answer (accept non IAS terminology.)

*****If answer shows NBV of £980 000 award 2 marks.

Marker note
Non-current assets *If student shows net book value of 980 000 award 2 marks.
Current assets – trade receivables and provision for doubtful debts
If trade receivables is shown as £20 090 – award 3 marks (this is the net figure following deduction of provision for doubtful debts
If trade receivables is shown as £37 240 – award 2 marks (this is the net figure but without adjustment for goods on sale or return)
Current liabilities – if other payable shown as two separate figures eg £6 800 and £3 600 award 1 mark.
If bank overdraft shown as £14 140 or £9 600 award 1 mark as in each case only one adjustment has been made.

Workings

W1 Depreciation

	£	
Value of land and buildings	1 000 000	
Rate of depreciation	2%	
Depreciation	20 000	**(1)**

W2 Inventory

	£	
Original inventory valuation	82 500	
Add goods on sale or return at cost	10 000	
Corrected inventory value	92 500	**(1)**

W3 Trade receivables

	£	
Original trade receivable	38 000	
Less goods on sale or return at selling price	(17 500)	
Corrected trade receivables	20 500	**(1)**

W4 Provision for doubtful debts

	£	
Original trade receivables	38 000	
Less goods on sale or return	(17 500)	
Trade receivables	20 500	**(1)OF**
Provision for doubtful debts	2%	**(1)**
Provision at 30 April 2018	410	**OF**

Alternative answer
If student shows an unadjusted figure for trade receivables on the balance sheet of £38000 - Award 2 marks for a provision of £760 eg 38 000**(1)** x 2%**(1)** = 760 **OF**

W5 Other receivables

	£	
Original other receivables	3 100	
Less adjustment for rent received	(1 800)	
Corrected other receivables	1 300	**(1)**

W6 Other payables

	£	
Original other payables	6 800	
Add rent received	3 600	
Corrected other payables	10 400	**(1)**

W7 Bank overdraft

	£	
Original bank overdraft	(15 000)	
Add bad debt recovered	860	**(1)**
Add rent received	5 400	**(1)**
Corrected bank overdraft	(8 740)	

If student does not include the original opening balance or it is not arithmetically correct or treated as a positive balance award 1 mark only.
If £6 260 (£860 + £5400) is shown on balance sheet as current asset award 1 mark.

W8 Bank loan 2020

	£	
Original bank loan	200 000	
Less proceeds of rights issue	(125 000)	
Corrected original loan	75 000	**(1)**

W9 Ordinary shares

Rights issue
Value of shares issued £250 000 ÷ 5 = £50 000
New share value £250 000 + £50 000 = £300 000**(1)**

Do not award the mark if the student shows the original shares and rights issue separately on the balance sheet.

W10 Share premium

Number of shares in issue = 250 000 ÷ 0.5 =	500 000
Number of shares in rights issue = 500 000 ÷5 =	100 000**(1)**
Share premium	75p **(1)**
Value of share premium 100 000 x 75p =	£75 000**OF**

To award 2 marks the student must show the share premium separately on the balance sheet; if the student includes share premium in the share capital and there is a working supporting their calculation, eg £75 000 then award 1 mark.

W11 Revaluation reserve

Revalued amount – original nbv
£1 000 000 – 384 000 = £616 000 **(1)**

W12 Retained earnings

	£	
Original retained profit	34 900	
Goods sale or return – sale	(17 500)	**(1)** for both
Goods sale or return – inventory added back	10 000	
Bad debt recovered	860	**(1)**
Provision for doubtful debts (900-410)	490	**(1)**
Depreciation	(20 000)	**(1)**
Revised retained earnings	8 750	**(1)OF**

Alternative answer if student has not deducted receivables when calculating provision for doubtful debts

	£	
Original retained profit	34 900	
Goods sale or return – sale	(17 500)	**(1)** for both
Goods sale or return – inventory added back	10 000	
Bad debt recovered	860	**(1)**
Provision for doubtful debts (900-760)	140	**(1)**
Depreciation	(20 000)	**(1)**
Revised retained earnings	8 400	**(1)OF**

Alternative layout of balance sheet

Massaro Ltd
Balance sheet at 30 April 2018*

	Valuation		Depreciation to date		Net book value	
Assets	**£**		**£**		**£**	
Non-Current Assets*						
Land and buildings	1 000 000	**(1)**	20 000	**(1)W1**	980 000	**
Current assets*						
Inventory			92 500	**(1)W2**		
Trade receivables			20 500	**(1)W3**		
Provision for doubtful debts			(410)	**(2)W4**		
Other receivables			1300	**(1)W5**		
Total current assets					113 890	
Total assets					1 093 890	
Equity and liabilities						
Equity*						
Ordinary shares of 50p each					300 000	**(1)W9**
Share premium					75 000	**(2)W10**
Revaluation reserve					616 000	**(1)W11**
Retained earnings					8 750	**(5)**
					999 750	
Non-current liabilities*						
Bank loan			75 000	**(1)W8**		
Current liabilities*						
Other payables			10 400	**(1)W6**		
Bank			8 740	**(2)W7**		
			19 140			
Total liabilities					94 140	
Total equity and liabilities					1 093 980	

3 (a) *Prepare the following accounts for the year ended 30 April 2018. (Show clearly any transfers to the income statement.)*

- *Fixtures and fittings at cost*
- *Provision for depreciation*
- *Disposal of non-current assets.*

[15 marks]

When marking this question all entries must be supported by a narrative.
Entries that require a specific narrative have been highlighted and an explanation given in the marker note for that account. For all other narratives just check that a narrative is present.

Fixtures and fittings at cost account

Date	Details	£		Date	Details	£	
1 May	Balance b/d	68 000	**(1)**	1 Dec	Disposal account	18 000	**(1)**
1 Dec	Disposal account	9 500	**(1)**				
1 Dec	Shorbagy Ltd	11 500	**(1)**	30 Apr	Balance c/d	71 000	
		89 000				89 000	
1 May	Balance b/d	71 000	**(1)OF**				

Provision for depreciation account

Date	Details	£		Date	Details	£	
1 May	Disposal account	10 000	**(1)**	1 May	Balance b/d	27 000	**(1)**
				30 Apr	Income statement	18 000	**(3)W1**
30 Apr	Balance c/d	35 000					
		45 000				45 000	
				1 May	Balance b/d	35 000	**(1)OF**

Disposal of non-current assets account

Date	Details	£		Date	Details	£	
1 Dec	Cost	18 000	**(1)**	1 Dec	Depreciation	10 000	**(1)**
30 Apr	Income statement (Profit on disposal)	1 500	**(1)OF**	1 Dec	Cost (Part-exchange)	9 500	**(1)**
		19 500				19 500	

W1 depreciation

	£		
Cost	71 000		This could be OF from cost account
Depreciation to date	(17 000)		Based on provision account
	54 000	**(1)**	
Depreciation rate	1/3		
Depreciation for the year	18 000	**(1)OF***	Must be an arithmetically correct calculation based on an own figure for NBV – it must be based on NBV and not cost to award the mark

Marker notes – Fixtures and fittings at cost account

All entries must be on the correct side of the account to be awarded a mark.
The balance b/d OF must be on the debit side of the account and arithmetically correct, with no extraneous items to award a mark.
The balance b/d entries must have a narrative – this could be bal b/d or b/d.
Shorbagy ltd – this entry must indicate that the purchase is on credit, so the narrative should be Shorbagy Ltd (accept Shorbagy, Supplier, Creditor, Payable).

Marker notes – Provision for depreciation account

Award 2 marks for calculating depreciation of £18 000.
Award an additional mark for showing the depreciation figure on the credit side of the account together with an appropriate narrative, eg Income statement (accept profit and loss account, appropriate abbreviations, eg IS or P&L, also accept Depreciation (Dep acceptable).
If there is £18 000 on credit side with an incorrect label then award this 2 marks.

Do not award marks if the entries are on the wrong side of the account except in the case of depreciation for the year where you can award up to 2 marks if this is shown on the debit side.

In this account award 1 mark for the balancing process, eg if entries on incorrect side but the account has been correctly balanced, provided there are no extraneous items.

Marker notes – Disposal of non-current assets account

The mark for profit on disposal is for correctly balancing the account, providing there are no extraneous items, and could appear on debit or credit side. If students calculate the profit on disposal correctly but carry a balance down then do not award the profit mark.
The entry of £1500 OF must be supported by a narrative, eg Income statement (accept profit and loss account, appropriate abbreviations and also profit (or loss) on disposal (provided the profit/loss matches the entry in the account.

3 (b) *Tick one box to show which accounting concept is applied.*

[1 mark]

Concept	✓
Business entity	
Cost	
Prudence	✓
Realisation	

4 (a) *Calculate the gross profit margin. State the formula used.*	***[2 marks]***

$$\frac{\text{Gross profit}}{\text{Revenue}} \times 100 \quad \textbf{(1)}$$

$$\frac{320\ 000\ \textbf{W1}}{1\ 600\ 000} \times 100 = 20\% \quad \textbf{(1)}$$

Marker notes

To award 2 marks either the formula must contain x100 or the answer must state %.
If the formula does not contain x 100 but the answer is expressed as a % then we can award the formula mark.

Accept sales as an alternative to revenue.

W1 Gross profit

	£
Revenue	1 600 000
Cost of sales	1 280 000
Gross profit	320 000

4 (b) *Calculate the profit in relation to revenue ratio. State the formula used.*
[2 marks]

$$\frac{\text{Profit for the year before tax*}}{\text{Revenue**}} \quad \text{x100} \quad \textbf{(1)}$$

$$\frac{80\ 000\ \textbf{W1}}{1\ 600\ 000} \quad \text{x100} \quad = \quad 5\% \quad \textbf{(1)}$$

Alternative answer

$$\frac{\text{Profit from operations}}{\text{Revenue}} \quad \text{x100} \quad \textbf{(1)}$$

$$\frac{120\ 000\ \textbf{W1}}{1\ 600\ 000} \quad \text{x100} \quad = \quad 7.5\% \quad \textbf{(1)}$$

Marker notes
*****accept net profit or profit or profit for the year **–** however to get 2 marks the answer must by 5%
** accept sales
For the alternative answer accept ‘operating profit’ and ‘profit before interest and tax’.
If the formula does not contain x 100 but the answer is expressed as a % then we can award the formula mark.
.
To award 2 marks the formula must match the calculation.

W1 Profit for the year before tax

	£
Gross profit	320 000
Operating expenses	200 000
Profit from operations	120 000
Finance costs	40 000
Profit for the year before tax	80 000

4 (c) *Calculate the rate of inventory turnover. State the formula used.*	***[2 marks]***

$$\frac{\text{Cost of sales}}{\text{Average inventory}} \quad \textbf{(1)}$$

$$\frac{1\ 280\ 000}{128\ 000\ \textbf{W1}} = 10 \text{ times} \quad \textbf{(1)}$$

Marker note

To award the mark for the calculation the answer must state 'times'.
To award 2 marks the formula must match the calculation **–** if they do not then only award 1 mark.

W1 Average inventory

	£
Opening inventory	120 000
Closing inventory	136 000
	256 000
	÷2
Average inventory	128 000

Alternative answer if student calculates inventory turnover days

$$\frac{\text{Average inventory}}{\text{Cost of sales}} \times 365 \quad \textbf{(1)}$$

$$\frac{128\ 000}{1\ 280\ 000} \times 365 = 36.5^{*} \text{ days} \quad \textbf{(1)}$$

Marker notes
*****accept 37 days but not 36 days
To award the mark for the calculation the answer must state "days".
To award 2 marks the formula must match the calculation **–** if they do not then only award 1 mark.

4 (d)	*Calculate the return on capital employed. State the formula used.*	***[2 marks]***

$$\frac{\text{Profit from operations}}{\text{Capital employed*}} \times 100 \quad \textbf{(1)}$$

$$\frac{120\,000\ \textbf{W1}}{600\,000\ \textbf{W2}} \times 100 \quad = \quad 20\% \quad \textbf{(1)}$$

Marker notes
***** Accept Equity + Non-Current Liabilities or Shares + Reserves + Non-Current Liabilities as an alternative – but do not accept Equity.
If the formula does not contain x 100 but the answer is expressed as a % then we can award the formula mark.
Accept 'operating profit' or 'profit before interest and tax' in the formula.
Accept understandable abbreviations.

W1 Profit from operations

	£
Profit for the year before tax	80 000
Finance costs	40 000
Profit from operations	120 000

W2 Capital employed

	£
Equity	200 000
Non-current liability	400 000
Capital employed	600 000

4 (e)	*Evaluate the profitability of the business using the industry average ratios provided and your answers to* ***questions 4 (a), (b), (c) and (d)****.* **[15 marks]** **[includes 2 marks for quality of written communication]**

Ratio	Industry average	Twiner Ltd	
Gross profit margin	30%	20%	
Profit in relation to revenue	4.5%	5%	7.5%
Inventory turnover	15 times	10 times	
	24.3 days	36.5 days	
Return on capital employed	10%	20%	

Marker notes

Students will be able to achieve maximum marks for this question in different ways. The marks have been allocated as follows:

Assessment of ratios	4 ratios x 3 marks max per ratio	Max 12 marks
Overall assessment of profitability	0-2 marks	Max 2 marks
Discussion of problems of making assessment using only industry averages	0-2 marks	Max 2 marks
Overall maximum for assessment and evaluation		**Max 13 marks**
Quality of written communication (0-2 mark)		**2 marks**
Total for question		**15 marks**

Award a maximum of 3 marks for discussion of each ratio.

The discussion of each ratio will be based on students own figures from 4a-d
Please refer back to students answers to compare them with the industry average if a student has an incorrect calculation but compares this correctly with the industry average this should be rewarded.

Only award marks where the student is making an assessment. This could be in the form of a comparison with the industry average, but must contain an assessment. For example stating that the gross profit margin is lower than the industry average is not making an assessment (as we do not know if the student thinks lower is better or worse) so should not be rewarded. The student should state that the gross profit margin is worse than the industry average.

Students should develop this initial assessment by assessing the significance of the difference in ratio. For example the difference between the gross profit margins is significant as it is 50% of Twiner Ltd, whilst the difference between the profit in relation to revenue is not so significant.
Or assess the significance of the difference to the overall profitability of the business. For example the difference in the gross profit margin could mean that Twiner Ltd is paying more for purchases or unable to sell at sufficiently high price.
There is no reward for suggestions of how to improve the ratios as this was not asked in the question.

Assessment	Significance/development/evaluation
Gross profit margin Twiner Ltd is worse than the industry average **(1)**.	The difference is significant as the industry average margin is 50% greater than Twiner Ltd (or the industry is making 10p per £ more profit on each £1 of sales) **(1)**. This may be caused by higher cost of sales eg not being able to obtain the same discounts/benefit from economies of scale **(1)** as other retailers. Or not being able to sell at a sufficiently high price **(1)** or deliberately reducing the price to try to increase sales **(1)**. Twiner Ltd may have deliberately reduced the gross profit margin to make the company more competitive **(1)**.

Max 3 marks

Assessment	Significance/development/evaluation
Profit in relation to revenue This ratio is better than the industry average **(1)**.	The difference in the ratio is not very significant, as it only represents 0.5p per £1 of sales **(1)** (If operating profit/revenue is used eg 7.5% the difference would be significant.) However, the difference between the gross profit margin and the profit in relation to revenue shows that Twiner Ltd is able to control its expenses better than the industry average **(1)** as it only spends 15p (12.5p) per £1 of sales **(1)** compared with 25.5p per £1 of sales for the industry **(1)**.

Marker note

When marking this ratio please check the formula used in the student calculation eg operating profit/revenue will give a 7.5% answer compared to 5% with profit after tax – so please make sure any assessment of significance agrees with the ratio calculated.

Max 3 marks

Assessment	Significance/development/evaluation
Inventory turnover Inventory turnover is worse than the industry average **(1)**.	The difference is significant as the industry is selling inventory 5 more times in a year **(1)**. This could have a damaging effect on profitability for Twiner ltd **(1)** as it may be the result of carrying obsolete inventory **(1)** or result in inventory being out of date and having to be written off **(1)** or increased storage costs **(1)**. It could be beneficial if Twiner is buying in bulk in order to receive trade discounts **(1)** but this may conflict with the gross profit margin which has fallen **(1)**

Max 3 marks

Assessment	Significance/development/evaluation
Return on capital employed The return on capital employed is better than the industry average **(1)**.	The difference in the ratio is significant as Twiner Ltd is twice the industry average (gaining a return of 20p per £1 of capital employed compared with 10p pre £1 for the industry **(1)**. This could be caused by low capital employed **(1)** or high operating profit **(1).** This could indicate that Twiner Ltd is much more efficient in turning capital employed into profit **(1)**. However, this may be deceptive as the profit in relation to revenue percentage is similar this may indicate that Twiner Ltd has much smaller capital employed and therefore under-capitalised **(1)**.

Max 3 marks

Overall assessment 0-2 marks
Overall judgement **(1)**
To make a judgment it would be useful to have additional information **(1)** for example the past performance of Twiner Ltd **(1)**.
However, the profit in relation to revenue and ROCE ratios are positive whilst the gross profit margin and inventory turnover are negative **(1)** making an overall assessment difficult **(1)**.

Max 2 marks

Discussion of problems of making assessment using ratios and industry averages 0-2 marks
The industry average may be distorted and not provide a good basis for assessment **(1)**. The distortion could be caused by one or two businesses with extreme results making the average biased **(1)**.
The average may be based on outdated data **(1).**
Limitations of using ratios **(1)**.

Max 2 marks

Overall max 13 marks

Quality of written communication
2 marks: no more than 3 spelling, punctuation and grammatical errors.
1 mark: 4 or more spelling, punctuation and grammatical errors.
0 marks: prose response is difficult to understand.