

The maximum mark for this paper is 120.

SPECIMEN

INSTRUCTIONS TO EXAMINERS

Own Figure Rule ('of')

Where 'of' is indicated, a figure which is incorrect solely because of an error in an earlier part of the question may be awarded the appropriate marks as if it were correct.

Quality of Written Communication

The rubric states:

**In these two questions/sub-questions, you will be assessed on the quality of your written communication. In one of these questions, the focus will be on your ability to present numerical information legibly and in an appropriate accounting format. In the other, you will be assessed on the legibility and style of writing, the clarity and coherence of your arguments and the accuracy of your spelling, punctuation and grammar.*

4% of the paper marks are available for rewarding *Quality of Written Communication*, as follows:

Levels of Response for *Numerical Questions*

Level	Mark	Description
3	3	All account headings, terms and balances are included appropriately and in line with accounting conventions. All figures are legible with effective use made of columns and sub-totals. All accounts are ruled off as appropriate.
2	2	Almost all account headings, terms and balances are included appropriately and in line with accounting conventions. Figures are legible with effective use made of columns and sub-totals. Accounts are ruled off as appropriate.
1	1	Some account headings, terms and balances are included though not always adhering to accounting conventions. Most figures are legible. Some appropriate use is made of columns and sub-totals. Some accounts are ruled off as appropriate.
–	0	Responses which fail to achieve the standard required for Level 1.

Levels of Response for *Narrative Questions*

Level	Mark	Description
2	2	Ideas, some complex, are expressed clearly and quite fluently, using an appropriate style of writing. Arguments made are generally relevant and are constructed in a logical and coherent manner. There are few errors of spelling, punctuation and grammar, and those that are made are not intrusive and do not obscure meaning.
1	1	Relatively straightforward or simple ideas are expressed in a generally appropriate style of writing which sometimes lacks clarity or fluency. Arguments have some limited coherence and structure, occasionally showing relevance to the main focus of the question. There are errors of spelling, punctuation and grammar which are noticeable and sometimes intrusive but do not totally obscure meaning.
–	0	Responses which fail to achieve the standard required for Level 1.

Question Number	Answer				Max Mark		
1*	Calculations						
		Dec	Jan	Feb	Mar		
	Sales	70,000	75,000	65,000	100,000		
	50%-2%	34,300	36,750	31,850	49,000		
	50%		35,000	37,500	32,500		
			71,750	69,350	81,500		
	2%		750	650	1,000		
	<u>Sales</u>		<u>Purchases (Sales x 4/5)</u>				
	Jan	75,000	Dec	60,000			
	Feb	65,000	Jan	52,000			
	Mar	100,000	Feb	80,000			
	Apr	90,000	Mar	72,000			
		Dec	Jan	Feb	Mar		
	Purchases	60,000	52,000	80,000	72,000		
	50%-2.5%	29,250	25,350	39,000	35,100		
	50%		30,000	26,000	40,000		
			55,350	65,000	75,100		
	2.5%		650	1,000	900		
	Depreciation $65,000 + 17,000 = 82,000 \times 10\% \times 0.25 = 2,050$						
	<u>Jade plc</u>						
	<u>Cash Budget for the three months ending 31 March 2007</u>						
			<u>Jan</u>	<u>Feb</u>	<u>Mar</u>		
	<u>Receipts</u>						
	Sales		71,750 [2]	69,350 [2]	81,500 [2]		
	<u>Payments</u>						
Purchases		55,350 [2]	65,000 [2]	75,100 [2]			
Expenses		8,400	8,400	8,400 [1]			
Fixed asset			8,500 [1]				
		63,750	81,900	83,500			
Net receipts/(payments)		8,000	(12,550)	(2,000)			
Opening balance		14,300 [1]	22,300	9,750			
Closing balance		22,300	9,750	7,750 [1]			

Question Number	Answer	Max Mark																																																																																																																																								
<p>1 cont'd</p>	<p><u>Budgeted Trading and Profit and Loss Account for the three months ending 31 March 2007</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;">Sales</td> <td style="width: 30%;"></td> <td style="width: 20%; text-align: right;">240,000</td> <td style="width: 10%; text-align: right;">[1]</td> </tr> <tr> <td>Opening stock</td> <td style="text-align: right;">60,000</td> <td></td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">204,000</td> <td></td> <td style="text-align: right;">[1]</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">264,000</td> <td></td> <td></td> </tr> <tr> <td>Closing stock</td> <td style="text-align: right;">72,000</td> <td></td> <td style="text-align: right;">[1]</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">192,000</td> <td></td> <td></td> </tr> <tr> <td>Cost of sales</td> <td></td> <td style="text-align: right; border-top: 1px solid black;">192,000</td> <td></td> </tr> <tr> <td>Gross Profit</td> <td></td> <td style="text-align: right;">48,000</td> <td></td> </tr> <tr> <td>Discount received</td> <td></td> <td style="text-align: right;">2,550</td> <td style="text-align: right;">[1]</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">50,550</td> <td></td> </tr> <tr> <td>Expenses</td> <td style="text-align: right;">25,200</td> <td></td> <td style="text-align: right;">[1]</td> </tr> <tr> <td>Discount allowed</td> <td style="text-align: right;">2,400</td> <td></td> <td style="text-align: right;">[1]</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">2,050</td> <td></td> <td style="text-align: right;">[2]</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">29,650</td> <td></td> </tr> <tr> <td>Net Profit</td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">20,900</td> <td></td> </tr> </table> <p>NB Up to an additional three marks can be awarded for the candidate's quality of written communication (numerical responses)</p>	Sales		240,000	[1]	Opening stock	60,000			Purchases	204,000		[1]		264,000			Closing stock	72,000		[1]		192,000			Cost of sales		192,000		Gross Profit		48,000		Discount received		2,550	[1]			50,550		Expenses	25,200		[1]	Discount allowed	2,400		[1]	Depreciation	2,050		[2]			29,650		Net Profit		20,900																																																																														
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<p>2(b)</p>	<p>Prudence. Reduction of profit by 2/3 multiplier. Reduction of profit by <u>cash received</u> multiplier. work certified</p> <p><i>(3 x 1 mark)</i> <i>(1 for concept, 1 reduction of profit, 1 for either multiplier)</i></p>	<p>[3]</p>																												
<p>2(c)</p>	<p>Replacing labour by automation could lead to conflict with unions. A consultation process should take place to ensure any grievances are discussed, and if not resolved the consequences are considered.</p> <p>Redundancies could lead to industrial action and adverse publicity. Customers could purchase from other sources and there could be a general loss of goodwill in the company. If the company is part of a larger group or has other departments, it could consider retraining or redeploying employees.</p> <p>Redundant employees in an area of high unemployment could lead to a consequent loss of purchasing power in the community. This in turn could lead to additional adverse publicity for the company.</p> <p>The company could consider redundancy compensation and enhanced pensions for employees. Education for social and cultural activities during retirement could be provided and social events arranged for retired employees.</p> <p><i>(3 x 3 marks)</i> <i>(1 for point plus up to 2 for development)</i></p>	<p>[9] [28]</p> <p style="text-align: right;">Total marks</p>																												
<p>3(a)</p>	<table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 15%; text-align: center;">A</th> <th style="width: 15%; text-align: center;">B</th> <th style="width: 15%; text-align: center;">C</th> </tr> </thead> <tbody> <tr> <td>Selling price</td> <td style="text-align: center;">65</td> <td style="text-align: center;">64</td> <td style="text-align: center;">82</td> </tr> <tr> <td>Variable cost</td> <td style="text-align: center;"><u>47</u></td> <td style="text-align: center;"><u>40</u></td> <td style="text-align: center;"><u>62</u></td> </tr> <tr> <td>Contribution/unit</td> <td style="text-align: center;"><u>18</u> [1]</td> <td style="text-align: center;"><u>24</u> [1]</td> <td style="text-align: center;"><u>20</u> [1]</td> </tr> <tr> <td><u>Contribution</u></td> <td style="text-align: center;"><u>18</u></td> <td style="text-align: center;"><u>24</u></td> <td style="text-align: center;"><u>20</u></td> </tr> <tr> <td>Limiting factor</td> <td style="text-align: center;">3</td> <td style="text-align: center;">2</td> <td style="text-align: center;">4</td> </tr> <tr> <td>Ranking[1]</td> <td style="text-align: center;">6 (2nd)</td> <td style="text-align: center;">12 (1st)</td> <td style="text-align: center;">5 (3rd)</td> </tr> </tbody> </table>		A	B	C	Selling price	65	64	82	Variable cost	<u>47</u>	<u>40</u>	<u>62</u>	Contribution/unit	<u>18</u> [1]	<u>24</u> [1]	<u>20</u> [1]	<u>Contribution</u>	<u>18</u>	<u>24</u>	<u>20</u>	Limiting factor	3	2	4	Ranking [1]	6 (2nd)	12 (1 st)	5 (3 rd)	
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Question Number	Answer			Max Mark	
3(a) cont'd	Machinist hours available	100,000			
	Product B x 16,000	<u>(32,000)</u>	[1]		
		68,000			
	Product A x 12,000	<u>(36,000)</u>	[1]		
		32,000			
	Product C x 8,000	<u>(32,000)</u>	[2]		
	Contribution B 16,000 x 24	384,000	[1]		
	Contribution A 12,000 x 18	216,000	[1]		
	Contribution C 8,000 x 20	<u>160,000</u>	[1]		
	Total contribution	760,000			
Fixed costs	<u>600,000</u>	[1]			
Profit	<u>160,000</u>	[1]	[13]		
3(b)		A	B	C	
	Selling price	65	64	82	
	Variable cost	<u>50</u>	<u>42</u>	<u>66</u>	
	Contribution/unit	15 [1]	22 [1]	16 [1]	
	x Qty	<u>12,000</u>	<u>16,000</u>	<u>18,000</u>	
		180,000 [1 of]	352,000 [1 of]	288,000 [1 of]	
	Total contribution			820,000 [1]	
	Fixed costs			<u>600,000</u> [1]	
	Profit			<u>220,000</u> [1]	[9]

Question Number	Answer	Max Mark
3(c)*	<p>Option 1 Limits production of product C, which may lead to packers being laid off. Unable to make full production and less profit generated. Unable to meet customer demand for product C, which may lead to losing customers to competitors. Impact of fewer employees and multiplier effect on local economy. Reputation of business may suffer if it is not able to attract sufficient machinists.</p> <p>Option 2 Employing additional machinists at higher rate will lead to increased production and profit. Motivation issue and packers may also demand wage increases and reduce profit. The company needs to consider long term demand before taking on permanent staff. All figures are estimates and may not materialise. Rather than take on extra machinists could packers be retrained to work as machinists.</p> <p>Comparison and recommendation Increasing the hourly rate for labour will lead to an increase in profit of £60,000. This is a 33.5% increase compared to maintaining the current labour rate.</p> <p>Under option 2, the company is able to achieve full production, however under option 1, production of product C is reduced by 10,000 units. This is a 55.6% reduction on expected sales. Customer confidence may fall and have a multiplier impact on products A and B.</p> <p>Whilst option 2 may lead to an adverse reaction from packers, it does lead to full production, maintaining employment and increasing profit. On this basis, option 2 would be preferred.</p> <p><i>(Up to 4 marks for advantages and disadvantages of Option 1)</i> <i>(Up to 4 marks for advantages and disadvantages of Option 2)</i> <i>(Up to 4 marks for a comparison and recommendation)</i></p> <p>NB Up to an additional two marks can be awarded for the candidate's quality of written communication (narrative responses)</p> <p style="text-align: right;">Total marks</p>	<p>[14] [36]</p>

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4(c)	<p>Use of estimated data, which could be inaccurate, leading to under/over absorption.</p> <p>Over absorption, too much overhead charged to production, overpriced and uncompetitive, fall in demand and subsequent loss of revenue/reduction in profit.</p> <p>Under absorption, insufficient overhead charged to production, lower price to customer, costs not covered and subsequent reduction in profits.</p> <p>(3 x 2 marks)</p>	[6]																																																																																																																																								

(1 for point plus 1 for development)

Total marks [29]

Paper Total [120]

SPECIMEN

Assessment Objectives Grid

Question	AO1	AO2	AO3	Total
1*	14	13	0	27
2(a)	5	9	2	16
2(b)	0	1	2	3
2(c)	0	0	9	9
3(a)	3	9	1	13
3(b)	3	6	0	9
3(c)*	0	0	14	14
4(a)	5	12	2	19
4(b)	0	4	0	4
4(c)	0	0	6	6
Totals	30	54	36	120

*includes QWC

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