



**General Certificate of Education**

**Accounting ACC4**

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

**Mark Scheme**

*2007 examination - January 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.

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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: 21 marks**

Zaloum Ltd manufactures baseball caps which sell for £9 each.

The material used to make the caps costs £16 per metre. Each cap uses 0.125 metres.

The craftsmen working at the factory are paid £8 per hour. Each cap takes 15 minutes to make.

The monthly fixed costs are £60 000.

**REQUIRED**

(a) Calculate the contribution per cap. State the formula used.

**Formula** Selling price – variable cost (1) **1 mark**

**Calculation** £9 (1) – (£2 (1) + £2 (1)) = £5 (1 OF) **4 marks**

(b) Explain why the calculation of contribution per cap is useful to the management of Zaloum Ltd.

**Contribution per cap tells Zaloum Ltd how much money is made per cap (1), which can then be used to cover the fixed costs (1). Once these fixed costs are covered, then profit is made (1). Identifies break-even point (1) and identifies total contribution (1).**

**3 marks**

(c) Calculate the number of caps that Zaloum Ltd needs to manufacture to make a profit of £2000 per month.

$$\frac{60\,000 (1) + 2000 (1)}{\text{£5 (1 OF)}} = 12\,400 \text{ caps (1 OF)}$$

**£5 (1 OF)**

**4 marks**

The price of raw materials has increased by 40%. At the same time, a wage increase of 5% has been agreed and fixed costs have increased by £3100.

**REQUIRED**

(d) Calculate the new variable cost per cap.

**Material (16 x 1.4) = 22.40 (1) ÷ 8 = 2.80 (1)**

**Labour (8 x 1.05) = 8.40 (1) ÷ 4 = 2.10 (1)**

**Cost per cap 4.90 (1 OF)**

**5 marks**

**1**

- (e) Calculate the new selling price needed to maintain a profit of £2000 per month after the increase in costs. Use the level of production you have calculated in part (c).

$$\frac{(60\,000 + 3100 + 2000 \text{ (1)})}{\text{SP} - 4.90 \text{ (1 OF)}} = 12\,400 \text{ (1 OF)}$$

Therefore SP = £10.15 (1 OF)

$$\text{Accept } \frac{65\,100 \text{ (1)}}{12\,400 \text{ (1OF)}} + 4.90 \text{ (1OF)} = £10.15 \text{ (1OF)}$$

**4 marks**

2

**Total for this question: 9 marks**

**REQUIRED**

Explain **three** benefits to the owner of a new business of using a cash budget.

**Benefit 1**

**Planning – the business can plan future expenditure, for example how to finance the purchase of a new machine or equipment.**

**(1) for stating benefit and (0-2) for development.**

**3 marks**

**Benefit 2**

**Control – the business can control costs and revenues to ensure that an overdraft is not incurred with unnecessary costs. Or a loan or an overdraft can be arranged in advance.**

**(1) for stating benefit and (0 – 2) for development.**

**3 marks**

**Benefit 3**

**Co-ordination – the different divisions of a business can co-ordinate expenditure, for example the purchase of stock for the production department when needed by the sales department, but also at a time when there is available cash.**

**(1) for stating benefit and (0 – 2) for development**

**3 marks**

**Note: other benefits are acceptable, for example, communication.**

**3****Total for this question: 46 marks**

Marat has been in business for several years manufacturing motor parts. Each year, a small profit is made but there never seems to be enough cash to reinvest in the business. At the year end, the business had a large bank overdraft.

**REQUIRED**

- (a) Explain the difference between cash and profits.

**Cash is physical notes and coins (1).**

**Profit is a calculated amount (1) being the difference between revenue received and receivable and expenditure paid and payable (1). Capital expenditure is not considered (1) but non-cash items are, eg debtors/depreciation (1).**

**max 3 marks for profit explanation**

**4 marks**

- (b) Describe **three** possible reasons why Marat has a bank overdraft even though his business is making a profit.

**Reason 1**

**Capital expenditure (1); for example the purchase of a machine (1) at the year end, which does not affect profit (1) but reduces cash available (1).**

**max 3 marks**

**Reason 2**

**A large number of debtors have yet to pay (1). These debtors would be recorded within the sales figure in the profit and loss (1) but do not increase cash until received (1).**

**3 marks**

**Reason 3**

**A significant amount of prepayments made at the year end (1), for example for car insurance (1), which have reduced cash available (1) but have not been recorded as expenditure for this current year in the profit and loss account (1).**

**max 3 marks**

**Note: other reasons acceptable, e.g. loan repayments which reduce cash, drawings which also reduce cash but have no effect on profit.**

3

At the beginning of March, Marat decides that he will introduce a system of budgetary control.

The following information is available for March to July.

- Sales in March and April are expected to be 200 parts per month. This is expected to increase from 1 May to 260 parts per month.
- Each part is expected to sell for £24 in March, April and May, but this selling price is expected to increase from 1 June to £26.
- On 1 March, Marat will have 20 parts in stock.
- In March and April, closing stock will be maintained at 10% of the following month's sales. At the end of May, this will increase to 15% of the following month's sales.

**REQUIRED**

(c) Prepare a sales budget for **each** of the months March to July.

**SALES BUDGET**

	March	April	May	June	July
Parts (units)	200 (1)*	200*	260 (1)#	260#	260#
Revenue £	4 800 (1) <sup>+</sup>	4 800 <sup>+</sup>	6 240 (1)	6 760 (1) <sup>^</sup>	6 760 <sup>^</sup>

\* + ^ Both figures required for 1 mark

# All three figures required for 1 mark

**5 marks**

(d) Prepare a production budget for **each** of the months March to July. Assume that there are no further increases in sales.

**PRODUCTION BUDGET IN PARTS (UNITS)**

	March	April	May	June	July
Sales	200 (1)	200 (1)	260 (1)	260 (1)	260 (1)
Opening stk	20 (1)	20 (1) OF	26 (1) OF	39 (1) OF	39 (1) OF
Closing stk	20	26	39	39	39 (1)
Production	200 (1) OF	206 (1) OF	273 (1) OF	260 (1) OF	260 (1) OF

**16 marks**



3

- (e) Identify **three** budgets, **other than** cash, production and sales budgets, which Marat would find useful.

**Budget 1**

**Material purchases budget (1)** **1 mark**

**Budget 2**

**Creditors' budget (1)** **1 mark**

**Budget 3**

**Debtors' budget (1)** **1 mark**

**Note: accept master budget and any other relevant budget.**

Marat's business is located in an area of high unemployment. He believes that his labour expenses are too high and he cannot afford to offer his staff a pay rise. Instead he proposes to increase the working day by an extra hour and to reduce breaks to the legal minimum. Overtime rates will be reduced to the same rate as for normal working hours.

**REQUIRED**

- (f) Explain how the following actions will affect the workforce.

No pay rise

**Lack of motivation but may understand that it is needed for job security. Otherwise, may look for another job out of the area.**

**3 marks**

An increase in the working day

**Due to tiredness, mistakes may be made when working the machinery, which will lead to damaged or sub-quality goods which are then returned, reducing job security. There are also safety issues which should be considered.**

**3 marks**

A reduction in overtime rates

**Overtime will not be worked, especially in unsocial hours such as evening work or weekends. Production levels may then fall, reducing job security.**

**3 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, 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)?