

General Certificate of Education

Accounting 5121

ACC4 Introduction to Accounting for Management and Decision-making

Mark Scheme

2005 examination - June 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.

June 2005

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.

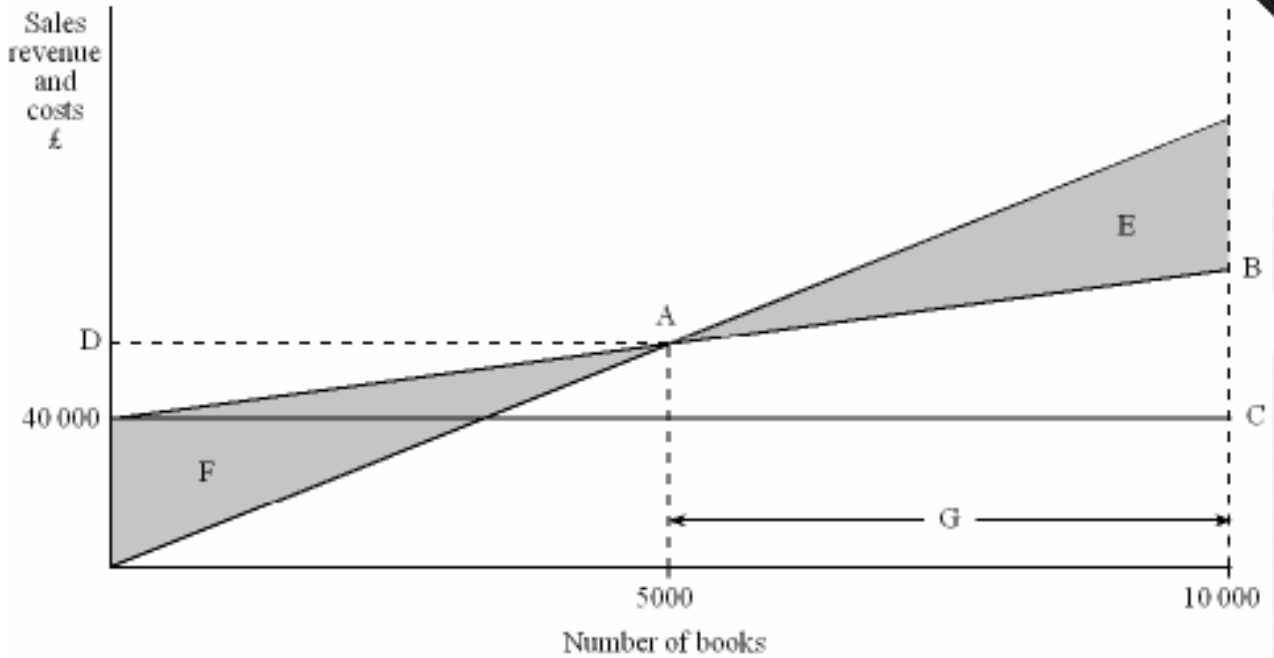
Quality of Written Communication

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:

The following break-even graph relates to Bungay Books Ltd, for the year ending 31 December 2004.



Additional information

The selling price is £15 per book.

REQUIRED

(a) Identify each of the following shown in the graph.

- A** The break-even point (1) at 5000 books
- B** The total costs (1) at 10 000 books
- C** Fixed costs (1) at 10 000 books of £40 000
- D** Revenue at break-even point (1) of 5 000 books
- Area E** Area of profit (1)
- Area F** Area of loss (1)
- G** Margin of safety (1) between 10 000 and 5000 books

7 marks

(b) (i) Calculate the value indicated at point D on the graph.

$5\ 000\ (1) \times £15\ (1) = £75\ 000\ (1)$

3 marks

(ii) Calculate the marginal cost per unit.

Revenue at break-even	£75 000	(1) OF	Alternative methods accepted
Fixed costs	(£40 000)	(1)	
Marginal cost	£35 000		
∴	£35 000	(1) OF	
	5 000	(1)	= £7 per unit (1) OF

5 marks

(iii) Calculate the contribution per unit.

$£15\ (1) - £7\ (1)\ OF = £8\ p.u$

2 marks

2

Total for this question: 2

Mobley-Mad Ltd sells mobile phones.

The following information is available for the last two years.

	As at 31 March 2004	As at 31 March 2005
Stock	£ 14 000	£ 8000
	For year ended 31 March 2004	For year ended 31 March 2005
	£	£
Purchases	120 000	140 000
Sales	260 000	310 000

REQUIRED

- (a) Calculate the rate of stock turnover for the year ended 31 March 2005. State the formula used.

Formula

$$\frac{\text{Average stock}}{\text{Cost of sales}} \times 365/52/12 \quad (1) \quad \text{or} \quad \frac{\text{Cost of sales}}{\text{Average stock}}$$

Stock turnover

27.5 days (1) OF/3.92 weeks/0.9 months/ 13.27 times

Workings

$$\begin{aligned} (W_1) \text{ Average stock} &= (14\,000 + 8\,000) \div 2 && = 11\,000 \quad (1) \\ (W_2) \text{ C.O.S} &= 14\,000 + 140\,000 \quad (1) - 8\,000 && = 146\,000 \end{aligned}$$

$$\therefore \frac{11\,000}{146\,000} \begin{matrix} (W_1) \times 365 \\ (W_2) \end{matrix} \quad (1)$$

5 marks

- (b) Calculate the gross profit for the year ended March 2005.

Sales	310 000	(1)
C.O.S	(146 000)	(1) OF
Gross profit	164 000	(1) OF

3 marks

(2)

- (c) Calculate the gross profit margin for the year ended 31 March 2005. State the formula used.

Formula

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

Gross profit margin **52.90%** (1) OF

Workings

$$\frac{164\,000}{310\,000} \quad (1) \text{ OF} \quad \times 100$$

4 marks

- (d) Explain **three** limitations of using ratio analysis when assessing the performance of Mobley-Mad Ltd.

Limitation 1

Figures can be distorted (1) eg a large delivery of stock on the last day of the financial year will distort the calculation of average stock and therefore stock-turnover (0-2).

Limitation 2

Ratios are only mathematical formulae (1), which need further evaluation. The ratios are of little value if used in isolation. A trend needs to be established by comparing with previous year's results or an inter-company comparison made to evaluate performance (0-2).

Limitation 3

Ratios provide only quantitative data (1), which ignore non-financial information, for example management skill (0-2).

Also accept:

- **different accounting policies may be used, which make comparisons between companies difficult**
- **past performance is not necessarily a good indicator of future performance**
- **ratios show overall results and do not identify individual (departmental) strengths and weaknesses.**

Accept any other valid limitation.

max 9 marks

3

Total for this question: 28 marks

Carolanne wishes to open up a launderette. She is applying for an overdraft facility and the bank require a cash budget for the first four months of business.

The following information is available.

1. She intends to start her business with £2000 in the business bank account.
 2. The launderette will open 24 days a month.
 3. Sales will be:

Month 1	200 washes
Months 2 and 3	400 washes per month
Month 4	700 washes
- Carolanne charges £2 per wash and £1 for drying. 80% of washes will be dried on the premises.
4. In months 1, 2 and 3, advertising costs will be £30 per month.
 5. In month 4, she will employ a part-time assistant at an expected cost of £20 per morning.
 6. Washing powder and other washing materials will cost £15 per day.
 7. The launderette's fixed costs will be £300 per month.
 8. The total cost of the washing machines and dryers will be £18 000. These costs will be paid for in equal monthly instalments over two years.
 9. Each month, Carolanne will withdraw for personal use £150 or 10% of the gross monthly revenue, whichever is the greater amount.

REQUIRED

- (a) Prepare a cash budget for Carolanne for each of the first four months.

Cash budget for Carolanne for four months

	Month 1		Month 2		Month 3		Month 4	
	£		£		£		£	
Opening balance	2 000	(1)	970	(1) OF	500	(1) OF	30	(1) OF
Sales - wash	400	(1)	800	(1)	800		1 400	(1)
- dry	160	(1)	320	(1)	320		560	(1)
	2 560		2 090		1 620		1 990	
Advertising	(30)		(30)		(30)		-	(1) row
W'shing mat'ls	(360)		(360)		(360)		(360)	(2 or 0)
Assistant	-		-		-		(480)	(2 or 0)
Fixed costs	(300)		(300)		(300)		(300)	(1)
Machines	(750)		(750)		(750)		(750)	(2 or 0)
Drawings	(150)		(150)		(150)	(1) row	(196)	(1)
Closing balance	970		500		30		(96)	(2 or 0)

22 marks

(3)

(b) Explain **two** benefits to Carolanne of drawing up this cash budget.

Benefit 1

Carolanne can plan (1) an overdraft for month 4 (1), so bank charges can be avoided/reduced (1). She may decide to have an overdraft facility for month 3 (1) as her closing balance is so small.

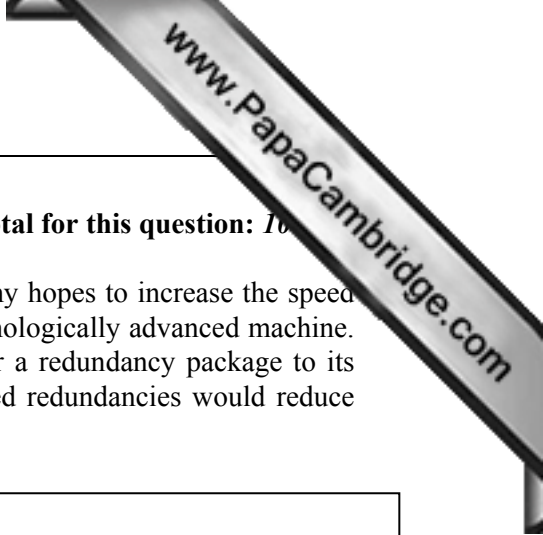
max 3 marks

Benefit 2

Carolanne can control (1) her cash resources to avoid an overdraft. If she can survive 5 days (1) into month 4 without an assistant (1), if her revenues and expenses are as planned, she will avoid becoming overdrawn (1).

max 3 marks

6 marks



4

Total for this question: 10

Kenrick Manufacturing Ltd is located in a rural area. The company hopes to increase the speed of its production process by the introduction of an expensive, technologically advanced machine. To cover the cost of this machine, the company proposes to offer a redundancy package to its entire manufacturing staff over the age of 50 years. The proposed redundancies would reduce annual manufacturing wages by 30%.

REQUIRED

Write a report to the managing director of Kenrick Ltd explaining **three** other factors which need to be considered before any redundancies are made.

To: Managing Director

From: A student

Date: Date of exam

Subject: Analysis of other considerations before making the redundancies

(Report headings: 1 mark)

Factor 1

Negative effect on company’s reputation (1)

The redundancies may be perceived as necessary due to a lack of good management, which did not plan adequately for new technology.

Customer may boycott company. Company may be perceived as ageist.

} (0-2)

3 marks

Factor 2

Negative effect on remaining staff (1).

They may feel insecure, which may affect productivity.

There may be a lack of morale and this could lead to Trade Union activity.

} (0-2)

3 marks

Factor 3

Rural community may suffer (1),

as unemployment may arise. It may therefore affect local economy.

} (0-2)

3 marks

Also accept:

- negative effect on cash (1),

for company in short term, as cost of redundancy may exceed the 30% wage saving.

} (0-2)

3 marks

- potential loss of skills/trained experienced staff (1), which may affect productivity and reduce profits (0-2).

3 marks

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.
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