

Teacher Resource Bank

GCE Accounting

Candidate Exemplar Work:

- ACCN4 Sample Scripts and Commentaries



ACCN 4 Sample Answers and Commentaries

Introduction

Below are candidates' answers to selected questions from the second Specimen Question Paper for ACCN4*. They have been marked in accordance with the second Specimen Mark Scheme for ACCN4 ** document.

The answers have been selected to reflect a range of attainment and for each a commentary has been produced by an experienced examiner, to offer some guidance as to where candidates have scored marks as well as areas of improvement.

*This document does **not** contain complete question papers, only selected sample questions.

**A copy of the corresponding mark scheme can be found under 2009 Additional Specimen Papers via the following link: pp79-88: http://www.aqa.org.uk/qual/gce/accounting_trb_new.php

Question 1 ACCN4 (Second Specimen Question Paper)

S.H Matt runs a manufacturing business. Finished goods are transferred from the manufacturing account to the trading account at cost plus 40%.

The following extracts are taken from the two most recent balance sheets.

Balance sheet	At 31 March 2007		At 31 March 2008	
	£	£	£	£
Stocks				
Raw materials		12 468		10 980
Work in progress		8 647		9 946
Finished goods	29 876		31 906	
Less provision for unrealised profit	<u>8 536</u>		<u>?</u>	
		21 340		?

REQUIRED

- (a) Prepare a balance sheet extract **for stocks**, having calculated the following:
- (a) (i) the provision for unrealised profit to be included in the balance sheet extract at 31 March 2008;
- (a) (ii) the cost of the closing stock of finished goods at 31 March 2008. *(7 marks)*
- (b) Calculate the provision for unrealised profit to be shown in the profit and loss account for the year ended 31 March 2008. *(3 marks)*
- (c) Outline **two** reasons why S.H. Matt transfers goods to the trading account at cost plus a profit. *(4 marks)*

Candidate A

nber

A Balance Sheet extract at 31 March 2008 Leave blank

Stocks:				
Work in progress			9946	1
Raw materials			10980	
Finished goods	31906			
less provision for Unrealised profit	9166	3		
Cost price of finished goods			41022	

Workings

$$31906 \times \frac{40}{140} = 9116$$

4

B The profit and loss account entry is £580 3

Workings

$$9116 - 8536 = 580$$

C The first reason is because Brendan wants to see how much retained profit he will have by adding the factory profit to his goods. He might need to calculate how much profit he has made including his cost plus as he might want to invest more capital in his business.

Another reason is because it makes his final accounts look more secure and shows that he will make a profit. This is called window dressing his accounts. 3

10

Candidate B

blank

a) Balance sheet extract at 31 March 2008

	£	£
Raw materials		10980
Work in progress		9946
finished goods	31906	
less prov. for unrealised profit	<u>12762.40</u>	
		<u>19143.60</u>

$$\frac{31906 \times 40}{100} = 12762.40 \text{ 10F}$$

$$\frac{31906 \times 60}{100} = 19143.60 \text{ 10F}$$

b) $12762.40 \text{ 10F} - 8536 = \underline{\underline{4226.40 \text{ 10F}}}$

c) This one is the profit of the factory so we need to add profit to calculate the profit that factory made if the factory and ~~business~~ manufacturing business is not the same.

I

(9)

Candidate C

		£	£	Leave blank
a) Balance sheet extract at 31 March 2008				
		£	£	
	Stocks of raw materials		12468	
	Stocks of work in progress		8647	0
	Finished	31906		
	Less prov. for	22790		
	Unrealised profit			
	Cost price of finished goods		<u>9116</u>	
	$31906 - \left(\frac{40}{140} \times 31906 \right) = 22790$			
			taken as calculation	<u>3</u>
b) £ 30231 0				
	$12468 + 8647 + 9116 = 30231 0$			<u>0</u>
c) They are to be used as purchases and she has valued them higher ^x and anticipated profit ^{not developed} . Secondly, Brendan believes that is the value of them and so she is manipulating figures to show a profit. ^x				
				<u>0</u>
				<u>3</u>

Commentary: Candidates A-C

In the new ACCN4 question paper, the candidates have to use the skills identified in this question to produce a balance sheet extract for stock.

In Question 1(a) candidate A correctly calculated the provision for unrealised profit but then added it to the finished goods value. There was no working for the cost price. Raw materials and work in progress were correctly stated for both candidates A and B. Candidate B used the correct approach to calculate the values except he used the wrong fraction in both instances. Candidate C incorrectly stated the 2007 figures for raw materials and work in progress. The correct approach was used to calculate the cost price of finished goods, but this was incorrectly stated as the provision. There was no separate working for cost price.

In Question 1(b) candidate A correctly calculated the profit and loss account entries. Candidate B used his own figures and was awarded marks accordingly. Candidate C had mistakenly misread the question and had calculated the value of stock at 31 March 2008.

Question 1(c) was poorly done by all three candidates and the only mark that was awarded (to candidate B) was for saying that a transfer price identifies factory profit. The other answers illustrated a lack of knowledge.

Question 4 (ACCN4 Second Specimen Question Paper)

Halls Hampers Ltd manufactures a single product. The company is located in a deprived area of a city. The year ended 30 May 2007, was a difficult year with the factory only operating at 60% capacity. The company needs to raise £80 000 to cover debts.

Additional information for the year ended 30 May 2007

Selling price per unit	£40
Annual sales in units	12 000
Variable cost per unit	£12
Overheads (of which £18 000 is variable)	£256 000

Orders have been received from two new overseas customers. However, only one new order can be accepted. Whichever order is undertaken, a new overseas agent will be required at an annual cost of £14 000.

Order JJH

For 6000 units for a total invoice price of £180 000.

A delivery charge will be payable of 2% of the selling price. Modifications will have to be made to some of the factory machines at a cost of £19 000. Consequently, some of the staff will need to be retrained at a cost of £8000. Future orders from this customer are almost guaranteed.

Order JHB

For 8000 modified units for a total invoice price of £256 000.

A delivery charge will be payable of 2.5% of the selling price. Extra temporary staff will be required at a cost of £28 000. Once the order is finished, these staff will no longer be needed. No further orders are expected from this customer.

For the year ending 30 May 2008 there are not expected to be many changes to the sales price or the amount of overheads. However the variable cost is expected to rise to £14 per unit.

The new order chosen will be in addition to the current level of sales.

REQUIRED

- (a) Distinguish between fixed, semi-variable and variable costs. Give **one** example of each. *(6 marks)*
- (b) Define the term 'contribution'. *(2 marks)*
- (c) Calculate the total contribution for the year ended 30 May 2007. *(4 marks)*
- (d) Calculate the break-even point in units. *(4 marks)*
- (e) Prepare comparative profit statements for **each** new order for the year ending 30 May 2008. *(14 marks)*
(for quality of presentation : plus 2 marks)
- (f) Discuss which order Halls Hampers Ltd should accept. Give reasons for your choice. *(10 marks)*
(for quality of written communication : plus 2 marks)

Candidate D

Lea
blar

4A Fixed Costs are costs that do not vary with volume/
(e.g. rent and rates)
Semi-variable costs are costs which could vary with volume/
time (e.g. labour rate could vary if wage increases will occur).
Variable costs are costs that directly vary with volume/
(e.g. costs of materials).

4

4B Contribution is the difference between selling price x variable costs!
It contributes towards covering fixed costs/then profit.
Formula used = $SP - VC$

2

4C Sales (40×12000) £ 480,000
Variable costs (12×12000) £ 144,000
S. Variable costs (1.50×12000) £ 18,000
Contribution for year £ 318,000

4

4D $\frac{238,500}{40 - (12 + 1.50)} = 9000 \text{ units}$

4

4E Profit statements for the year ending 30 May 2008:

	Order JSH	Order JHB
Sales	180,000	256,000
Variable costs	72,000	96,000
	108,000	160,000
Retraining	8,000	-
Delivery costs	3,600	6,400
Staff cost/mach	19,000	28,000
Agent cost	14,000	14,000
Profit	71,400 <small>addition error</small>	1,116,000 10f

+ 1 mark for presentation

11

4F I believe that order JHB should be accepted on financial grounds as it gives a large profit of £111,600 which is £40,200 more than order JSH. Also order JHB gives a larger contribution in comparison to JSH. However JSH does have an adverse effect on local community as once project finished a lot of staff will be made redundant or unemployed.

+ mark for QWC

4+1

31

Leave blank

Candidate E

a Fixed costs are costs that do not change with level of output. | An example of fixed costs is Rent. |
 Semi-variable costs are costs that contain an element of fixed costs and an element of variable costs. | An example is electricity. |
 Variable costs are costs that change with level of output! | An example is raw materials. | 6

b 'Contribution' is the amount of money a business has left from revenue after variable costs have been paid. Contribution can help towards fixed costs | and the rest is profit. |

$$\text{REVENUE} - \text{TOTAL VARIABLE COSTS}$$
 2

c Contribution = Sales revenue - variable costs

$$\pounds$$

Sales	
40 x 12 000	480 000
Variable costs	
12 x 12 000	144 000
10F 1	<u>336 000</u> 10F

3

d Break even = $\frac{\pounds 238500}{(40 - 12)}$ 2

$$= \pounds 8517.86$$

$$= 8517$$
 (rounding error) 3

e Profit Statements			
	£ JH		£ JHB
Revenue	180 000		256 000
Delivery charge	<u>3 600</u>	(added)	<u>6 400</u>
	183 600		262 400
Machines	(19 000)		-
Staff	(8 000)		(28 000)
Agent	(14 000)		(14 000)
Variable costs	(72 000)		(96 000)
Fixed costs	<u>(18 000)</u> - extraneous -		<u>(18 000)</u>
Profit	<u>52 600</u>		<u>106 400</u>

+1 mark for layout (awc)

8+1

f I think that order JHB should be accepted because this ~~is~~ order looks to be the most profitable and by asking for more units greater sales will occur. Order JH involves too many expenses due to factory machines and the retraining of staff. The only bad thing about JHB is that labour costs will increase to £28,000. However this would be ~~not~~ ^{good} for the local community as ~~there~~ there would be a high number of jobs available! Although JHB is more profitable in the long term it could not help Halls Hampers Ltd as no further orders are expected. At least with JH future goods are almost guaranteed. Although it is only temporary it could create a good image due to the availability of jobs.

(+2 marks for awc)

4+2

30

Candidate F

4		Leave blank
a)	Fixed costs are costs that stay the same whatever the level of production, i.e. Rent of factory. Whether the factory makes 10 units or 10,000 units the rent will stay the same.	
	Variable costs are cost that depend upon the level of production. The higher the production the higher the variable costs, i.e. Materials. The more products produced the more materials needed.	
	Semi-variable costs are things such as a telephone. They have a fixed element and a variable element. The fixed element for a telephone is the line rental and the variable costs depend on how many calls are made.	6
b)	Contribution shows how much of the selling price contributes to fixed costs.	1
c)	Contribution $£40 - £12 - £1.50 = £26.50$ $£26.50 \times 12000 = £318000$	4
d)	$\frac{£238500}{26.50} = 9000$	4
e)	See	

Leave blank

Halls Hampers Ltd
Comparative Profit statements for year ending 30
May 2008

order J J H

	£
sales	180 000
variable + semi ^{clear workings} 13.50 x 6000	(81000) 2
Delivery (0.02 x 180000)	(3600) 1
agent	(14000) 1
modifications	(19000) 1
training	(8000) 1
Profit	54 400 1

order J H B

	£
sales	256 000 1
variable + semi 13.50 x 6000	(81000) 0
Delivery (0.025 x 180000)	(4500) 0
agent	(14000) 1
staff - temporary	(28000) 1
Profit	128 500 10F

11
+ 2000

f) Order J J H for 6,000 units will mean some of the factory machines will need modifications at £19000. This is not required for order J J H. You are currently in financial difficulties so spending £19000 on new machinery may not be available.

For order J J H you will have to retrain your staff at a further cost to you of £8000

This may well motivate your staff but this will mean you will be spending ~~£~~ £27000 on modifications and training.

A benefit of this order is that future orders are almost guaranteed. You are only operating at 60% capacity so future orders may maximise capacity. It means no factory space will be left unutilised.

Order JHB has no modifications to machinery but extra temporary staff will be required at a cost of £28000. There may be difficulties in finding reliable and qualified temporary staff. There is no need to keep the staff after the order which may de-motivate the workers.

No future orders are expected from this customer.

Using my figures in (d) both projects are profitable!

The company is located in a deprived area of the city so the temporary staff required for JHB may be a good effect on the local community. It may offer people some temporary work. There is also the ~~extra~~ ~~extra~~ ~~administrative~~ administration of personnel and recruitment work involved. This will incur more costs for Halls Hangers Ltd. In my opinion I would accept order JHB. The cost for this project are £27000 instead of £28000. If you accept JHB, the company will benefit from retraining their staff suggesting they will have more skilled

8

workers for future orders.	Leave blank
<p>Even though you may be looking for some quick money to cover debts, I believe JJB will benefit more you better in the future! These future orders will ensure that the factory capacity will be used to its full capacity.</p>	
<p>JJB may require 2000 more units than JJB but it is a one off order. If they accept JJB the factory will go back to 60% capacity whereas if you keep JJB Future orders are almost guaranteed.</p>	<p>2</p> <p>10</p> <p>+20mc</p> <hr/> <p>40</p>

Commentary: Candidates D-F

In Question 4(a), candidate E scored full marks as the definitions were full and complete. The clear layout of prose answers on this paper is to be encouraged. Candidate F also scored full marks on this part of the question. Candidate D scored 2 marks for both definitions and examples of fixed costs and variable costs, but this candidate could not distinguish between semi-variable and variable costs sufficiently to score any marks.

In Question 4(b), the definition of contribution required not just a calculation, as shown by candidate F, but also identifies that once fixed costs are covered, profit is then made, as shown by candidates D and E.

In Question 4(c), candidates D and F both scored full marks despite using different approaches. Candidate E lost a mark as variable costs of £1.50 were ignored. This mistake was carried onto Question 4(d), so an own figure mark was awarded for contribution. However, the candidate did lose a mark due to the incorrect rounding of the units. Both candidates D and F correctly calculated the break-even point.

In Question 4(e), neither candidate D or E included the business name in the heading. The heading used by candidate F is complete. Candidate D included the cost of £1.50 in their contribution calculation but omitted it in their profit statement. An addition error in the profit calculation lost a mark, however an own figure mark was awarded for order JHB as it was arithmetically correct despite the omission of the £1.50 x 8000. Candidate E incorrectly added the delivery charges and included the fixed costs as extraneous items which lost the own figure marks for the profit. Candidate F combined all the variable costs, but as the workings were clearly shown in order JJH, marks were awarded. In order JHB, the candidate originally had a sales figure of £180,000 (ie the same as order JJH), the variable and delivery costs were calculated based on this incorrect sales figure. The candidate later realised their mistake and altered the sales figure but unfortunately failed to amend the delivery and variable costs. Two marks were awarded for QWC as the heading was complete for candidate F.

In Question 4(f), the better prose answer by candidate F used the correct accounting terminology to explain the points and used information from the scenario and previous calculations to back up their arguments, which were all clearly developed. At the end, a clear recommendation was made. Points were not repeated and generalisations were not used. The answer was clearly presented.