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**General Certificate of Education**

**Accounting ACC4**

**Unit 4 Introduction to Accounting for  
Management and Decision-Making**

**Mark Scheme**

*2007 examination - June series*

Mark schemes are prepared by the Principal Examiner and considered, together with the questions, by a panel of subject teachers. This mark scheme includes any amendments made at a standardisation meeting attended by all examiners and is the scheme which was used by them in the 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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## 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: 27

Bob is a sole trader. The following information is available.

	Year ended 31 December 2005	Year ended 31 December 2006
	£	£
Current assets	42 000	54 000
Current liabilities	30 000	45 000
<b>Additional information</b>		
Included in current assets is stock	9 000	24 000

**REQUIRED**

- 1(a) Explain the meaning of the term 'working capital'.

**Working capital is needed for everyday trading (1) and is needed to operate and manage the business (1). It is also called net current assets (1). Current assets include stock, debtors and cash and current liabilities include creditors and bank overdraft (1).**

**max 2 marks**

- 1(b) Calculate the current ratio. State the formula used.

**Formula - current assets : current liabilities (1)**

**Current ratio at 31 December 2005 = 1.4:1 (1)**

**Workings at 31 December 2005**

**42 000 (1) : 30 000 (1)**

**Current ratio at 31 December 2006 = 1.2:1 (1)**

**Workings at 31 December 2006**

**54 000 (1) : 45 000 (1)**

**7 marks**

- 1(c) Calculate the acid test ratio. State the formula used.

**Formula - current assets less stock : current liabilities (1)**

**Acid test ratio at 31 December 2005 = 1.1:1 (1)**

**Workings at 31 December 2005**

**42 000 – 9000 (1) : 30 000 (1)**

**Acid test ratio at 31 December 2006 = 0.67:1 (1)**

**Workings at 31 December 2006**

**54 000 – 24 000 (1) : 45 000 (1)**

**7 marks**

1(d) Explain the significance of the change in:

(i) the current ratio;

**The current ratio has declined (1). In 2006, there are fewer current assets for each pound of current liabilities than in 2005 (1), i.e in 2006 there is £1.20 of current assets for every £1 of short term debt (1)OF. However, in both years, there is more than a pound of current assets for each pound of current liabilities (1), which means that debts can be covered (1), i.e the business is liquid (1). max 3 marks**

(ii) the acid test ratio.

**The results for the acid test ratio have also declined (1). In 2006, there are fewer current assets, less stock, than there are current liabilities (1). There is only 67p of liquid assets for each pound owed in the short term (1)OF, so in this instance the business would not be able to pay all the current liabilities if requested to do so at once (1), and may have to borrow to finance payments (1). max 3 marks**

**Overall max 6 marks**

1(e) Explain why the acid test ratio is a better indication than the current ratio of how well liquidity is being managed.

**Stock is the least liquid of all the current assets (1) and the most difficult to convert into cash (1). If stock is sold on credit, then stock is two stages away from realising cash (1), stock is not yet sold (1) and is therefore not liquid (1). The acid test ratio is a more critical assessment of whether the business has adequate cash resources (1) to cover debts without relying on stock (1). max 5 marks**

2

Total for this question: 20

Jackson Ltd manufactures a single product.

The costs per unit are expected to be:

materials: 3 metres at £5 per metre  
labour: 15 minutes at £12 per hour  
variable manufacturing overheads at £3 per unit.

The total fixed overheads are expected to be £52 500 per year.

Each unit is sold at marginal cost plus 20%.

**REQUIRED**

2(a) Define the term 'marginal cost'.

**The marginal cost is the cost of producing one extra unit (1).**

**1 mark**

2(b) Calculate the marginal cost per unit.

	£	
<b>Materials</b>	<b>15.00 (1)</b>	
<b>Labour</b>	<b>3.00 (1)</b>	
<b>Variable manufacturing overhead</b>	<b>3.00</b>	
	<b><u>21.00(2)OF</u></b>	<b><u>4 marks</u></b>

2(c) Calculate the selling price per unit.

**Marginal cost x 1.2 = £21.00 (1)OF x 1.2 (1) = £25.20 (1)OF**

**3 marks**

2(d) Calculate total revenue at the break-even point.

**Break-even in units =  $\frac{52\ 500(1)}{25.20 (1)OF - 21.00 (1)OF}$  = 12 500 units**

**Break-even in pounds = 12 500 (1)OF x £25.20 (1)OF = £315 000 (1)OF**

**6 marks**

- 2(e) Evaluate the usefulness of break-even analysis as an aid to decision-making.

**Break-even gives the number of units needed to be sold in order to make no profit and no loss (1). It can be used to support an application for a bank loan (1); it is useful in the short term to ascertain any adjustments to the selling price which are needed (1); and to make decisions such as make or buy (1); it identifies the margin of safety (1).**

**max 3 marks**

**It does not consider if there is an unexpected rise in costs (1) or if the selling price cannot be achieved (1). In these instances, the break-even point has to be recalculated. The model assumes that costs are either perfectly fixed (1) or perfectly variable (1). It also does not consider any opening or closing stock as it assumes that all units produced are sold (1). It does not allow for product mix (1). The data used may also be inaccurate and only gives an estimate (1).**

**max 3 marks**

**Final judgement on usefulness: 1 mark**

**Overall max 6 marks**

3

Total for this question: 23

Damir Ltd is a small business which manufactures toys.

The following information is available for the next four months.

	January	February	March	April
Expected sales (units)	2000	2200	2300	2200

#### Additional information

- (1) Each unit sells for £15.
- (2) Each month, 20% of the sales are expected to be on a cash basis.
- (3) Fifty per cent of debtors are expected to pay after one month. The remainder are expected to pay after two months.
- (4) Debtors on 1 January are expected to be:
  - £21 600 from December sales, of which £10 800 will be paid in January and the balance in February;
  - £7200 from November sales, which will be paid in January.

#### REQUIRED

3(a) Prepare a debtors' budget for Damir Ltd for **each** of the four months January to April.

#### Debtors' budget

	Jan	Feb	March	April
Opening debtors	28 800 (1)	34 800	38 400	40 800
Credit sales	24 000 (1)	26 400 (1)	27 600 (1)	26 400 (1)
Cash received - 1 month	(10 800)	(12 000) (1)	(13 200) (1)	(13 800) (1)
- 2 months	(7 200)	(10 800) (1)	(12 000) (1)	(13 200) (1)
Closing debtors	<u>34 800</u>	<u>38 400</u>	<u>40 800</u>	<u>40 200</u> (2)OF or 0

14 marks



Damir Ltd continued to trade as expected. Unfortunately, in May, it was discovered that a debtor had gone into liquidation and would not be able to settle the debt in full. This debtor owed money for 600 units sold in December. Only £1800 had been received in December for these sales.

3(b) Explain how this information will affect Damir Ltd's cash flow.

**These debts had assumed to be paid within the budget (1). The sales were £9000 (1) in December, of which £1800 had been received in December; £3600 would have been paid in January and another £3600 in February (1). £7200 in total is owed but will not be received (1). Less cash than expected (1) which will affect future trading (1). The cash budget will need revising (1). max 4 marks**

3(c) Explain what measures Damir Ltd should take to improve future debtor control.

**Damir Ltd should undertake creditworthiness checks before giving credit (1), or ask debtors to go onto proforma until such checks have been carried out, thereby paying upfront (1). This can discourage some potential customers (1). Prompt payments should be encouraged (1), perhaps by offering cash discounts (1). Damir Ltd could charge interest on late payment (1) and/or use tighter control by sending statements and letters etc (1) to chase the debts, which can be costly (1). max 5 marks**

4

Total for this question: 6 marks

Explain the meaning of the term 'social accounting'.

**Social accounting is the term used to describe social accountability (1), whereby businesses consider non-financial aspects of any decisions they may make (1), for example the effects on the local community, the workforce or the environment (1). It argues that businesses should not be driven by the profit motive alone (1) but should also consider the wider aspects of any decision they make (1). Consideration must also be given to internal business decisions which can also affect external stakeholders. Decisions should be ethical (1); plus example (1). max 6 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 and 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)?