RECOGNISING ACHIEVEMENT

GCE

Accounting

Advanced GCE **A2 7808**

Advanced Subsidiary GCE **AS 3808**

Mark Schemes for the Units

June 2006

3808/7808/MS/R/06

Oxford Cambridge and RSA Examinations

OCR (Oxford, Cambridge and RSA Examinations) is a unitary awarding body, established by the University of Cambridge Local Examinations Syndicate and the RSA Examinations Board in January 1998. OCR provides a full range of GCSE, A level, GNVQ, Key Skills and other qualifications for schools and colleges in the United Kingdom, including those previously provided by MEG and OCEAC. It is also responsible for developing new syllabuses to meet national requirements and the needs of students and teachers.

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by Examiners. It does not indicate the details of the discussions which took place at an Examiners' meeting before marking commenced.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the Report on the Examination.

OCR will not enter into any discussion or correspondence in connection with this mark scheme.

Any enquiries about publications should be addressed to:

OCR Publications
PO Box 5050
Annersley
NOTTINGHAM
NG15 0DL

Telephone: 0870 870 6622
Facsimile: 0870 870 6621
E-mail: publications@ocr.org.uk

CONTENTS

Advanced GCE Accounting (3808)

Advanced Subsidiary GCE Accounting (7808)

MARK SCHEMES FOR THE UNITS

Mark Scheme 2500
June 2006

1 Numerical Answers

Answers to computational questions or part-questions are mainly through calculation. Marks are awarded for particular calculations.

Own figures ('of'): where 'of' is indicated a figure which is incorrect solely because of an error in an earlier part of the question will be awarded the appropriate marks as if it were correct.

2 Quality of Written Communication

The specification states that 'Candidates will be required to select and use a form and style of writing appropriate to purpose and to complex subject matter; to organise relevant information clearly and coherently, using specialist accounting vocabulary and conventions; and to ensure text is legible, and spelling, grammar and punctuation are accurate, so that meaning is clear.'

Up to four marks (5%) may be added to the overall mark for a candidate's paper, if the candidate's written responses have met the specification requirement in some measure.

Marks will be allocated according to the following criteria:

Narrative Responses

2 marks Relatively straightforward ideas have been expressed clearly and fluently, using an appropriate style of writing. Answers are relevant and broadly logical and coherent. There are few, if any, errors of spelling, punctuation and grammar.

1 mark Simple ideas have been expressed in a style which, generally, lacks clarity and fluency. Responses have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar which are noticeable and detract from the quality of the response. Writing may lack legibility.

0 marks Responses which fail to achieve the standard required for one mark.

Numerical Responses

2 marks Most account headings, narratives and balances are included. All figures are legible, and effective use is made of columns and sub-totals. Accounts are ruled off as appropriate.

1 mark Some account headings, narratives and balances are included. Most figures are legible, and some use is made of columns and sub-totals. Some accounts are ruled off as appropriate.

0 marks Responses which fail to achieve the standard required for one mark.

In this examination the following questions will be assessed for quality of written communication:

Narrative Q1
Numerical Q3

1(a)

Glenn White
Trading and Profit and Loss Account for the year ended 31 March 2006

Sales		378,000 **(1)**
Opening stock	12,000 **(1)**	
Purchases	174,000 **(1)**	
	186,000	
Carriage inwards	3,000 **(1)**	
	189,000	
Purchase returns	4,000 **(1)**	
	185,000	
Closing stock	15,000 **(1)**	
Cost of sales		170,000
Gross profit		208,000
Provision for doubtful debts		300 **(1)**
Commission receivable		3,700 **(1)**
		212,000
Rent and rates	28,400 **(1)**	
Salaries	93,500 **(1)**	
Discount allowed	1,800 **(1)**	
General expenses (62,200 – 700)	61,500 **(2)**	
Bad debts (300 + 600)	900 **(2)**	
Loan interest (2,000 + 400)	2,400 **(2)**	
Depreciation equipment	4,000 **(2)**	
Depreciation motor vehicles (3,000 + 1,500)	4,500 **(3)**	
		197,000
Net profit		15,000

[22]

1(b)

Balance Sheet as at 31 March 2006 **(1)**

Fixed Assets		
Equipment (40,000 – 16,000)		24,000 **(1 of)**
Motor vehicles (30,000 – 10,500)		19,500 **(1 of)**
		43,500
Current Assets		
Stock	15,000 **(1)**	
Debtors (9,600 – 1,100 – 1,200)	7,300 **(3)**	
General expenses prepaid	700 **(1)**	
Commission receivable	3,700 **(1)**	
	26,700	
Current Liabilities		
Creditors	14,600 **(1)**	
Loan interest owing	400 **(1)**	
Loan	30,000 **(1)**	
Bank (700 – 500)	200 **(2)**	
	45,200	
Working capital		(18,500)
		25,000
Financed By		
Capital		17,600 **(1)**
Net profit		15,000 **(1 of)**
		32,600
Drawings		7,600 **(1)**
		25,000

[17]

Total marks [39]

2(a)(i)

Insurance

Balance b/d	700 **(1)**	Bank	400 **(1)**
Bank	5,300 **(1)**	Profit and Loss	4,750 **(1 of)**
		Balance c/d	850 **(1)**
	6,000		6,000

[5]

2(a)(ii)

Wages

Bank	78,700 **(1)**	Bal b/d	4,300 **(1)**
Bal c/d	4,700 **(1)**	Profit and Loss	79,100 **(1 of)**
	83,400		83,400

[4]

2(a)(iii)

Commission receivable

Bal b/d	600	Bank **(1)**	6,200 **(2)**
Profit and Loss **(1)**	6,520 **(1 of)**	Bal c/d	920
	7,120		7,120

[5]

2(b)

Balance Sheet extract

Current Assets **(1)**	
Insurance prepaid	850 **(1)**
Commission receivable	920**(1)**
Current Liabilities **(1)**	
Wages owing	4,700 **(1)**

[5]

2(c)(i)

Accruals (matching) concept **(1)**

[1]

2(c)(ii)

Revenues and costs are accrued as they are earned or incurred, regardless of whether paid or received. Ensures correct amount entered for the period.

(3 x 1 mark) **[3]**

Total marks [23]

3(a)

54,000 + 1,000 + 2,000 = 57,000 **(2)** **[2]**

3(b)

$\frac{57{,}000 - 4{,}000 \ \mathbf{(1)}}{5 \ \mathbf{(1)}} = 10{,}600$ **[2]**

3(c)

Disposal of Machinery

Machinery **(1)**	57,000	Depreciation **(1)**	42,400
		Bank **(1)**	12,000 **(1)**
		Profit and Loss **(1)**	2,600 **(1)**
	57,000		57,000

[6]

3(d)

Provision made to ensure spreading of cost in Profit and Loss Account
Provision made to ensure correct Balance Sheet valuation
Depreciation reduces profit and could argue saving cash for replacement
Book-keeping entry only
Application of accruals (matching concept)
Does not provide for replacement

(4 x 2 marks)
(1 for point plus 1 for development) **[8]**

Total marks [18]

Mark Scheme 2501
June 2006

1 Numerical Answers

Answers to computational questions or part-questions are mainly through calculation. Marks are awarded for particular calculations.

Own figures ('of'): where 'of' is indicated a figure which is incorrect solely because of an error in an earlier part of the question will be awarded the appropriate marks as if it were correct.

2 Quality of Written Communication

The specification states that 'Candidates will be required to select and use a form and style of writing appropriate to purpose and to complex subject matter; to organise relevant information clearly and coherently, using specialist accounting vocabulary and conventions; and to ensure text is legible, and spelling, grammar and punctuation are accurate, so that meaning is clear.'

Up to four marks (5%) may be added to the overall mark for a candidate's paper, if the candidate's written responses have met the specification requirement in some measure.

Marks will be allocated according to the following criteria:

Narrative Responses

2 marks	Relatively straightforward ideas have been expressed clearly and fluently, using an appropriate style of writing. Answers are relevant and broadly logical and coherent. There are few, if any, errors of spelling, punctuation and grammar.
1 mark	Simple ideas have been expressed in a style which, generally, lacks clarity and fluency. Responses have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar which are noticeable and detract from the quality of the response. Writing may lack legibility.
0 marks	Responses which fail to achieve the standard required for one mark.

Numerical Responses

2 marks	Most account headings, narratives and balances are included. All figures are legible, and effective use is made of columns and sub-totals. Accounts are ruled off as appropriate.
1 mark	Some account headings, narratives and balances are included. Most figures are legible, and some use is made of columns and sub-totals. Some accounts are ruled off as appropriate.
0 marks	Responses which fail to achieve the standard required for one mark.

In this examination the following questions will be assessed for quality of written communication:

Narrative	Q1
Numerical	Q3

(a)

		LIFO		FIFO
Sales		14,820 **(1)**		14,820 **(1)**
Purchases	10,650**(1)**		10,650 **(1)**	
Closing stock	(9@250) 2,250 **(3)**		(9@235) 2,115 **(1)**	
Cost of sales		8,400		8,535
Gross profit		6,420		6,285
Expenses		1,500		1,500 **(1)**
Net Profit		4,920		4,785 **(1)**

[12]

(b) SSAP9 stocks and work in progress.
Prudence requires that stock must be valued at the lower of cost and net realisable value.
The application of the prudence concept will not overstate the profit and the net assets of the business.
Consistency must be applied from one financial year to the next.
The same method of stock valuation should be used.

(3 x 2 marks) **[6]**
(1 for point plus 1 for development)

Total Marks [18]

(a)

Sales Ledger Control Account

Balance b/d	51,000 **(1)**	Bank	584,000 **(1)**
Sales	620,000 **(1)**	Cash	6,000 **(1)**
Dishonoured cheques	5,100 **(1)**	Discount allowed	24,900 **(2)**
		Bad debts	4,000 **(1)**
		Sales returns	8,200 **(2)**
		Contra purchase ledger**(1)**	8,000 **(1)**
		Balance c/d	41,000 **(1)**
	676,100 **(1)**		676,100

[14]

(b)

Revised schedule of debtors

Original balance	43,600
Less contra	900 **(2)**
Less sales returns	1,700 **(2)**
Corrected schedule of debtors	41,000 **(1)**

[5]

(c)

Easier detection of errors.
Errors can be identified quicker.
Division of duties helps in the prevention of fraud.
Control accounts totals can be used in the trial balance.

(3 x 2 marks)
(1 for point plus 1 for development) **[6]**

Total Marks [25]

(a) Karen Gwyne

Trading and Profit and Loss Account for the year ended 28 February 2006

Sales(60,000 + 25,000 + 1,000 + 30,000 - 26,000)	90,000 **(4)**	
Opening stock	18,000	
Purchases (32,000 + 700 + 20,000 - 18,000 - 2,000)	32,700 **(4)**	
	50,700	
Closing stock	16,000	
Cost of sales **(1)**		34,700
Gross profit		55,300
Discount received		700 **(1)**
		56,000
Rent (6,300 + 1,000 - 1,200)	6,100 **(2)**	
Rates	4, 100 **(1)**	
Wages	20,000	
General expenses (9,700-900 + 1,300-4,200)	5,900 **(3)**	
Discount allowed	1,000 **(1)**	
Depreciation	1,500 **(2)**	
		38,600
Net profit		17,400

[19]

(b) Balance sheet as at 28 February 2006

Fixed Assets		
Fixtures		8,000 **(1)**
Current Assets		
Stock	16,000 **(1)**	
Debtors	30,000	
Prepaid	1,200 **(1)**	
	47,200	
Current Liabilities		
Creditors	20,000	
Accruals/general expenses	1,300 **(1)**	
Bank	2,600 **(2)**	
	23,900	
Working capital		23,300
		31,300
Financed by		
Opening capital		27,100 **(2)**
Capital introduced		8,000 **(1)**
		35,100
Net profit		17,400 **(1of)**
		52,500
Drawings		21,200 **(2)**
		31,300

[12]

(c) Would provide management information such as stock reports and debtors reports.
Saves money with her account as quicker to complete final accounts and tax return.
Quicker and would reduce manual errors.
Possibility of trading through website.
(3 x 2 marks)
(1 for point plus 2 for development)

[6]
Total marks [37]

Mark Scheme 2502
June 2006

1 Numerical Answers

Answers to computational questions or part-questions are mainly through calculation. Marks are awarded for particular calculations.

Own figures ('of'): where 'of' is indicated a figure which is incorrect solely because of an error in an earlier part of the question will be awarded the appropriate marks as if it were correct.

2 Quality of Written Communication

The specification states that 'Candidates will be required to select and use a form and style of writing appropriate to purpose and to complex subject matter; to organise relevant information clearly and coherently, using specialist accounting vocabulary and conventions; and to ensure text is legible, and spelling, grammar and punctuation are accurate, so that meaning is clear.'

Up to four marks (5%) may be added to the overall mark for a candidate's paper, if the candidate's written responses have met the specification requirement in some measure.

Marks will be allocated according to the following criteria:

Narrative Responses

2 marks Relatively straightforward ideas have been expressed clearly and fluently, using an appropriate style of writing. Answers are relevant and broadly logical and coherent. There are few, if any, errors of spelling, punctuation and grammar.

1 mark Simple ideas have been expressed in a style which, generally, lacks clarity and fluency. Responses have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar which are noticeable and detract from the quality of the response. Writing may lack legibility.

0 marks Responses which fail to achieve the standard required for one mark.

Numerical Responses

2 marks Most account headings, narratives and balances are included. All figures are legible, and effective use is made of columns and sub-totals. Accounts are ruled off as appropriate.

1 mark Some account headings, narratives and balances are included. Most figures are legible, and some use is made of columns and sub-totals. Some accounts are ruled off as appropriate.

0 marks Responses which fail to achieve the standard required for one mark.

In this examination the following questions will be assessed for quality of written communication:

Numerical Q1
Narrative Q3

1

(a) Westcliff Art Club

Art Materials Trading Account for the year ended 31 December 2005

Sales of art materials			3,415	**(1)**
Opening stock	490			
Purchases	1,760	**(1)**		
	2,250			
Closing stock		**(1)**		
	365			
Cost of sales			1,885	
Profit on sale of materials			1,530	**(1)**

[4]

(b) Westcliff Art Club

Income and Expenditure Account for the year ended 31 December 2005

Income			
Subscriptions (1 140 + 160 + 110)	1,410	**(3)**	
Profit on exhibition (940 - 380)	560	**(2)**	
Profit on sale of art materials	1530	**(1of)**	
Interest on deposit account	50	**(2)**	
			3,550
Expenditure			
Bad debts	25	**(1)**	
Heating and lighting	790	**(1)**	
Insurance	65	**(1)**	
Premises maintenance	630	**(1)**	
Rent (1 120 + 120 + 260)	1,500	**(2)**	
Depreciation on equipment	300	**(1)**	
			3,310
Surplus **(1)**			240

[16]

(c) Balance Sheet as at 31 December 2005

Fixed Assets				
Equipment	4,600	**(1)**		
Current Assets				
Stock of art materials	365	**(1)**		
Subscriptions in arrears	110	**(1of)**		
Deposit account interest due	50	**(1of)**		
Deposit account	1,200	**(1)**		
	1,725			
Current Liabilities				
Subscriptions in advance	85	**(1)**		
Rent in arrears	260	**(1)**		
Bank overdraft	40	**(1)**		
	385			
Working capital			1,340	
			5,940	
Financed by:				
Accumulated Fund 1 January 2005			5,700	**(1)**
Surplus			240	**(1 of)**
			5940	**[10]**

Total marks [30]

2

(a)	Fidel and Grant Profit and Loss and Appropriation Account for the year ended 31 May 2006				
Commission received		112,000	**(1)**		
Rent received		5,000	**(1)**		
Decrease in provision for doubtful debts		190	**(1)**		
				117,190	
Rent		11,550	**(1)**		
Heat and light		4,990	**(1)**		
Salaries (38,000 - 5,000)		33,000	**(2)**		
Insurance		550	**(1)**		
Advertising		24,400	**(1)**		
Wages		8,100	**(1)**		
Depreciation on fixtures and fittings		6,500	**(1)**		
				89,090	
Net profit				28,100	
Add Interest on drawings	Fidel	900	**(1)**		
	Grant	750	**(1)**		
				1,650	
				29,750	
Less					
Interest on capital	Fidel	800	**(1)**		
	Grant	640	**(1)**		
				1,440	
				28,310	
Salaries	Fidel	8,000	**(1)**		
	Grant	6,000	**(1)**		
				14,000	
				14,310	
Balance of profit shared	Fidel	7,950	**(1of)**		
	Grant	6,360	**(1of)**		
				14,310	
					[19]

(b) Advantages:
Greater capital available.
Risk shared in wider group.
Wider range of skills and abilities with partners specialising.
Greater cover for absence, sickness, holidays etc.
Issues can be discussed with more partners.
More management capacity.

[6]

(3 x 2 marks)
(1 for point plus 1 for development)

Total marks [25]

3 (a)

Current ratio $\frac{128,000}{64,000} = 2:1$ **(3)**

Liquid (acid test) ratio $\frac{41,000}{64,000} = 0.6:1$ **(3)**

[6]

(b) (i)

Liquidity is the ability to meet the short term (current liabilities) of the business from the circulating assets (current assets) of the business.

Profitability is the return that the owner will receive against capital invested after deducting expenses from the income for a given period of time.

[4]

(2 x 2 marks
(1 for point plus 1 for development)

(ii) The continuance of the business depends upon its ability to continue trading over an extended period of time.
To enable trading to continue, stock must be sold and debts collected in order that creditors can be paid.
If creditors cannot be paid, supplies of stock will not be forthcoming and the business will close.

(3 x 1 mark) **[7]**

(c)

The current ratio is above the general benchmark for the sector of 1.9:1.
The liquid (acid test) ratio at 0.6:1 is considerably below the sector benchmark of 1:1. This is caused by a high level of stock and could lead to problems if we are unable to pay creditors in a timely manner.
The business has a bank overdraft and therefore may not have the capacity to pay creditors quickly.
Gross profit is lower than the sector. Mark up and hence selling price may have been reduced to gain sales or alternatively higher purchase prices may have been paid for goods.
Stock turnover is higher than the sector indicating that the business has reduced its selling price to gain sales. An element of over trading may be taking place.
The percentage of sales expended in expenses is greater than the sector average. These may be marketing or selling costs.
The return on capital employed is considerably below the sector average and at a level which could be considered an inadequate return on capital invested compared to other potential returns on investments.

(1 point plus up to 2 marks for development) **[12]**

Total marks [25]

Mark Scheme 2503
June 2006

ACCOUNTING MARKING GUIDELINES

1 Numerical Answers

Answers to computational questions or part-questions are mainly through calculation. Marks are awarded for particular calculations.

Own figures ('of'): where 'of' is indicated a figure which is incorrect solely because of an error in an earlier part of the question will be awarded the appropriate marks as if it were correct.

2 Quality of Written Communication

Narrative Responses

2 marks	Complex ideas have been expressed clearly and fluently, using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, are well structured. There are few, if any, errors of spelling, punctuation and grammar.
1 mark	Simple ideas have been expressed in a style which, generally, lacks clarity and fluency. Responses have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar which are noticeable and detract from the quality of the responses. Writing may lack legibility.
0 marks	Responses which fail to achieve the standard required for one mark.

Numerical Responses

3 marks	All account headings, narratives and balances are included. All figures are legible, and effective use is made of columns and sub-totals. Accounts are ruled off as appropriate.
2 marks	Most account headings, narratives and balances are included. Most figures are legible, and effective use is made of columns and sub-totals. Accounts are ruled off as appropriate.
1 mark	Some account headings, narratives and balances are included. Some figures are legible, and some use is made of columns and sub-totals. Some accounts are ruled off as appropriate.
0 marks	Responses which fail to achieve the standard required for one mark.

In this examination the following questions will be assessed for quality of written communication:

Narrative: Q2
Numerical: Q3

1 a) Basic standards – left unchanged not updated / used to highlight trends over time
Ideal standards – represent maximum performance and efficiency / likely to be regarded as unattainable
Current standards – based on existing levels of performance / attainable expected standards – represent normal efficient operating / allowing for normal wastage and idle time.

(2 x 2 marks)
(1 for point plus 1 for development) **[4]**

(b) Budget preparation / using predetermined standards
Record actual costs / compare with standard
Management by exception
Controlling operations
Using variance analysis
Also used in preparing estimates and quoting prices for work.
Unrealistic standards could lower morale

(4 x 1 mark) or
(2 x 2 marks - 1 for point plus 1 for development) **[4]**

(c) Variances

Sales	
Price (80 – 75) x 18,500	= 92,500 F **(2)**
Volume (18,500 – 20,000) x 75	= 112,500 A **(2)**
Materials	
Price (2 – 2.20) x 82,500	= 16,500 A **(2)**
Usage (88,000 – 82,500) x 2	= 11,000 F **(2)**
Labour	
Rate (12 – 13.25) x 50,000	= 62,500 A **(2)**
Efficiency (55,000 – 50,000) x 12	= 60,000 F **(2)**
Total variable overhead	
330000 – 342000	= 12,000 A **(2)**

Allow 1 mark in each case for correct figure only. **[14]**

(d) More expensive materials / better quality
Less materials used / less wastage
Higher paid labour / better grade appears to have been used
Less hours worked / due to improved quality of material and/or labour

(4 x 2 marks)
(1 for point plus 1 for development) **[8]**

Total marks [30]

2 **(a)** **(i)** Net cash flows

	System A	£000		System B	£000	
Year 1	224 – 124	100		280 – 167	113	
Year 2	300 – 188	112	**(1)**	360 – 196	164	**(1)**
Year 3	400 – 273	127		400 – 268	132	
Year 4	280 + 16 – 152	144	**(1)**	240 + 32 – 116	156	**(1)**

[4]

(ii) Payback

System A	System B
2.85 years **(1)**	2.74 years **(1)**

[2]

(iii) Net present value

System A

Year	Net cash flow	Discount factor **(1)** (all 4)	Present Value	
1	100 000	0.917	91 700	**(1 of)**
2	112 000	0.842	94 304	**(1 of)**
3	127 000	0.772	98 044	**(1 of)**
4	128 000	0.708	90 624	
4	16 000	0.708	11 328	
			386 000	
		Capital cost	320 000	**(1)**
		NPV	66 000	**(1 of)**

System B

Year	Net cash flow	Discount factor	Present Value	
1	113 000	0.917	103 621	
2	164 000	0.842	138 088	
3	132 000	0.772	101 904	
4	124 000	0.708	87 792	
4	32 000	0.708	22 656	
			454 061	
			375 000	**(1)**
		NPV	79 061	**(1 of)**

[8]

(iv) Accounting rate of return

System A	System B
163 000 **(1)** / 4 = 40750 **(1)**	190 000 **(1)** / 4 = 47 500 **(1)**
40750 / 320 000 **(1)**	47 500 / 375 000 **(1)**
= <u>12.73%</u> **(1 of)**	= <u>12.67%</u> **(1 of)**

[8]

(b) B has shorter payback
A has smaller capital outlay
A has slightly better ARR
Both have positive NPV
(up to 3 marks for identification)

Availability of finance
Little difference in payback or ARR
System B gives more overall sales and profits
B depends more on scrap value being realised
(up to 3 marks for identification)

[6]

(c) Local community – effects of noise and congestion in A / loss of jobs in B / impact on house prices under both
Workforce – is health and safety being put at risk in A? / training / effects on morale if jobs lost in B
Environment – effects of disposing of waste / how toxic? /
Public relations – negative publicity to do with toxic waste / loss of jobs

(3 x 3 marks)
(1 for point plus up to 2 for development) **[9]**

Total marks [37]

3 (a)

Production		Purchases		
Jul	4,900	Jun	x 12	58,800
Aug	4,850	Jul		58,200
Sep	5,100	Aug		61,200
Oct	5,050	Sep		60,600

Purchase payments

	Jun	Jul	Aug	Sep
Purchases	58,800	58,200	61,200	60,600
50%	29,400	29,100	30,600	30,300
-2%	588	582	612	606
		28,518	29,988	29,964
50%		29,400	29,100	30,600
		57,918	59,088	60,294

Sales receipts

	Jun	Jul	Aug	Sep
Sales	160,000	192,000	200,000	188,000
50%	80,000	96,000	100,000	94,000
50%		80,000	96,000	100,000
		176,000	196,000	194,000

Badge Ltd
Cash Budget for the three months ending 30 Sep 2006

	Jul	Aug	Sep	
Receipts				
Sales	176,000 **(2)**	196,000 **(2)**	194,000 **(2)**	
Payments				
Purchases	57,918 **(2)**	59,088 **(2)**	60,294 **(2)**	
Sales Commission	4,400 **(1)**	4,900 **(1)**	4,850 **(1)**	
General Expenses	130,000	130,000	130,000 **(1)**	line
	192,318	193,988	195,144	
Net cash flow	(16,318)	2,012	1,144	
Opening balance	1,100 **(1)**	(15,218)	(13,206)	
Closing balance	(15,218)	(13,206)	(14,350)**(1of)**	

[18]

(b) Budgeted Balance Sheet extracts as at 30 Sep 2006

Current assets

Debtors	94,000	**(1)**

Current liabilities

Creditors	30,300	**(1)**
Bank	(14,350)	**(1 of)**

[3]

(c) Benefits of budgetary control

Planning – alternative courses of action / highlight potential problems / shortages and surpluses
Control – provides information for ongoing control / responsibility is handed down to individual managers
Co-ordination – less conflict between departments / managers can be made aware of one another's needs
Participation – by actively involving managers at all levels / aids motivation / encourages consultation

Limitations
Quality of information – accuracy of forecasts / budgets can become irrelevant if hopelessly wayward
Managers may be judged unfairly / some costs may be outside of their control / budgets can be too too tight / may not have had input

(4 x 3 marks)
(1 for point plus up to 2 for development) **[12]**

Total marks [33]

Mark Scheme 2504
June 2006

ACCOUNTING MARKING GUIDELINES

1 Numerical Answers

Answers to computational questions or part-questions are mainly through calculation. Marks are awarded for particular calculations.

Own figures ('of'): where 'of' is indicated a figure which is incorrect solely because of an error in an earlier part of the question will be awarded the appropriate marks as if it were correct.

2 Quality of Written Communication

Narrative Responses

2 marks	Complex ideas have been expressed clearly and fluently, using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, are well structured. There are few, if any, errors of spelling, punctuation and grammar.
1 mark	Simple ideas have been expressed in a style which, generally, lacks clarity and fluency. Responses have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar which are noticeable and detract from the quality of the responses. Writing may lack legibility.
0 marks	Responses which fail to achieve the standard required for one mark.

Numerical Responses

3 marks	All account headings, narratives and balances are included. All figures are legible, and effective use is made of columns and sub-totals. Accounts are ruled off as appropriate.
2 marks	Most account headings, narratives and balances are included. Most figures are legible, and effective use is made of columns and sub-totals. Accounts are ruled off as appropriate.
1 mark	Some account headings, narratives and balances are included. Some figures are legible, and some use is made of columns and sub-totals. Some accounts are ruled off as appropriate.
0 marks	Responses which fail to achieve the standard required for one mark.

In this examination the following questions will be assessed for quality of written communication:

Narrative: Q3
Numerical: Q1

1 (a) Heisler Construction Ltd
Contract Account for the year ended 31 March 2006

Plant hire prepaid **(1)**	60,000 **(1)**	Direct labour accrued	175,000 **(1)**
Materials b/d	300,000 **(1)**	Sub contract accrued	70,000 **(1)**
Plant b/d	400,000 **(1)**	Cost to date c/d	1,805,000 **(1)**
Materials	320,000 **(1)**		
Plant hire	150,000 **(1)**		
Direct labour	400,000 **(1)**		
Sub contract	300,000 **(1)**		
Head office charge	120,000 **(1)**		
	2,050,000		2,050,000
Cost to date b/d	1,805,000	Work certified	1,500,000 **(1)**
		Work yet certified c/d	200,000 **(1)**
		Notional loss c/d	105,000
	1,805,000		1,805,000
Notional loss b/d	105,000	Profit and Loss **(2)**	105,000 **(2)(1of)**
Work not yet certified b/d	200,000		

[18]

(b) Prudence **(1)**, whole loss **(1),** written off to Profit and Loss **(1)** in the year incurred **(1).**

Accruals **(1).** + suitable explanation **(1)** and example **(1),** e.g. plant hire prepaid brought into current year costs, direct labour accrued included in previous years costs.

(1 for identification, 1 for explanation, 1 for example) **[6]**

(c) Puts the customer in a position of strength **(1)** should work subsequently be found to be faulty **(1).**
Incentive for the contractor to complete the contract **(1)** and to a good standard **(1).**

(3 x 1 mark) **Max [3]**

Total marks [27]

2 (a) (i) Budgeted direct labour cost per hour.

Cutting	250,800/38,000 = £6.60 **(1)**	
Pressing	225,000/36,000 = £6.25 **(1)**	
Forming	351,000/52,000 = £6.75 **(1)**	
Assembling	132,000/22,000 = £6.00 **(1)**	**[4]**

(ii) Budgeting direct overhead absorption rate:

Cutting	182,400/38,000 = £4.80 per DLH **(1)**	
Pressing	219,600/36,000 = £6.10 per DLH **(1)**	
Forming	254,800/52,000 = £4.90 per DLH **(1)**	
Assembly	116,600/22,000 = £5.30 per DLH **(1)**	**[4]**

(b) Statement to show total cost for enquiry NGG16

Direct material			70 078 **(1)**
Direct labour:			
	Cutting	6 600	
	Pressing	4 500	
	Forming	8 100	
	Assembling	3 000	
			22 200 **(1)**
Prime cost			92 278
Factory overheads:			
	Cutting	6 600/6.60 = 1 000 **(1)** x 4.80 **(1)** 4 800	
	Pressing	4 500/6.25 = 720 **(1)** x 6.10 **(1)** 4 392	
	Forming	8 100/6.75 = 1 200 x **(1)** 4.90 **(1)** 5 880	
	Assembling	3 000/6.00 = 500 **(1)** x 5.30 **(1)** 2 650	
			17 722
Cost of production			110 000**(1of)**
Administration (20%)			22 000**(1of)**
Total cost			132 000

[12]

(c) Selling price = 132 000 **(1 of)** x 100/75 **(2)** = £176 000 **[3]**

(d) Overheads tend to be related to time
The company may be labour intensive
Using a departmental labour hour rate is appropriate if different grades of labour are used in each department.

(2 x 2 marks)
(1 for point, plus 1 for development) **[4]**

(e) (i) Single factory rate, machine hour rate, unit cost, % prime cost, % direct labour cost, % direct material cost, activity based costing.
(2 x 1 mark) **[2]**

(ii)

Single factory rate	- if standardised product and labour grades used.
Machine hour rate	- if business or departments are capital intensive.
Unit cost	- if similar units are produced.
% prime cost	- materials of equal price, units produced are similar, labour is uniformly paid.
% direct labour cost	- similar units, labour uniformly paid.
% direct material cost	- material of uniform value, production time proportionate to material usage, similar equipment used in production.
Activity based costing	- used when traditional absorption methods are not suitable e.g. for a service sector business.

(2 x 2 marks) **[4]**

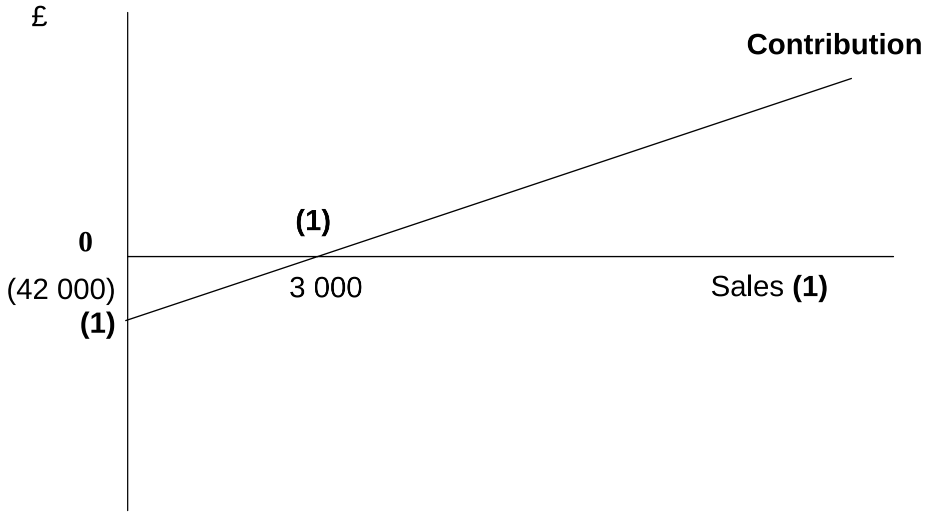
(1 for point, plus 1 for development) **Total marks [33]**

3 **(a)** Female workwear contribution per unit: 30 – (10 + 8) = 12 **(1)**

Break-even - units: 42 000/12 = 3 500 **(1)**
- sales revenue: 3 500 x 30 = 105 000 **(1)**

[3]

(b) Contribution to sales graph for male workwear:



[3]

(c)	Female workwear	Male workwear	Total
Sales per unit	30	40	
Less variable costs per unit	18	26	
Contribution per unit	12	14	
x expected sales volume	10 000	12 000	
Total contribution	120 000 **(1)**	168 000 **(1)** =	288 000
Less fixed costs			84 000
Profit			204 000 **(1)**

[3]

(d)

	Female workwear	Male workwear
Contribution per unit	12	14
Contribution to limiting factor	12/6 = 2 **(2)**	14/8 = 1/75 **(2)**
Ranking	1 **(2)**	2
Cloth available	130 000	
Female workwear (10 000 x 6)	60 000 **(1)**	
	70 000	
Male workwear (8 750 **(1)** x 8)	70 000	
Contribution:		
Female workwear (12 x 10 000)	120 000 **(1)**	
Male workwear (14 x 8 750)	122 500 **(1)**	
Total contribution	242 500	
Less fixed costs	84 000 **(1)**	
Profit	158 500 **(1of)**	

[12]

(e) Advantages:

Simple to construct and interpret
Easy to explain to non-accountants
Facilitates 'what – if' analysis
Useful for comparison with actual performance
Useful for setting production targets and for pricing decisions

Limitations:

Over-simplified
Cost and revenue curves may in reality not be linear
Fixed costs may be stepped
Some costs may not be easily categorised as either fixed or variable (semi-variable costs)

(1 + 1 for development) x 2 for advantages
(1 + 1 for development) x 2 for limitations
Up to 2 for conclusion

[10]

(f) Uses of marginal costing for decision making:

Limiting factor, maximising contribution from restricted inputs
Acceptance of special orders
Make or buy
Discontinuing a product or service, based on contribution

(3 x 3 mark)
(1 + up to 2 for development) **[9]**

Total marks [40]

Mark Scheme 2505
June 2006

1 Numerical Answers

Answers to computational questions or part-questions are mainly through calculation. Marks are awarded for particular calculations.

Own figures ('of'): where 'of' is indicated a figure which is incorrect solely because of an error in an earlier part of the question will be awarded the appropriate marks as if it were correct.

2 Quality of Written Communication

The specification states that 'Candidates will be required to select and use a form and style of writing appropriate to purpose and to complex subject matter; to organise relevant information clearly and coherently, using specialist accounting vocabulary and conventions; and to ensure text is legible, and spelling, grammar and punctuation are accurate, so that meaning is clear.'

Up to five marks (5%) may be added to the overall mark for a candidate's paper, if the candidate's written responses have met the specification requirement in some measure.

Marks will be allocated according to the following criteria:

Narrative Responses

2 marks	Relatively straightforward ideas have been expressed clearly and fluently, using an appropriate style of writing. Answers are relevant and broadly logical and coherent. There are few, if any, errors of spelling, punctuation and grammar.
1 mark	Simple ideas have been expressed in a style which, generally, lacks clarity and fluency. Responses have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar which are noticeable and detract from the quality of the response. Writing may lack legibility.
0 marks	Responses which fail to achieve the standard required for one mark.

Numerical Responses

2 marks	Most account headings, narratives and balances are included. All figures are legible, and effective use is made of columns and sub-totals. Accounts are ruled off as appropriate.
1 mark	Some account headings, narratives and balances are included. Most figures are legible, and some use is made of columns and sub-totals. Some accounts are ruled off as appropriate.
0 marks	Responses which fail to achieve the standard required for one mark.

In this examination the following questions will be assessed for quality of written communication:

Narrative	Q2
Numerical	Q3

1 (a)

Net Profit before tax		142,000	
Tax		52 000	**(1)**
		90,000	
Profit & Loss b/f		23 000	**(1)**
		113,000	
Dividends	41,000 **(1)**		
Reserves	50,000 **(1)**	91,000	
Profit & Loss c/f		22,000	**(1)**

Net cash flow from operating activities

Net profit	142,000	
Depreciation	80,000	**(2)**
Loss on sale	7,000	**(2)**
Increase in stock	(20,000)	**(1)**
Increase in debtors	(18,000)	**(1)**
Increase in creditors	4,000	**(1)**
Increase in accruals	2,000	**(1)**
	197,000	**(1)**

Kingdom plc

Cash Flow Statement for the year ended 31 May 2006 **(1)**

Net cash flow from operating activities	197,000	
Taxation	(42,000)	**(2)**
Capital expenditure		
Purchase of fixed assets	(352,000)	**(4)**
Proceeds of sale	5,000	**(1)**
Equity dividends paid	(39,000)	**(2)**
Financing		
Issue of shares	100,000	**(1)**
Loan	100,000	**(1)**
Increase/decrease in cash	(31,000)	**(1)**

[27]

(b)

Current ratio	1.11:1 **(1)**	1.01:1 **(1)**
Acid test	0.53:1 **(1)**	0.40:1 **(1)**

[4]

(c) The cash flow position has weakened as evidenced by the liquidity ratios. The expansion has reduced the liquidity from having a bank deposit of £20,000 to an overdraft of £9,000.
The cash flow has also weakened by the high stock holding which has increased by £20,000.

The purchase of fixed assets cost £352,000 of which £200,000 resulted in extra capital from the loan issue and share issue. £152,000 was paid from cash generated from trading and proceeds of sale.

(4 x 2 marks)
(1 per point, plus 1 for development) **[8]**

Total marks [39]

2 (a) Darnell plc
Schedule of Fixed Assets for the year ended 31 May 2006 **(1)**

	Land and buildings		Machinery		Office Equipment	
Cost 1 June 2005	550,000		280,000		180,000	**(1) line**
Additions			8,000	**(1)**	15,000	**(1)**
Revaluations	80 000	**(2)**				
Disposals					(12,000)	**(1)**
Cost 31 May 2006	630,000		288,000		183,000	**(1) line**
Total depreciation 1 June 2005	80,000		140,000		90,000	**(1)**
Disposals					(8,200)	**(2)**
Profit and loss	5,000	**(2)**	14 800	**(2)**	18,000	**(2)**
Total depreciation 31 May 2006	85,000		154,800		99,800	**(1) line**
Net book value at 31 May 2006	545,000		133,200		83,200	**(2)(1of)**

[20]

(b) (i) Debit Land and buildings **(1)**
Credit Revaluation reserve **(1)** **[2]**

(ii) The land and buildings revalued amount shown in the balance sheet **(1)**
Revaluation reserve shown under reserves in the balance sheet **(1)** **[2]**

(c) (i) Share premium **(1)**
Capital redemption reserve **(1)** **[2]**

(ii) Share premium Debit bank **(1)**
Credit share premium **(1)**

Redemption reserve debit profit and loss/general reserves **(1)**
credit redemption reserve **(1)** **[4]**

(iii) Share premium account is created when shares are issued at the par value plus a premium. It is a requirement of the Company Act to create a capital reserve for the amount of the premium. This is done to protect the creditors of the company.
(1 plus 2 for development)

A redemption reserve is created when the company redeems shares from shareholders. The company is required to create a reserve from profits equal to the amount of the redemption if there is no new issue of shares. Protects the creditors of the company by reducing the amount of profit that could be used to pay dividends.
(1 plus 2 for development) **[6]**

Total marks [36]

3 (a) Proctor Ltd
Manufacturing, Trading, Profit and Loss Account for the year ended 31 May 2006 **(1)**

Purchase of raw materials			230,000		
Carriage inwards			3,000		
			233,000		
Purchase returns of raw materials			6,000		
Closing stock of raw materials			38,000		
Direct materials			189,000	**(2)**	
Direct wages			75,000	**(1)**	
Prime cost **(1)**			264,000	**(1)**	
Factory overheads					
Depreciation plant and machinery	52,000	**(1)**			
Light and power	16 800	**(1)**			
Indirect factory wages	82,000	**(1)**			
Salaries	85,000	**(1)**			
Machine repairs	18,000	**(1)**			
Rent and insurance	17,100	**(1)**			
			270,900		
			534,900		
Work in progress at the end of the year			52,000	**(1)**	
Production cost of finished goods			482,900		
Sales			980,000		
Sales returns			12,000		
			968,000	**(1)**	
Production cost of finished goods	482,900	**(1 of)**			
Closing stock of finished goods	48,000	**(1)**			
Cost of sales			434,900		
Gross profit			533,100		
Depreciation motor vehicles	37 500	**(1)**			
Light and power	11 200	**(1)**			
Motor expenses	32 000	**(1)**			
Administration expenses	90 000	**(1)**			
Salaries	85 000	**(1)**			
Rent and insuracne	11 400	**(1)**			
Bad debts	5,000	**(1)**			
Provision for doubtful debts	4,650	**(2)**			276,750
Net profit					256,350

Total marks [25]

Unit Threshold Marks

Unit		Maximum Mark	a	b	c	d	e	u
2500	Raw	80	64	56	48	41	34	0
	UMS	100	80	70	60	50	40	0
2501	Raw	80	62	53	44	36	28	0
	UMS	100	80	70	60	50	40	0
2502	Raw	80	67	59	52	45	38	0
	UMS	100	80	70	60	50	40	0
2503	Raw	100	80	71	62	53	45	0
	UMS	100	80	70	60	50	40	0
2504	Raw	100	79	70	61	52	43	0
	UMS	100	80	70	60	50	40	0
2505	Raw	100	77	69	61	53	46	0
	UMS	100	80	70	60	50	40	0

Specification Aggregation Results

Overall threshold marks in UMS (i.e. after conversion of raw marks to uniform marks)

	Maximum Mark	A	B	C	D	E	U
3808	300	240	210	180	150	120	0
7808	600	480	420	360	300	240	0

The cumulative percentage of candidates awarded each grade was as follows:

	A	B	C	D	E	U	Total Number of Candidates
3808	11.97	24.81	41.24	57.01	71.39	100	2086
7808	15.60	35.35	57.08	77.01	93.24	100	1152

For a description of how UMS marks are calculated see;
www.ocr.org.uk/OCR/WebSite/docroot/understand/ums.jsp

Statistics are correct at the time of publication

OCR (Oxford Cambridge and RSA Examinations)
1 Hills Road
Cambridge
CB1 2EU

OCR Information Bureau

(General Qualifications)
Telephone: 01223 553998
Facsimile: 01223 552627
Email: helpdesk@ocr.org.uk

www.ocr.org.uk

Oxford Cambridge and RSA Examinations
is a Company Limited by Guarantee
Registered in England
Registered Office; 1 Hills Road, Cambridge, CB1 2EU
Registered Company Number: 3484466
OCR is an exempt Charity

OCR (Oxford Cambridge and RSA Examinations)
Head office
Telephone: 01223 552552
Facsimile: 01223 552553