



ASSESSMENT and  
QUALIFICATIONS  
ALLIANCE

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# Mark scheme January 2004

## GCE

### Accounting

### Unit ACC4

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## 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.

### **Quality of Written Communication**

Once the whole script has been marked, the work of the candidate should be assessed for the Quality of Written Communication, using the criteria at the end of the mark scheme. The mark should be shown separately on the candidate's script.

1

Total for this question: 14 marks

**REQUIRED**

- (a) State the formula used to calculate the number of portraits required to break even.

$$\frac{\text{Fixed costs}}{\text{(selling price – variable cost)}} \text{ per unit (1)}$$

1 mark

- (b) Calculate the number of portraits required to break even for:

- (i) the year ended 30 November 2003;

$$\frac{\pounds 42\,250}{\pounds 38 - \pounds 12} \quad \left. \vphantom{\frac{\pounds 42\,250}{\pounds 38 - \pounds 12}} \right\} (1) \quad = 1625 \text{ portraits (1)}$$

2 marks

- (ii) the year ending 30 November 2004.

$$\frac{\pounds 52\,000}{\pounds 26} \quad \left. \vphantom{\frac{\pounds 52\,000}{\pounds 26}} \right\} (1) \quad = 2000 \text{ portraits (1)}$$

2 marks

- (c) Calculate the required change in selling price for the year ending 30 November 2004, if Tracey wishes to maintain the same level of break-even as that for the year ended 30 November 2003.

$$\begin{aligned} \frac{\pounds 52\,000}{X - \pounds 12} &= 1625 && (1) \text{ OF} \\ \pounds 52\,000 & && \\ \hline 1625 &= X - \pounds 12 && (1) \text{ OF} \\ \pounds 32 &= X - \pounds 12 && (1) \text{ OF } \therefore \text{SP} = \pounds 44 (1) \text{ OF} \end{aligned}$$

4 marks

- (d) Evaluate this change in selling price. Is there any alternative action that Tracey could take?

Nearly 16% increase (1) OF on original SP (£38 to £44).

This increase will increase contribution (1) and decrease break-even units (1).

Market may not accept increased price (1) and total sales units may decrease (1).

Competitors may undercut selling price (1) so market share may decrease (1).

Alternatively, Tracey could try to reduce variable costs per portrait (1).

(max 4 marks for evaluation)

(1 mark for alternative action)

Overall max 5 marks

2

**Total for this question: 15 marks****REQUIRED**

- (a) Calculate the net profit margin for
- each**
- of the two years. State the formula used.

Formula

$$\frac{\text{Net profit}}{\text{Sales}} \times 100 \text{ (1)}$$

**1 mark**

Calculation as at 31 October 2002

$$\frac{5\,400}{12\,000} \times 100 = 45\% \text{ (1)}$$

**1 mark**

Calculation as at 31 October 2003

$$\frac{6\,840}{18\,000} \times 100 = 38\% \text{ (1)}$$

**1 mark**

- (b) Calculate the mark-up for
- each**
- of the two years. State the formula used.

Formula

$$\frac{\text{Gross profit}}{\text{Cost of sales}} \times 100 \text{ (1)}$$

**1 mark**

Calculation as at 31 October 2002

$$\frac{6\,600}{5\,400} \times 100 = 122.22\% \text{ (1)}$$

**1 mark**

Calculation as at 31 October 2003

$$\frac{9\,440}{8\,560} \times 100 = 110.28\% \text{ (1)}$$

**1 mark**

- 2 (c) Calculate the rate of stock turnover for **each** of the two years. State the formula used.

Formula

Alternative Formula

$$\frac{\text{Average stock}}{\text{Cost of goods sold}} \times 365 \text{ days/52 wks/12 mths (1)}$$

$$\frac{\text{Cost of goods sold}}{\text{Average stock}} \text{ (1)}$$

1 mark

Calculation as at 31 October 2002

$$\frac{2\ 050}{5\ 400} \times 365 \text{ days} = 139 \text{ days (1)}$$

$$\frac{5\ 400}{2\ 050} = 2.63 \text{ times (1)}$$

1 mark

Calculation as at 31 October 2003

$$\frac{2\ 850}{8\ 560} \times 365 \text{ days} = 122 \text{ days (1)}$$

$$\frac{8\ 560}{2\ 850} = 3 \text{ times (1)}$$

1 mark

- (d) Comment on the results obtained in parts (a), (b) and (c) above.

**Net profit margin has declined (1), therefore less net profit is made per £1 of sale (1). Mark up has declined (1), therefore a smaller profit percentage is added to the cost price (1). Stock turnover days have improved (1), therefore stock is held on average for a shorter period (1).**

**All above marks are OF, if comments are consistent with answer to (a), (b) and (c).**

**(max 2 marks per ratio)**

**6 marks**

3

Total for this question: 20 marks

**REQUIRED**

- (a) Prepare the forecast trading and profit and loss account for Potter and Son Ltd for the year ending 31 March 2004.

**Forecast Trading and Profit and Loss Account  
for Potter and Son Ltd for year ending 31 March 2004 (1)**

	£000	£000
Sales	(312 500 (W1) x £13.60) (W2)	4 250
Opening stock	200 (1)	
Purchases	(W3) 2 857.5	
Closing stock	(W4) <u>(225)</u>	
Cost of goods sold		<u>(2 832.5)</u>
Gross profit		1 417.5 (1) OF
Overheads	(1080 x 106.25) (1)	<u>(1 147.5) (1) OF</u>
Net profit		<u>270 (1) OF</u>

W1 250 000 x 1.25 = 312 500 (1)

W2 4 000 000 ÷ 250 000 = £16 (1) x .85 = £13.60 (1) OF

W3 (312 500 (1) OF – 20 000 (1) + (0.08 (1) x 312 500)) x 9 (1) OF = 2 857 500

W4 (312 500 (1) OF x 0.08 (1)) x 9 (1) = 225 000

**16 marks**

- (b) Explain **two** benefits to Potter and Son Ltd of preparing a forecast trading and profit and loss account.

Benefit 1

**The forecast reduction (1) OF in profit can be ascertained, which results from the amended prices and its effects on the business departments (1).**

Benefit 2

**Business can take action to avoid this profit reduction (1), e.g. stock control or a larger price decrease from a new supplier (1).**

**(2 marks per benefit)  
4 marks**

4

Total for this question: 14 marks

**REQUIRED**

- (a) Distinguish between direct and indirect costs.

**Direct costs can be identified with each unit produced (1), whereas indirect costs cannot be identified with the product produced (1).**

2 marks

- (b) Calculate the marginal cost of one compass.

	£	
Labour	23 000	} (1)
Materials	35 000	
Variable direct costs	<u>9 000</u>	(1)
Total cost (marginal)	67 000	
<u>£67 000</u> (1) OF - £13.40 per compass (1) OF		
5 000 (1)		

5 marks

- (c) Prepare a marginal costing statement for the six months ended 31 December 2003. Show the total contribution and the profit for the period.

	£	
Sales (5000 x £20)	100 000	(1)
Direct labour	(23 000)	} (1)
Direct materials	(35 000)	
Variable direct costs	<u>(9 000)</u>	
Contribution	33 000	(1) OF
Fixed direct costs	<u>(12 000)</u>	(1)
Profit	<u>21 000</u>	(1) OF

5 marks

- (d) Explain
- one**
- advantage of producing a marginal costing statement.

**Contribution is clearly identified (1), thereby distinguishing between the effect of variable costs as opposed to fixed costs on turnover (1).**

2 marks

5

**Total for this question: 13 marks****REQUIRED**

Write a report to the Board of Directors of Oxide plc discussing the implications of the directors' actions for the shareholders, employees and the local community.

To:  
From:  
Date:  
Subject:

} (1)

**Report heading : 1 mark****For the rest of the answer: overall max 12 marks****Shareholders**

Shareholders satisfied with increased dividends (1) and increased profits (1) which may lead to an increase in the market price of their shares (1).

A variable dividend (1) is paid to ordinary shareholders (1), which may be good in short term (1). Shareholders may be viewed as putting own interests before those of community and employees (1). In the long term an increase in accidents may adversely affect the business reputation (1) and therefore decrease the market price (1). max 5 marks

**Employees**

May be concerned with long term decrease in reputation of company (1), especially if injury occurs (1), and therefore job security (1).

A greater turnover of staff may result (1) with the fear of injury (1), which may lead to increased trade union activity to improve safety (1). max 5 marks

**Local community**

The local community may take representation to government agencies (1) due to increased risk from chemicals (1). House prices may fall if risk is perceived as dangerous (1), which may affect area's infrastructure (1) plus example (1).

**max 5 marks**



## QUALITY OF WRITTEN COMMUNICATION

After the candidate's script has been marked, the work should be assessed for the Quality of Written Communication, using the following criteria.

### Marks

- 0** Accounts and financial statements are unclear and poorly presented.  
There is little or no attempt to show workings or calculations.  
Descriptions and explanations lack clarity and structure.  
There is very limited use of specialist vocabulary.  
Answers may be legible but only with difficulty.  
Errors in spelling, punctuation and grammar are such that meaning is unclear.
- 1-2** There is some attempt to present accounts and financial statements in an appropriate format.  
Workings are missing or are not clearly linked to the answers.  
Descriptions and explanations are understandable but they lack a logical structure.  
There is some use of specialist vocabulary but this is not always applied appropriately.  
In most cases answers are legible, but errors in spelling, punctuation and grammar are such that meaning may be unclear.
- 3** Accounts and financial statements are generally well presented but there are a few errors.  
Workings are shown and there is some attempt to link them to the relevant account(s).  
Descriptions and explanations are usually clearly expressed but there are some weaknesses in the logical structure. There is a good range of specialist vocabulary which is used with facility.  
Answers are legible. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed.
- 4** Accounts and financial statements are well organised and clearly presented.  
Workings are clearly shown and easy to follow. Descriptions and explanations are clearly expressed.  
Arguments are logically structured. There is wide use of specialist vocabulary which is used relevantly and precisely.  
Answers are clearly written and legible. Spelling is accurate and the standard conventions of punctuation and grammar are followed so that meaning is clear.