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ASSESSMENT and QUALIFICATIONS ALLIANCE

General Certificate of Education

Accounting ACC4

Unit 4 Introduction to Accounting for Management and Decision-making

Mark Scheme

2008 examination - January series

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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Registered address: AQA, Devas Street, Manchester M15 6EX *Dr Michael Cresswell Director General* **June 2008ACC4**

January 2008 **ACC4**

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.

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: 18 marks**

Sid owns a business in a seaside resort. He sells greetings cards. On average each card costs 50p to buy and is sold for £1.20. The annual business fixed costs are £110 000. Sid has set a target profit for the year of £30 000.

REQUIRED

1(a) Calculate the contribution per greetings card.

£1.20 (1) – 50p (1) = 70p (1) **3 marks**

1(b) Calculate the number of greetings cards which Sid needs to sell to achieve the target profit of £30 000. State the formula used.

Formula:

Fixed costs + Profit **(1)**

Contribution per unit **1 mark**

Calculation:

110 000 (1) + 30 000 (1) = 200 000 cards (1) OF **4 marks**

70p (1) OF

Unfortunately, Sid's supplier decides to increase the cost of the greetings cards by 30%.

REQUIRED

1(c) Calculate the number of **extra** greetings cards which Sid would need to sell to maintain a target profit of £30 000 following the increase in cost per card.

(110 000 + 30 000) (1) OF = 254 546 (1) OF

£1.20 – 65p (1) = 55p (1) OF

254 546 – 200 000 (1) OF = 54 546 extra cards (1) OF **6 marks**

Sid does not believe that the business can sell the **extra** greetings cards in the seaside resort.

REQUIRED

1(d) Advise Sid of **two** methods by which the business could maintain profit levels without selling the extra greetings cards.

Method 1

Find an alternative cheaper supplier (1) as long as quality (1) is maintained.

2 marks

Method 2

Raise the selling price per card (1) provided this does not decrease his market share (1) or sales volume (1).

Or

Obtain bulk buying discounts (1)

Benefits via economies of scale (1)

Fixed costs decrease with development (2)

Diversify (1) into other products

Any calculation (max 2)

Accept alternative answers **max 2 marks**

Overall max 4 marks

2 **Total for this question: 14 marks**

A company produces one product.

The production costs for **ten** units are:

	£
Material costs (£4 per metre)	120
Labour costs (£16 per hour)	240

Overtime at £20 per hour will be paid for any **extra** production over 1000 units.

Other manufacturing costs for the **ten** units are £4200, of which £500 are semi-variable and the reminder are fixed.

REQUIRED

2(a) Complete the following table:

Units produced	**500**		**1200**	
	£		**£**	
Material costs	**6 000**	**(1)**	**14 400**	**(1)**
Labour costs	**12 000**	**(1)**	**30 000***	**(2)**
Semi – variable costs	**25 000**	**(1)**	**60 000**	**(1)**
Fixed costs	**3 700**		**3 700**	**(1) for row**
Total production costs	**46 700**	**(1) OF**	**108 100**	**(1) OF**

*** (1.5 x 1000 x 16) (1) + (1.5 x 200 x 20) (1)**

max 10 marks

2(b) Explain why it is important for the managers of a business to understand the difference between variable and fixed costs when drawing up a budgeted profit and loss account and other financial statements.

- **Important if flexing the budget for different production levels (0 – 2)**
- **Different cost behaviour – variables costs change with the level of production but fixed costs do not (0 – 2)**
- **An important part of the analysis when calculating differences comparing budgeted profit with actual profit (0 – 2)**
- **Could lead to wrong decisions being made (1)**
- **Different costs at different production levels (1)**
- **Definitions of fixed costs and variable costs only (1 + 1)**
- **Contribution affected (1)**

max 4 marks

3 **Total for this question: 44 marks**

Leigh Ltd manufactures ready-made meals which contain high amounts of saturated fats.

The trading, profit and loss account for Leigh Ltd for the year ended 31 March 2007 was as follows:

	£	£
Sales (12 000 units)		360 000
Opening stock (2000 units)	40 000	
Purchases (14 000 units)	210 000	
Closing stock (4000 units)	(60 000)	
Cost of sales		(190 000)
Gross profit		170 000
Production costs	95 000	
Non-production fixed costs	70 000	(165 000)
Net profit		5 000

The business expects the following changes to occur during the year ending 31 March 2008.

(1) Sales should increase by 25% following an aggressive advertising campaign and a decrease in price of 5% per unit.
(2) The advertising campaign should cost £8000.
(3) Unfortunately, the supplier has increased his costs by 10% but the purchasing manager of Leigh Ltd has been able to arrange a discount of 2% by buying in bulk.
(4) Closing stock is to be 20% of the total annual sales units.
(5) Production costs are expected to rise to £110 000.

REQUIRED

3(a) Prepare a budgeted trading, profit and loss account for Leigh Ltd for the year ending 31 March 2008.

Budgeted Trading, Profit and Loss Account for Leigh Ltd for year ending 31 March 2008

	£		£	
Sales **(15 000(1) x 28.50p(1))**			**427 500**	**(1) OF**
Opening stock **(4000 units)**	**60 000**	**(1)**		
Purchases **(14 000(1) x 16.17(1))**	**226 380**	**(1)OF**		
Closing stock **(3000(1) x 16.17(1))**	**(48 510)**	**(1)OF**		
Cost of sales			**(237 870)**	**(1) OF**
Gross profit			**189 630**	**(1) OF**
Production costs	**110 000**	**(1)**		
Non-production fixed costs	**78 000**	**(1)**	**(188 000)**	
Net profit			**1 630**	**(1) OF**

15 marks

3(b) Calculate the following for the year ending 31 March 2008 and the year ended 31 March 2007.

	2008	2007
Gross profit margin	**189 630 x 100 (1) OF= 44.36% (1) OF** **427 500**	**170 000 x100 (1)= 47.22% (1)** **360 000**
		4 marks
Net profit margin	**1 630 x 100 (1) = 0.38% (1)** **427 500**	**5 000 x 100 (1) = 1.39%(1)** **360 000**
		4 marks
Rate of stock turnover	**237 870 (1) = 4.38 times or** **(60 000 + 48 510)/2 83.3 days (1)**	**190 000 (1) = 3.8 times or** **(40 000 + 60 000)/2 96 days (1)**
		4 marks

3(c) Write a report to the directors of Leigh Ltd explaining the reasons for expected changes in b).

To: **Directors of Leigh Ltd**

From: **Student**

Date: **Date of exam**

Subject: **Analysis of expected changes in ratios between 2007 and 2008**

1 mark for report layout

Gross profit percentage will deteriorate (1) from 47.22% to 44.36%.

The stock movement and increase in the cost of purchases will exceed the increase in sales turnover (1).

Net profit percentage is expected to deteriorate (1) from 1.39% to 0.38% due not only to the decrease in profit but also the relative increase in overheads (1).

Stock turnover will improve (1) from 96 days to 83.3 days due to the decrease in sales price and the aggressive advertising campaign (1). **6 marks**

Overall 7 marks

Leigh Ltd has been criticised in the national press for the aggressive advertising campaign.

REQUIRED

3(d) Discuss the possible implications of the advertising campaign for the business.

Ethical implications of encouraging and making profit from the sale of potentially harmful products (0 – 2) thus affecting the image of the business.

Negative effect on the reputation of the business, which may result in a future reduction in sales (0 – 2).

Not socially responsible (0 – 2).

Possible government sanctions (0 – 2) thus affecting image.

Without advertising campaign it is possible that Leigh Ltd would have made a loss as at least 3000 less units would have been sold (0 – 2).

More publicity could increase the number of customers and the market share (0 – 2).

Without the campaign and resulting increase in sales revenue and increase in price it may have been necessary to cover the increase in suppliers costs (0 – 2).

Possible bad health in the future for customers who bought the food as a result of the advertising campaign, ie media pressure (0 – 2) affecting image.

max 8 marks

Judgement (0-2) **2 marks**

Overall max 10 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.

To help them to make judgements, examiners should focus on the following issues.

Are there clear presentations of formats and prose answers?

Are there clear and logical workings, where appropriate?

Is the whole script legible, understandable and logically argued (including spelling, punctuation and grammar)?

Is there a grasp of accounting terminology (eg avoiding slang, avoiding text language, avoiding abbreviations in prose answers)?