

GCE 2005

January Series

Mark Scheme

Accounting

ACC7 Further Aspects of Accounting for Management and Decision-making

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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January 2005

MARK SCHEME
INSTRUCTIONS TO EXAMINERS

You should remember that your marking standards should reflect the standards of the Advanced Level candidates, mainly 18 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.

Synoptic Assessment

Synoptic assessment is located in the last question. Candidates will be required to integrate their knowledge, understanding and skills learned in different parts of the A Level course.

1

REQUIRED

(a) Explain the term “variance”.

Variance – the calculated difference between the budgeted (or actual) cost/revenue.

(b) Explain **one** possible cause of **each** variance.

Material price – adverse

- **higher price paid (1) due to a change in supplier (1) (which is more expensive), shortage of resources (1), or a higher quality product (1) used, or discounts not achieved perhaps for bulk buying (1).**

Material usage – favourable

- **less material used (1), better quality material may have less wastage (1), better production process (1) or more highly skilled workforce (1).**

Labour rate – favourable

- **less paid per hour to workforce (1) due to less highly skilled workforce (1).**

Labour efficiency – adverse

- **more hours taken (1) due to less highly skilled workforce (1), production breakdowns (1) or lower quality material, so more wastage (1).**

Sales price – adverse

- **sold for lower selling price (1), more discount given to customers (1) or lowered price due to competition (1).**

Sales volume – favourable

- **more sold (1) perhaps due to a lower selling price (1), higher quality material may make product more appealing to customers (1).**

**max 2 marks per variance
Overall max 12 marks**

(c) Calculate the actual total cost for the year ended 31 December 2004.

		£		£		
Must be correct treatment	{	Budgeted cost		124 600		
		Material price	1 400	(1)		
		Material usage	(600)	(1)		
		Labour rate	(2 400)	(1)	800	
		Labour efficiency	900	(1)	(1 500)	
		Actual cost			123 900	(1) OF

5 marks

2

REQUIRED

(a) State the absorption cost per unit.

Absorption cost = £53.00 per unit (1)

(b) Calculate the marginal cost per unit for the first quarter.

Marginal cost	£	
Direct labour	12.25	} (1)
Direct material	16.25	
Variable production O/H	<u>12.50</u> (W1)	
	<u>41.00</u>	(1) OF

W1 18.00 x 9000 =	162 000	(1)
Fixed	<u>(49 500)</u>	(1)
∴ Variable	<u>112 500</u>	

$$\frac{112\,500}{9\,000} \text{ (1) OF} = 12.50 \text{ (1) OF}$$

7 marks

(c) Prepare a statement comparing the forecast profit for the first quarter, using
 (i) marginal costing
 (ii) absorption costing.

Stan Bede Ltd

(i)

	Marginal £	
Sales	540 000	(1)
Variable cost/production (9000 x 41(1) OF)	<u>(369 000)</u>	(1) OF
Contribution	171 000	(1) OF for correct process
Fixed O/H - Production	(49 500)	(1)
- S/A (9000 x 6.50)	<u>(58 500)</u>	(2)
Profit	<u>63 000</u>	(1) OF

(ii)

	Absorption £	
Sales	540 000	(1)
Production (9000 x 53 (1) OF)	<u>(477 000)</u>	(2) OF
Profit	<u>63 000</u>	(1) OF

max 12 marks

3

REQUIRED

- (a) Calculate the payback period for the machine.

Payback for cost of £200 000

$$2 \text{ years} + \left[\frac{60\,000}{120\,000} \times 12 \right] \text{ months}$$

$$= 2 \text{ years (1)} + 6 \text{ months (1)}$$

Alternative
Net inflow

20 000	yr 1
40 000	yr 2
80 000	yr 3
60 000	yr 4
200 000	
∴ 4 years	(2)

2 marks

- (b) Calculate the net present value for the machine.

Net present value

Year	Net cash flow	Dis factor	Present value
0	200 000	1	(200 000) (1)
1	20 000 (1)	0.893	17 860 (1) OF
2	40 000 (1)	0.797	31 880 (1) OF
3	80 000 (1)	0.712	56 960 (1) OF
4	60 000 (2)	0.636	38 160 (1) OF
5	40 000 (1)	0.567	22 680 (1) OF
		N.P.V	(32 460) (1) OF if N.P.V stated

13 marks

- (c) Advise whether the machine should be purchased. Give reasons for your decision.

Machine should not (1) be purchased at this cost of capital (1), as there is an expected negative net present value (1). The money invested would generate more net cash flows elsewhere (1). The payback period only allows 2 years and 6 months (1) out of the life of the machine, where net cash flows will not be used to cover the initial cost (1).

+ any other valid comment

max 4 marks

4

REQUIRED

- (a) Calculate the following ratios for **each** of the two years:
- net profit margin
 - overheads/turnover
 - return on capital employed
 - liquid capital (acid test) ratio
 - debtor collection period.

	2004		2003	
(i) net profit margin	$\frac{666}{4183} \times 100$ = 15.92%	(1)	$\frac{471}{3756} \times 100$ = 12.54%	(1)
(ii) overheads/turnover	$\frac{1210}{4183} \times 100$ = 28.93%	(1)	$\frac{1265}{3756} \times 100$ = 33.68%	(1)
(iii) ROCE	$\frac{666}{4066 + 2500} \times 100$ = 10.14%	(1)	$\frac{471}{3203 + 1500} \times 100$ = 10.01%	(1)
(iv) Acid test	1395 + 136 : 1974 = 0.78 : 1	(1)	1595 : 1461 + 150 = 0.99 : 1	(1)
(v) Debtor days	$\frac{1395}{4183} \times 365$ = 121.7 days	(1)	$\frac{1595}{3756} \times 365$ = 155 days	(1)

(allow weeks/months)

20 marks

(4)

(b) Write a report to Wenbo Zhang, explaining whether the investment in 2004 than in 2003. Use the results of the decision.

To: Wenbo Zhang
From: Student
Date: Date of exam
Subject: Analysis of Claxon plc financial ratios for 2003 and 2004

2 marks

The company is generally a better prospect for investment (1) in 2004 than in previous year due to an increase in profitability (1). 2 marks

Net profit margin has improved (1), now nearly 16p out of each pound is net profit (1). Therefore, more profit per pound of sale than previously (1). max 2 marks

The improved profitability may be due to a better control of the company's overheads (1). The overhead/turnover ratio has improved (1) as less turnover (29p) is used to cover overheads (1). max 2 marks

The ROCE ratio has improved (1) but not significantly (1) as the increase in borrowing is proportional to the increase in profit (1). max 2 marks

The acid test ratio has deteriorated (1) with only 78p of liquid assets excluding stock available to cover £1 of current liabilities (1). This ratio causes some concern as although there is no longer an overdraft, the creditors have increased significantly (1). max 2 marks

Debtor days have improved (1), but the ratio is still very high (1) which may lead to bad debts (1). On average, it takes a debtor 122 days to pay (1). max 2 marks

*** O/F from (a) and relating comments are acceptable. 0-2 marks for other comments.**

Total for part (b): 16 marks

(c) Discuss the possible implications of this information for Wenbo Zhang.

An alternative supplier may be more expensive (1) which will increase the cost of manufacture of each unit (1) (direct labour costs will be higher). This may lose customers if the selling price is increased proportionally (1) and/or reduce profitability (1). This will subsequently reduce Wenbo Zhang's dividend (1) and the market price of his shares (1).

The change of supplier is only rumoured, and may not be correct (1).

However, if the company continues to use the cheap child labour in a third world country, customers may boycott the company (1) which will reduce the reputation of Claxon plc (1), reduce the profitability (1) and again reduce the dividend (1) and market price of the shares (1).

+ any other valid comment. max 6 marks

QUALITY OF WRITTEN COMMUNICATION

After the candidate's script has been marked, the work should be assessed for 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.
- 3-4** 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.
- 5** 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.