



**General Certificate of Education (A-level)
June 2011**

Accounting

ACCN2

(Specification 2120)

Unit 2: Financial and Management Accounting

Final

Mark Scheme

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all examiners participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for standardisation each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, examiners encounter unusual answers which have not been raised they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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MARK SCHEME

INSTRUCTIONS TO EXAMINERS

You should remember that your marking standards should reflect the levels of performance of candidates, mainly 17 years old, writing under examination conditions.

Positive Marking

You should be positive in your marking, giving credit for what is there rather than being too conscious of what is not. Do not deduct marks for irrelevant or incorrect answers as candidates penalise themselves in terms of the time they have spent.

Mark Range

You should use the whole mark range available in the mark scheme. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **must** be given. A perfect answer is not required. Conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Alternative Answers/Layout

The answers given in the mark scheme are not exhaustive and other answers may be valid. If this occurs, examiners should refer to their Team Leader for guidance. Similarly, candidates may set out their accounts in either a vertical or horizontal format. Both methods are acceptable.

Own Figure Rule

In cases where candidates are required to make calculations, arithmetic errors can be made so that the final or intermediate stages are incorrect. To avoid a candidate being penalised repeatedly for an initial error, candidates can be awarded marks where they have used the correct method with their own (incorrect) figures. Examiners are asked to annotate a script with **OF** where marks have been allocated on this basis. **OF** always makes the assumption that there are no extraneous items. Similarly, **OF** marks can be awarded where candidates make correct conclusions or inferences from their incorrect calculations.

Assessment Objectives (AOs)

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

<p>AO1: Knowledge and Understanding</p>	<p>Demonstrate knowledge and understanding of accounting principles, concepts and techniques.</p>
<p>AO2: Application</p>	<p>Select and apply knowledge and understanding of accounting principles, concepts and techniques to familiar and unfamiliar situations.</p>
<p>AO3: Analysis and Evaluation</p>	<p>Order, interpret and analyse accounting information in an appropriate format. Evaluate accounting information, taking into consideration internal and external factors to make reasoned judgements, decisions and recommendations, and assess alternative courses of action using an appropriate form and style of writing.</p>
<p>Quality of Written Communication (QWC)</p>	<p>In GCE specifications which require candidates to produce written material in English, candidates must:</p> <ul style="list-style-type: none"> • ensure that text is legible and that spelling, punctuation and grammar are accurate so that meaning is clear • select and use a form and style of writing appropriate to purpose and to complex subject matter • organise information clearly and coherently, using specialist vocabulary when appropriate. <p>In this specification, QWC will be assessed in all units. On each paper, two of the marks for prose answers will be allocated to 'quality of written communication', and two of the marks for numerical answers will be allocated to 'quality of presentation'. The sub questions concerned will be identified on the question papers.</p>

1

Total for this question: 9 marks

1 (a) Calculate the gross profit margin for the year ended 31 March 2011. State the formula used. (3 marks)

$$\frac{\text{Gross profit} \times 100}{\text{Revenue}} \quad (1)$$

$$(181\,000 - 104\,400) \quad \frac{76\,600 (1)}{181\,000} \times 100 = 42.32\% \quad (1)$$

3 marks

1 (b) State **two** possible causes of any difference in the gross profit margin calculated in 1 (a) and the gross profit margin from last year. (2 marks)

Causes: **1 mark** per cause

- the selling price in relation to the cost of sales was not as high as anticipated
- the cost of sales were higher than expected and Mau Pau was unable to increase the selling price
- the sales mix has changed
- inefficient inventory management/wastage/damage/theft.

The **OF** rule is used if the candidate's calculation in (a) shows an increase in the gross profit margin meaning explanations of an increase in the margin should be rewarded.

2 marks

1 (c) Calculate the profit in relation to revenue (sales) ratio (net profit margin) for the year ended 31 March 2011. (2 marks)

$$\frac{\text{Profit for the year} \times 100}{\text{Revenue}} \quad \frac{14\,030 (1)}{181\,000} \times 100 = 7.75\% \quad (1)$$

If operating profit used:

$$\frac{\text{Operating profit for the year}}{\text{Revenue}} \quad \frac{15\,590 (1)}{181\,000} \times 100 = 8.61\% \quad (1)$$

2 marks

1 (d) State **two** possible causes of any difference in the profit in relation to revenue (sales) ratio (net profit margin) calculated in 1 (c) and the ratio from last year. (2 marks)

Causes: **1 mark** per cause

- the gross profit margin was lower than expected
- expenses in relation to sales were higher than last year.

2 marks

2

Total for this question: 10 marks

2 (a) Explain **two** advantages to Ying, other than those mentioned in the advertising, of purchasing the software package. (4 marks)

1 mark per advantage identified + 0-2 for development.

Reason	Development
Cost savings (1) Or Reducing expenses (1)	Ying could save the cost of the bookkeeper and accountant (1) £9000/£8500/£8400/£500 (ie referring to figures) (1) per year. The investment pays for itself in the first year (1). The savings made could be used elsewhere in the business (1).
More information (1)	She may be able to get more information such as income statements (trading and profit and loss accounts) whenever she wants (1) and not just at the year end (1).
Improve management (1)	The accounting software may provide better and quicker information (1) enabling her to make better decisions (1). She could use 'what if' facility to see what would happen if a change is made (1).
Increased involvement with the accounts (1)	Ying's increased involvement in the preparation of the accounts may increase her focus on this side of the business (1), eg focus on cash position (1) or credit control (1). This could reduce the chance of fraud by book keeper or accountant (1). This could improve her skills (1).
Increased privacy (1)	She is no longer using a book keeper or accountant (1) so there will be increased security of financial information (1).

Max 4 marks

2 (b) Explain two disadvantages to Ying of purchasing the accounting software. (4 marks)

1 mark per disadvantage identified + **0-2** for development.

Development

Lack of expertise (1)	Ying may not have the expertise (1) to use the software effectively and therefore may make errors (1) this could lead to problems in running her business (1) for example not recording credit sales correctly (1). The financial statements may be incorrect (1). She will not get advice from the accountant/book keeper (1), plus 1 mark for example.
Time (1) Extra work for Ying (1)	Ying may not have the time to enter the data, also she may be losing sales and customers (1) during the time she is taking to maintain her accounts (1).
Cost (1)	She may need to be trained (1) which will be an added cost and the change-over to a new system may involve both running simultaneously (1). Software updates and replacing equipment (1) could incur added costs.
Redundancy (1)	She will have to make the bookkeeper redundant (1) and this may involve costs (1).
Software failure/virus/hacking/power cut (1)	There could be a software failure or virus and this could lead to a loss of data (1) this could lead to additional costs or possible losses for the business (1).
Health and safety (1)	Ying may suffer from eye or back strain from using the computer (1).

Max 4 marks

2 (c) Advise Ying whether she should purchase the accounting software. (2 marks)

Advice **1 mark** + justification **1 mark**

2 marks

3

Total for this question: 30 marks

3 (a) Prepare a cash budget for each of the **three** months August to October, assuming the bank loan is approved. (20 marks)

Joe Blanchard
Cash budget for the three months ending 31 October 2011

	August £	September £	October £	
Receipts				
Capital introduced	12 000			(1)
Bank loan	9 000			(1)
Cash sales		3 600	3 800	(1)
Credit sales			14 400	(2)
	21 000	3 600	18 200	
Payments				
Purchases	6 700	7 600	9 600	(1)
Purchase of non-current (fixed) assets	12 500			(1)
Rent	3 750			(1)
Operating expenses			1 125	(1)
Loan repayments		375	375	(1)
Interest		30	30	(1)
Drawings			950	(1)
	22 950	8 005	12 080	
Net cash flow	(1 950)	(4 405)	6 120	
Opening balance		(1 950)	(6 355)	
Closing balance	(1 950)	(6 355)	(235)	(10F)

20 marks

3 (b) Advise Joe whether the bank manager will grant the overdraft facility. Base your advice on the cash budget prepared in 3 (a). (10 marks)

Describing the cash flows **(1)** Increasing sales will lead to improved cash flows in the future **(1) + 1 mark for using figures (for cash flows on sales).**

Describing closing balances of own cash budget **(1) + 1 mark for using figures.**

Comparing **(1)** closing balances with the requested overdraft facility of £6500.

Statement that the overdraft is: sufficient/ not sufficient/needed/ not needed **(1) + 1 mark** for quantifying the differences or stating the amount required.

Comments on the features of the cash budget which may be taken into account:

- a **one-off** payment of £12 500 for non-current assets reduces the cash flows **(1)**
- these are the opening months of the business and may not be typical **(1)**
- the budget is based on forecast figures which may not be reliable **(1).**

Max 7 marks

Advice 1 mark

Eg – the bank manager will/will not grant the overdraft **(1).**

Overall max 8 marks

Quality of written communication

For using good English, spelling, punctuation and grammar

Up to 2 marks

4

Total for this question: 31 marks

4 (a) Prepare a revised income statement (trading and profit and loss account) for the year ended 30 April 2011, taking into account the additional information.
(21 marks)

Borca Ltd
Income statement (trading and profit and loss account) for the year
ended 30 April 2011

	£		£	
Revenue (sales)			1 267 580	
Cost of sales			<u>910 932</u>	(5)W1
Gross profit			356 648	(1OF)
Other income			7 890	(1)
Bad debt recovered			<u>1 054</u>	(1)
			365 592	
Marketing expenses	43 140			(2)W2
Administration expenses	85 630			
Depreciation	14 062			(5)W3
			<u>142 832</u>	
Profit from operations			223 760	
Finance costs			<u>35 000</u>	(2)*
Profit for the year			187 760	
Income taxes			<u>16 000</u>	(1)#
Profit after tax			<u>171 760</u>	(1OF)

W1

Candidates may approach the calculation of the adjustment for stock in a number of ways.

1 - The candidate calculates the reduction in stock value

$$898\,760 \text{ (1)} + 12\,172 \text{ (3)} = 910\,932 \text{ (1OF)}$$

$$\text{Net realisable value} = 45\,000 \text{ (1)} - 13\,586 \text{ (1)} = 31\,414$$

$$\text{Adjustment to stock valuation} = 43\,586 \text{ (1)} - 31\,414 = 12\,172$$

To achieve the OF mark for cost of sales the adjustment must be added

2 - The candidate adjusts the cost of sales figure

898 760		898 760		898 760		898 760
+ 43 586		+ 43 586		+ 43 586		+ 43 586
- 45 000		- 31 414		- 31 414		- 31 414
+ 13 586						- 31 414
<u>910 932</u>						<u>910 932</u>
						(1)OF

W3 Marketing

46 780 (1) – 3 640 (1) = 43 140

W4 Depreciation

	£
Cost (25 000 (1) x 100/25 (1))	100 000
Provision for depreciation	43 752
NBV	<u>56 248</u> (1)
Depreciation @ 25%	<u>14 062</u> (1)

19 marks

Quality of presentation

1 mark for title including company name and date in full. Do not reward + or & in title, unless for example, eg income statement (Trading + profit + loss account).

1 mark for correctly labelling gross profit for the year and profit after tax. Allow net profit, net profit for the year, net profit after tax.

2 marks

4 (b) Identify the accounting concepts which should be used to make adjustments to the income statement (trading and profit and loss account) for additional information items 1 and 4. (2 marks)

For each of the Items 1 and 4 do not accept more than one answer apart from those mentioned below. Words do not have to be spelt correctly – phonetic spelling is acceptable.

Item 1 Prudence concept **(1)** or conservatism **(1)**. **1 mark**

Item 4 Consistency concept **(1)**. **1 mark**

2 marks

4 (c) Complete the following extract from the statement of changes in equity for the year ended 30 April 2011. (8 marks)

Borca Ltd
Statement of changes in equity for the year ended 30 April 2011

	Ordinary shares £	Share premium £	Retained earnings £
At 1 May 2010	200 000	25 000	268 756
Issue of shares	500 000 (1)	625 000 (1)	
Profit for the year			171 760 (1)OF
Equity dividends			(140 000) (2)OF W1
At 30 April 2011	700 000	650 000	300 516
	(1)OF	(1)OF	(1)OF

W1

Issued shares = 700 000 **(1)** x 20p **(1)** = £140 000

8 marks

UMS conversion calculator: www.aqa.org.uk/umsconversion