Version 1.0

General Certificate of Education (A-level)
June 2013

Accounting ACCN2

(Specification 2120)

Unit 2: Financial and Management Accounting.

Final

Mark Scheme

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 events which all examiners participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for standardisation each examiner analyses a number of students' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, examiners encounter unusual answers which have not been raised 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 students' 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.

Further copies of this Mark Scheme are available from: aqa.org.uk

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June 2013 **ACCN2**

MARK SCHEME

INSTRUCTIONS TO EXAMINERS

You should remember that your marking standards should reflect the levels of performance of students, 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 students 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 student'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 student'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, students may set out their accounts in either a vertical or horizontal format. Both methods are acceptable.

Own Figure Rule

In cases where students are required to make calculations, arithmetic errors can be made so that the final or intermediate stages are incorrect. To avoid a student being penalised repeatedly for an initial error, students 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 students make correct conclusions or inferences from their incorrect calculations.

Assessment Objectives (AOs)

The Assessment Objectives are common to AS and A Level. The assessment units will assess the following Assessment Objectives in the context of the content and skills set out in Section 3 (Subject Content) of the specification.

AO1: Knowledge and Understanding	Demonstrate knowledge and understanding of accounting principles, concepts and techniques.
AO2: Application	Select and apply knowledge and understanding of accounting principles, concepts and techniques to familiar and unfamiliar situations.
AO3: Analysis and Evaluation	Order, interpret and analyse accounting information in an appropriate format. Evaluate accounting information, taking into consideration internal and external factors to make reasoned judgements, decisions and recommendations, and assess alternative courses of action using an appropriate form and style of writing.
Quality of Written Communication (QWC)	In GCE specifications which require students to produce written material in English, students must: • ensure that text is legible and that spelling, punctuation and grammar are accurate so that meaning is clear • select and use a form and style of writing appropriate to purpose and to complex subject matter • organise information clearly and coherently, using specialist vocabulary when appropriate. In this specification, QWC will be assessed in **all** units. On each paper, two of the marks for prose answers will be allocated to 'quality of written communication', and two of the marks for numerical answers will be allocated to 'quality of presentation'. The sub questions concerned will be identified on the question papers.

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

1 (a) *Calculate the following.*	
(a) (i) *Gross profit*	*(1 mark)*

Gross profit

	£	**£**	
Revenue		112 560	
Opening inventory	8 680		
Purchases	61 068		
Closing inventory	7 840		
Cost of sales		61 908	
Gross profit		50 652	**(1)**

1 mark

1 (a) (ii) *Profit for the year*	*(1 mark)*

Profit for the year

	£	
Gross profit	50 652	**OF**
Operating expenses	39 396	
Profit for the year	11 256	**(1)**

1 mark

1 (b) *Calculate the gross profit margin. State the formula used.*	*(2 marks)*

$$\frac{\text{Gross profit}}{\text{Revenue}} \times 100 \quad \mathbf{(1)} \quad \frac{\overset{\pounds}{50\,652}}{112\,560} \times 100 = 45\% \quad \mathbf{(1)\ OF^*}$$

* Award the calculation mark if student uses own figure for gross profit from **4(a)(i)**.

2 marks

1 (c)	*Calculate the profit in relation to revenue ratio. State the formula used.* *(2 marks)*

$$\frac{\text{Profit for the year}}{\text{Revenue}} \times 100 \quad \mathbf{(1)} \quad \frac{\overset{\pounds}{11\ 256}}{112\ 560} \times 100 = 10\% \quad \mathbf{(1)\ OF}$$

Award the calculation mark if student uses own figure for profit for the year from **4(a)(i)**.

2 marks

1 (d)	*Explain **two** actions that Latifa could take to improve the gross profit margin.* *(4 marks)*

Increase selling price **(1)** whilst maintain cost of sales **(1)**.

Reduce cost of sales/purchase price **(1)** whilst keeping selling price constant **(1)**.

Max 4 marks

1 (e)	*Explain **two** actions that Latifa could take to improve the profit in relation to turnover ratio.* *(4 marks)*

Improve gross profit (margin) **(1)** and maintain expense to sales ratio **(1)**.

Reduce expenses/example of expenses **(1)** without reducing sales/gross profit **(1)**.

Increase sales **(1)** without increasing expenses **(1)**.

Find (or increase) an alternative source of income (or example of source of income) **(1)**, but not increasing expenses **(1)**.

Max 4 marks

2 **Total for this question: 16 marks**

2 (a)	*Calculate the value of inventory to be included in the financial statements for the year ended 30 April 2013.*
	(6 marks)

	£	
Original inventory valuation	147 230	**(1)**
Less adjustment	(2 200)	**(4) OF**
	145 030	**(1) OF**

Mobile phones	£	
Realisable value	24 500	**(1)**
Repair costs	(3 500)	**(1)**
Re-programming	(4 750)	**(1)**
Net realisable value	16 250	
Cost	18 450	**(1)**
Adjustment	(2 200)	

Alternative answer

Mobile phones	£	
Inventory at cost	147 230	**(1)**
Less inventory at cost	18 450	**(1)**
	128 780	
Add net realisable value	16 250	**(3) OF**
Inventory valuation	145 030	**(1) OF**

Alternative answer

Inventory	147 230	**(1)**
Realisable value	24 500	**(1)**
Repair costs	(3 500)	**(1)**
Re-programming	(4 750)	**(1)**
Cost	(18 450)	**(1)**
Inventory	145 030	**(1) OF**

6 marks

2 (b) *Calculate the net book value of the machinery to be included in the balance sheet at 30 April 2013.* *(5 marks)*

	£	
Purchase price	78 000	**(1)**
Transport	5 000	**(1)**
Installation cost	7 540	**(1)**
	90 540	
Deprecation 25%		
Depreciation for year	22 635	**(1) OF**
Net book value	67 905	**(1) OF**

<u>5 marks</u>

2 (c) *Calculate the revised profit for the year ended 30 April 2013.* *(5 marks)*

	£	
Draft profit for the year	786 700	
Inventory valuation	(2 200)	**(1) OF**
Depreciation	(22 635)	**(1) OF**
Maintenance contract (7 800 **(1)** x $^{4}/_{12)}$ **(1)**)	(2 600)	
Revised profit for the year	759 265	**(1) OF**

<u>5 marks</u>

3 **Total for this question: 23 marks**

3 (a)	*Calculate the effect that the introduction of the budgetary control system will have on the following:* • *Profit for the year* • *Bank balance.* *(8 marks)*

Profit for year	**£**	
Tablet computers	4 350	
x $33^1/_3$%	÷3	
Depreciation	1 450	**(1)**
Salary	35 000	**(1)**
Reduction **(1)**	36 450	**(1) OF**

4 marks

Bank Balance	**£**	
laptops computers	4 350	**(1)**
Salary	35 000	**(1)**
Reduction **(1)**	39 350	**(1) OF**

4 marks

Overall 8 marks

3 (b)	*Advise Fergie and Kenny on whether or not they should introduce the budgetary control system. Consider both benefits and limitations other than those given above. Give reasons for your advice.* *(15 marks)* *(includes 2 marks for quality of written communication)*

Benefits:

Identification	Explanation	Examples/application
Planning **(1)**	The process of preparing the budget means that the managers have to plan for the future. This should mean that the business will be prepared for events that could happen in the coming year **(1)** and therefore are less likely to have difficulties **(1)**. Budgets are useful when trying to raise finance **(1)**.	Fergie and Kenny should take into account market and economic conditions when setting the budget **(1)** and so should be prepared for any potential problems. A cash budget will help support the request for a bank loan **(1)**.
Goal congruence/increased likelihood of achieving common objectives **(1)**	The budget will help all staff to work towards the goals set by senior management **(1)**. This should improve business performance **(1)**.	In this case all the sales staff would be working towards the sales target set by Fergie and Kenny **(1)**.
Improved staff motivation **(1)**	If staff are involved in setting targets this will improve motivation **(1)** also having targets to achieve can motivate staff **(1)**.	The sales budget will set targets for the sales staff and this should motivate them to achieve these **(1)** and improve team work **(1)**.
Monitoring **(1)**	Fergie and Kenny will be able to compare actual outcomes with the budget **(1)** and take action to control any significant variances **(1)**.	If the sales team do not meet their targets **(1)** then Fergie and Kenny could take action eg dismiss staff who under-perform **(1)**.
Control **(1)**	Departments are set limits to expenditure **(1)** and use of resources **(1)**.	Expenditure could be limited to avoid exceeding bank overdraft limit **(1)**.
Improved decision making **(1)**	Management are better informed **(1)** as there is more information about the business **(1)**.	Previous years' figures can be compared to aid target setting **(1)**.

Max 4 marks per benefit
Overall max 6 marks for benefits

Limitations:

Identification	Explanation	Examples/application
Demotivating **(1)**	Budgets can demotivate staff if the budget is imposed (they are not involved in the target setting) **(1)**, or if the targets are not achievable **(1)**.	In this case the sales staff have not been involved in the target setting **(1)**.
Restrictive/straight jacketing **(1)**	Budgets can prevent improved business performance **(1)** as they can act as a straitjacket and cause staff to focus on hitting the budget and not on what is best for the business **(1)**.	For example the sales targets may be set too low and the sales team may reject potential sales in order to meet the targets **(1)**.
The ICT system may not work **(1)**	The system is new and has not been tested **(1)** and may have teething problems **(1)** or the software may not operate effectively **(1)**.	This may mean that the sales staff cannot communicate with Fergie and Kenny **(1)**.
Lack of expertise/ experience **(1)**	If managers do not have experience of operating a budgetary control system; this could lead to problems **(1)**.	Fergie and Kenny do not have experience of preparing budgets **(1)**. For example they may not set achievable budgets **(1)** or not include staff in the preparation **(1)**.
Based on forecasts **(1)**	The forecasts may be inaccurate **(1)** and this could lead to poor decisions being made **(1)**.	The sales targets may be set too high **(1)** or too low **(1)**.
Budgets take time to prepare/monitor **(1)**	The budgeting process can be very time consuming and this may distract from other areas of the business **(1)**.	In preparing the budget Fergie and Kenny may neglect other areas of the business for example negotiating discounts **(1)**.

Max 4 marks for each limitation
Overall Max 6 marks for limitations

Advice 0-2 marks
Advice **(1)**
Reasons for advice **(1)**

If the maximum 12 marks is reached for benefits and limitations, a maximum of one mark for advice can be awarded.

Overall max 13 marks

Quality of written communication
Award 2 marks where the student makes no more than 3 spelling or grammatical errors.
Award 0 marks where communication hinders understanding.

2 marks

15 marks
(includes 2 marks for quality of written communication)

4 **Total for this question: 27 marks**

4 (a)	*Prepare a corrected income statement for the year ended 30 April 2013 to show the profit after tax. (A space for working is provided on page 16.)* *(27 marks)* *(includes 2 marks for quality of presentation)*

Shameobi Ltd
Income statement for the year ended 30 April 2013

		£	£	
Revenue	**W1**		1 268 400	**(2) OF**
Cost of sales	**W2**		685 360	**(2) OF**
Gross profit			583 040	**(1) OF**
Other income	**W3**		12 000	**(2) CF**
			595 040	
Operating expenses	**W4**	163 900		**(5) OF**
Directors' remuneration	**W5**	128 500		**(2) OF**
Depreciation		48 500		**(1)**
Loss on disposal	**W6**	3 000		**(3) OF**
			343 900	
Operating profit			251 140	**(1) OF #**
Finance costs	**W7**		36 000	**(3) OF**
Profit for the year			215 140	**(1) OF**
Provision for tax			38 000	**(1)**
Profit for the year after tax			177 140	**(1) OF**

W1 Revenue

	£	
Revenue	1 276 800	**(1)**
Goods on sale or return	(8 400)	**(1)**
	1 268 400	

W2 Cost of sales

	£	
Cost of sales	689 460	**(1)**
Goods on sale or return (cost)	(4 100)	**(1)**
	685 360	

W3 Rent receivable

	£	
Rent receivable	13 200	
Paid in advance	(1 200)	
	12 000	**(2)**

W4 Operating expenses

	£		£	
Operating expenses			168 580	**(1)**
Less provision in error			(5 400)	**(1)**
			163 180	
Provision for doubtful debts 2013	122 400			
x 5%	6 120	**(1)**		
Provision for doubtful debts 2012	5 400	**(1)**		
Increase in provision			720	**(1)**
			163 900	

W5 Directors' remuneration

	£	
Directors' remuneration	166 500	**(1)**
Corporation tax	(38 000)	**(1)**
	128 500	

W6 Loss on disposal

	£	
Cost	18 000	
	(10 000)	
Net book value	8 000	**(1)**
Proceeds	5 000	**(1)**
Loss on disposal	3 000	**(1) OF**

W7 Finance costs (interest payable)

	£	
Debenture	1 200 000	
Interest	6%	**(1)**
Annual interest	72 000	**(1)**
Interest for 6 months (72 000/2)	36 000	**(1)**

Quality of presentation marks

- 1 mark for title: this must include the 'Shameobi Ltd'; 'Income statement for the year ended' and the date in full
- 1 mark for labelling: gross profit, operating profit, and profit for the year (either before or after tax).

27 marks
(includes 2 marks for quality of presentation)