

Accounting

Advanced GCE A2 7808

Advanced Subsidiary GCE AS 3808

Mark Schemes for the Units

June 2006

3808/7808/MS/R/06

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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.

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Advanced GCE Accounting (3808)

Advanced Subsidiary GCE Accounting (7808)

MARK SCHEMES FOR THE UNITS

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Mark Scheme 2006
June 2006

StudentBounty.com

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 WhiteTrading and Profit and Loss Account for the year ended 31 March 2006

Sales		378,000 (1)
Opening stock	12,000 (1)	
Purchases	<u>174,000 (1)</u>	
	186,000	
Carriage inwards	<u>3,000 (1)</u>	
	189,000	
Purchase returns	<u>4,000 (1)</u>	
	185,000	
Closing stock	<u>15,000 (1)</u>	
Cost of sales		<u>170,000</u>
Gross profit		208,000
Provision for doubtful debts		300 (1)
Commission receivable		<u>3,700 (1)</u>
		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)	<u>4,500 (3)</u>	
		<u>197,000</u>
Net profit		<u>15,000</u>

2500

Mark Scheme

6

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)		<u>19,500 (1 of)</u>
		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	<u>3,700 (1)</u>	
	26,700	

Current Liabilities

Creditors	14,600 (1)	
Loan interest owing	400 (1)	
Loan	30,000 (1)	
Bank (700 – 500)	<u>200 (2)</u>	
	45,200	

Working capital

(18,500)
25,000

Financed By

Capital		17,600 (1)
Net profit		<u>15,000 (1 of)</u>
		32,600
Drawings		<u>7,600 (1)</u>
		<u>25,000</u>

[17]

Total marks [39]

2500 Mark Scheme

2(a)(i)

		<u>Insurance</u>	
Balance b/d	700 (1)	Bank	400 (1)
Bank	5,300 (1)	Profit and Loss	4,750 (1)
	<u>6,000</u>	Balance c/d	<u>850 (1)</u>
			<u>6,000</u>
			[5]

2(a)(ii)

		<u>Wages</u>	
Bank	78,700 (1)	Bal b/d	4,300 (1)
Bal c/d	4,700 (1)	Profit and Loss	<u>79,100 (1 of)</u>
	<u>83,400</u>		<u>83,400</u>
			[4]

2(a)(iii)

		<u>Commission receivable</u>	
Bal b/d	600	Bank (1)	6,200 (2)
Profit and Loss (1)	<u>6,520 (1 of)</u>	Bal c/d	<u>920</u>
	<u>7,120</u>		<u>7,120</u>
			[5]

2(b)

<u>Balance Sheet extract</u>		
<u>Current Assets (1)</u>		
Insurance prepaid	850 (1)	
Commission receivable	920(1)	
<u>Current Liabilities (1)</u>		
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]

2500

Mark Scheme

3(a)

$$54,000 + 1,000 + 2,000 = 57,000 \text{ (2)}$$

3(b)

$$\frac{57,000 - 4,000}{5} \text{ (1)} = 10,600$$

[2]

3(c)

	<u>Disposal of Machinery</u>		
Machinery (1)	57,000	Depreciation (1)	42,400
		Bank (1)	12,000 (1)
		Profit and Loss (1)	2,600 (1)
	<u>57,000</u>		<u>57,000</u>

[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 2006
June 2006

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2 Quality of Written Communication

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

Numerical Responses

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- 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.
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- Narrative Q1
Numerical Q3

(a)

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

[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)

(1 for point plus 1 for development)

[6]

Total Marks [18]

(a)

<u>Sales Ledger Control Account</u>			
Balance b/d	51,000 (1)	Bank	58,000 (1)
Sales	620,000 (1)	Cash	6,000 (1)
Dishonoured cheques	5,100 (1)	Discount allowed	24,900 (1)
		Bad debts	4,000 (1)
		Sales returns	8,200 (2)
		Contra purchase ledger(1)	8,000 (1)
		Balance c/d	<u>41,000 (1)</u>
	<u>676,100 (1)</u>		<u>676,100</u>

[14]

(b)

<u>Revised schedule of debtors</u>	
Original balance	43,600
Less contra	900 (2)
Less sales returns	<u>1,700 (2)</u>
Corrected schedule of debtors	<u>41,000 (1)</u>

[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 GwyneTrading 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)	<u>32,700 (4)</u>	
	50,700	
Closing stock	<u>16,000</u>	
Cost of sales (1)		<u>34,700</u>
Gross profit		55,300
Discount received		<u>700 (1)</u>
		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	<u>1,500 (2)</u>	
		<u>38,600</u>
Net profit		<u>17,400</u>

[19]

(b) Balance sheet as at 28 February 2006Fixed 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

23,30031,300Financed 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 2006
June 2006

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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	<u>1,760</u>	(1)
	2,250	

Closing stock	<u>365</u>	(1)
---------------	------------	-----

Cost of sales	<u>1,885</u>	
Profit on sale of materials	<u>1,530</u>	(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	<u>50</u>	(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	<u>300</u>	(1)	
			<u>3,310</u>
Surplus (1)			<u>240</u>

[16]

(c) Balance Sheet as at 31 December 2005Fixed 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

1,3405,940Financed 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		<u>190</u>	(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		<u>6,500</u>	(1)		
				<u>89,090</u>	
Net profit				28,100	
Add Interest on drawings	Fidel	900	(1)		
	Grant	<u>750</u>	(1)		
				<u>1,650</u>	
				29,750	
Less					
Interest on capital	Fidel	800	(1)		
	Grant	<u>640</u>	(1)		
				<u>1,440</u>	
				28,310	
Salaries	Fidel	8,000	(1)		
	Grant	<u>6,000</u>	(1)		
				<u>14,000</u>	
				14,310	
Balance of profit shared	Fidel	7,950	(1of)		
	Grant	<u>6,360</u>	(1of)		
				<u>14,310</u>	
					[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.

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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.

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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	Present Value	
		(1) (all 4)		
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	<u>11 328</u>	
			386 000	
		Capital cost	<u>320 000</u>	(1)
		NPV	<u><u>66 000</u></u>	(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	<u>22 656</u>	
			454 061	
			<u>375 000</u>	(1)
		NPV	<u><u>79 061</u></u>	(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)

<u>Production</u>		<u>Purchases</u>	
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

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

Sales receipts

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

Badge LtdCash Budget for the three months ending 30 Sep 2006

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

- (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 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	<u>120,000 (1)</u>		
	<u>2,050,000</u>		<u>2,050,000</u>
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	<u>105,000</u>
	<u>1,805,000</u>		<u>1,805,000</u>
Notional loss b/d	<u>105,000</u>	Profit and Loss (2)	<u>105,000 (2)(1of)</u>
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	$250,800/38,000 = \text{£}6.60$	(1)	
Pressing	$225,000/36,000 = \text{£}6.25$	(1)	
Forming	$351,000/52,000 = \text{£}6.75$	(1)	
Assembling	$132,000/22,000 = \text{£}6.00$	(1)	[4]

- (ii) Budgeting direct overhead absorption rate:

Cutting	$182,400/38,000 = \text{£}4.80$	per DLH	(1)	
Pressing	$219,600/36,000 = \text{£}6.10$	per DLH	(1)	
Forming	$254,800/52,000 = \text{£}4.90$	per DLH	(1)	
Assembly	$116,600/22,000 = \text{£}5.30$	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	<u>3 000</u>		
		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) <u>2 650</u>
			<u>17 722</u>
Cost of production		110 000	(1 of)
Administration (20%)		<u>22 000</u>	(1 of)
Total cost		<u>132 000</u>	

[12]

- (c) Selling price = $132\ 000$ (1 of) x $100/75$ (2) = $\text{£}176\ 000$ [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) [4]
- (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)

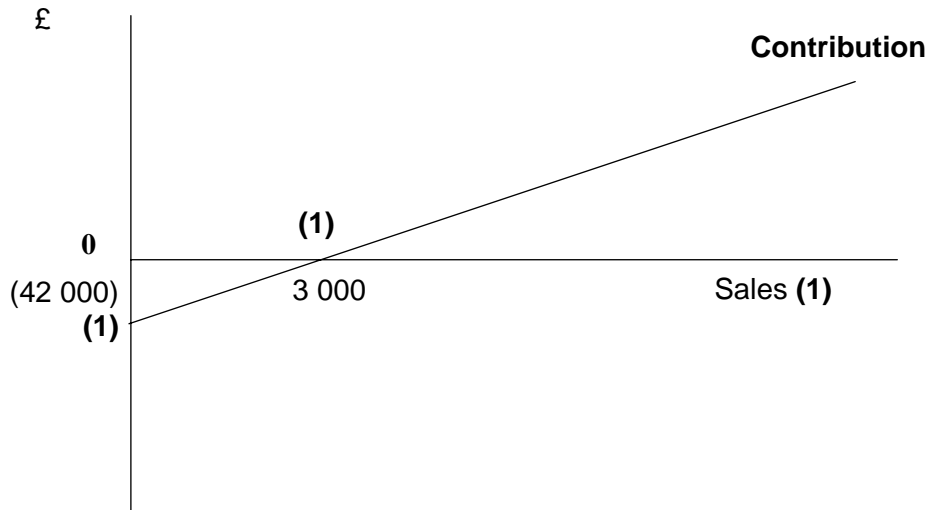
Total marks [33]

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

Break-even - units: $42\ 000/12 = 3\ 500$ (1)
 - sales revenue: $3\ 500 \times 30 = 105\ 000$ (1)

[3]

(b) Contribution to sales graph for male workwear:



[3]

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

[3]

(d)

	<u>Female workwear</u>	<u>Male workwear</u>
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)	<u>60 000</u> (1)	
	70 000	
Male workwear (8 750 (1) x 8)	<u>70 000</u>	
Contribution:		
Female workwear (12 x 10 000)	120 000 (1)	
Male workwear (14 x 8 750)	<u>122 500</u> (1)	
Total contribution	242 500	
Less fixed costs	<u>84 000</u> (1)	
Profit	<u>158 500</u> (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 2006
June 2006

StudentBounty.com

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	<u>52,000</u>	(1)
		90,000	
	Profit & Loss b/f	<u>23,000</u>	(1)
		113,000	
	Dividends	41,000	(1)
	Reserves	50,000	(1)
	Profit & Loss c/f	<u>91,000</u>	
		<u>22,000</u>	(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	<u>2,000</u>	(1)
	<u>197,000</u>	(1)

Kingdom plcCash 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	<u>100,000</u>	(1)
Increase/decrease in cash	<u>(31,000)</u>	(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 ratio. 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	<u>630,000</u>	<u>288,000</u>	<u>183,000</u>	(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	<u>85,000</u>	<u>154,800</u>	<u>99,800</u>	(1) line
Net book value at 31 May 2006	<u>545,000</u>	<u>133,200</u>	<u>83,200</u>	(2)(1 of)

[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		<u>3,000</u>	
		233,000	
Purchase returns of raw materials		6,000	
Closing stock of raw materials		<u>38,000</u>	
Direct materials		189,000	(2)
Direct wages		<u>75,000</u>	(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)
		<u>270,900</u>	
		<u>534,900</u>	
Work in progress at the end of the year		<u>52,000</u>	(1)
Production cost of finished goods		<u>482,900</u>	
Sales		980,000	
Sales returns		<u>12,000</u>	
		968,000	(1)
Production cost of finished goods	482,900		(1 of)
Closing stock of finished goods	<u>48,000</u>		(1)
Cost of sales		<u>434,900</u>	
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 insurance	11 400		(1)
Bad debts	5,000		(1)
Provision for doubtful debts	<u>4,650</u>		(2)
Net profit			<u>276,750</u>
			<u>256,350</u>

Total marks [25]

June 2006 Assessment Series

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

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