



ASSESSMENT and
QUALIFICATIONS
ALLIANCE

Mark scheme January 2003

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GCE

Accounting

Unit ACC4

January 2003

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 / Layouts

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. 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: 10**

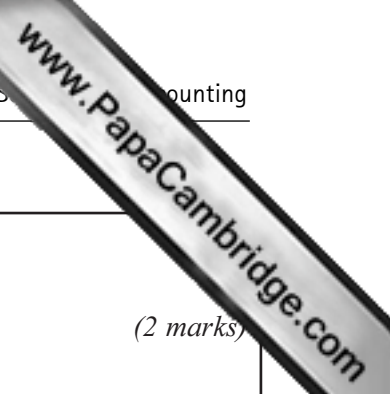
Dawn Doughty makes rugs, which she sells for £110 each. She has the following information on her costs:

Dawn's wages are £6 per hour (11 hours per rug).

Materials are £4 per metre (8½ metres per rug).

Other costs are

	£
Buildings and contents insurance per annum	800
Heating and lighting per annum	300
Administration expenses per annum	900
Workshop rent per annum	3000



REQUIRED

- (a) Calculate the marginal cost of producing **one** rug. (2 marks)

	£		
wages (£6 × 11)	66	(1)	
materials (£4 × 8½)	<u>34</u>	(1)	
marginal cost	<u>100</u>		2 marks

- (b) State the formula for break-even **in pounds**. (2 marks)

$$\text{formula} = \frac{\text{FC}}{(\text{SP} - \text{VC}) \text{ pu}} (1) \times \text{SP} (1)$$

accept B/E in units × SP **2 marks**

- (c) Calculate the break-even point **in pounds**. (4 marks)

$$\frac{\text{£5000} (1)}{(\text{110} - \text{100})} \times \text{£110} (1) = \text{£55,000} (1 \text{ OF})$$

(1 OF) **4 marks**

- (d) Dawn believes that she should mark-up the cost by 20%. Calculate the selling price with this mark-up. (3 marks)

$$\text{cost} \times 1.20 = \text{£100} (1 \text{ OF}) \times 1.20 (1) = \text{£120} (1 \text{ OF}) \text{ new selling price} \quad \textbf{3 marks}$$

- (e) Do you agree with Dawn's suggestion to increase the mark-up to 20%? Give reasons for your answer. (4 marks)

Agrees/disagrees with Dawn's suggestion **1 mark**

The increase in selling price will reduce the amount of units (rugs) needed to be made and sold to break-even (250) (1). Also reduces the break-even point in pounds (£30,000) (1). Therefore agree with Dawn's suggestion (1). Any valid comment (1).

new break-even point in pounds
new B/E = 250 units
contribution increased £10-£20 (1 OF) **max (4)**

$$\frac{\text{£5000}}{(\text{120} - \text{100})} (1 \text{ OF}) \times \text{120} (1 \text{ OF}) = \text{£30,000} (1 \text{ OF})$$

max 4 marks

2

Total for this question:

Ken Kline is the manager of a retail outlet with three warehouses storing ordered goods for resale. He would like to introduce a system of budgetary control.

REQUIRED

Write a short report to Ken

- (a) naming two budgets which would be useful to him.
 (b) explaining **two** benefits if he introduced these budgets. (9 marks)

To **Ken Kline**
 From **name**
 Date **15.01.03**
 Title **The benefits of introducing budgetary control to Ken Kline**

Report format 1 mark

- a) **Two useful budgets would be:**

cash budget purchases budget stock budget sales budget	}	any two (1) mark each
---	---	------------------------------

- b) **co-ordination - of goods stored within warehouses**
control - of stock
planning - purchasing in order to reduce storage costs
communication
performance evaluation
motivation
monitoring

(1) benefit - max 2

(1) - (2) for development - max 4

9 marks

3

Total for this question: 14 marks

Season Suppliers Ltd sell Christmas gifts. The following information is available for the last two years:

	31 October 2001	31 October 2002
	£	£
Trade debtors at the year end	43,000	32,550
Trade creditors at the year end	28,500	38,500
Credit sales for the year	680,000	660,000
Credit purchases for the year	520,000	540,000

REQUIRED

- (a) State the formula for the debtor collection period.

(1 mark)

$$\frac{\text{debtors}}{\text{(credit) sales}} \times 12/52/365 \quad (1)$$

1 mark

- (b) State the formula for the creditor payment period.

(1 mark)

$$\frac{\text{creditors}}{\text{(credit) purchases}} \times 12/52/365 \quad (1)$$

1 mark

- (c) Calculate the debtor collection periods in days for the years ended 31 October 2001
- and**
- 31 October 2002. Show your workings. (4 marks)

<u>2001</u>	<u>2002</u>
$\frac{43,000}{680,000} \left. \vphantom{\frac{43,000}{680,000}} \right\} (1) \times 365$	$\frac{32,550}{660,000} \left. \vphantom{\frac{32,550}{660,000}} \right\} (1) \times 365$
<p>= 23.08 days (= 24 days) (1)</p>	<p>= 18 days (1)</p>

4 marks

- (d) Calculate the creditor payment period in days for the years ended 31 October 2001
- and**
- 31 October 2002. Show your workings. (4 marks)

$\frac{28,500}{520,000} \left. \vphantom{\frac{28,500}{520,000}} \right\} (1) \times 365$	$\frac{38,500}{540,000} \left. \vphantom{\frac{38,500}{540,000}} \right\} (1) \times 365$
<p>= 20 days (1)</p>	<p>= 26.02 days (1) (= 27 days)</p>

4 marks

- (e) based on these calculations briefly evaluate Seasons Supplies Ltd's credit control management.

in 2002**Creditors are paid after debtors, which aids cash management (0-2).****in 2001****Creditors are paid before debtors, which will cause cash management problems (0-2).****Also accept: a comparison of debtors for 2001 with debtors for 2002 (0-2).****or****a comparison of creditors for 2001 with creditors for 2002 (0-2).****max 4 marks**

4

Total for this question: 2

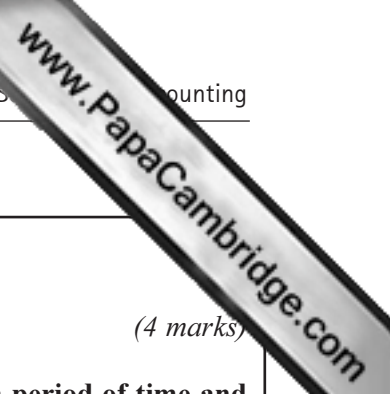
Jack Smart is the Manager of a factory, which produces cardboard boxes from recycled paper. The current production process needs to be replaced. Jack has the following options:

OPTION 1. Invest in new recycling machinery at a cost of £450 000. In order to finance this purchase a loan of £600 000 will need to be taken out. This will be repayable at the end of five years. Interest is paid annually at 10%. Also 15% of the staff will no longer be needed and will have to be made redundant or take early retirement in the first year at a cost of £160 000. Most of the remaining staff will need to be retrained to use the new machinery, which is expected to cost £60 000 and is payable over 2 years.

or

OPTION 2. To make cardboard boxes from paper which has not been recycled. This will include investing in new machinery at a cost of £250 000. This will be financed by a loan of £300 000 repayable over five years. Interest is paid annually at 10%. No staff will need to be made redundant. The retraining costs are expected to be £80 000 and are payable in the first year. Jack is unsure how customers will react to boxes that are not made from recycled paper. However he believes that this is the better option as it will have less of an effect on cash resources and therefore profitability.

Both machines will be depreciated using the straight line method over 10 years.



REQUIRED

- (a) Explain the difference between profit and cash. (4 marks)

Profit is the difference between revenue received and receivable (1) for a period of time and expenditure paid and payable (1) for a period (1).

Whereas cash is the physical amount of money actually held (1).

- (b) Calculate the effect of each option on profit and cash for the next year.

	PROFIT		CASH	
OPTION 1				
new machinery	—		(450,000)	(1)
loan	—		600,000	(1)
interest	(60,000)	(1)	(60,000)	(1)
redundancy	(160,000)	(1)	(160,000)	(1)
retraining	(30,000)	(1)	(30,000)	(1)
depreciation	(45,000)	(1)	—	
Total effect	(295,000)	(10F)	(100,000)	(10F)

(8 marks)

OPTION 2				
new machinery	—		(250,000)	(10F)
loan	—		300,000	(10F)
interest	(30,000)	(1)	(30,000)	(10F)
retraining	(80,000)	(1)	(80,000)	(10F)
depreciation	(25,000)	(1)	—	
Total effect	(135,000)	(10F)	(60,000)	(10F)

(7 marks)

+ 1 mark if stated no effect on cash of depreciation max 15 max

- (c) State which option you would recommend and why. (7 marks)

Option 2 has a smaller effect on profit (1) and cash (1).

If redundancy could be avoided in Option 1, the effect on profit would be the same (1) and there would be a positive effect on cash of £60,000 (1).

However, Option 2 would not involve recycling process (1), which may lose customers in the long term (1).

In the short term, therefore, recommend Option 2, but for the long-term effect on customers, Option 1 (1).

+ any other valid point, plus social issues. - max 6
+ 1 recommendation.

5

Total for this question: 12 marks

The production manager of Davidson Reproductions Ltd has collected the following information in order to produce a production budget for the next four months.

1. Demand is expected to be 1200 tables in Month 1. This should reduce by 10% for the next month, but thereafter increase by 5% each month.
2. Closing stock is to be maintained at a level of 20% of the following months' sales, but due to a storage constraint should not exceed 240 tables.
3. The stock at the beginning of Month 1 is 100 tables.

REQUIRED

Produce a production budget for the next four months. Round up to the nearest whole table.

(12 marks)

	Month 1	Month 2	Month 3	Month 4
sales	1200	1080 (1)	1134 (1)	1191 (1)
op. stock	(100) } ⁽¹⁾	(216)	(227)	(239)
cl. stock	<u>216</u> (1OF)	<u>227</u> (1OF)	<u>239</u> (1OF)	<u>240</u> (1OF)
production	<u>1316</u> (1OF)	<u>1091</u> (1OF)	<u>1146</u> (1OF)	<u>1192</u> (1OF)

12 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.