

Mark Scheme (Results) January 2008

GCE Level

GCE Accounting (6002) Paper 1

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response

6002/01 Mark Scheme January 2008

Question Number	Answer	Mark
1(a)		(20)

(a) Notes to Mark Scheme (on following page)

Called up share capital not paid 900 may appear under C II Current assets (Debtors)

Prepayments 2700 and Rent received 1200 may appear under D Prepayments and Accrued Income.

Items marked with a letter or Roman Numeral should appear on the face of the balance sheet.

Peninsular Film Studio plc				
Balance sheet as at 31 December 2007 £				
A Called up share capital not paid			900	£
B Fixed assets £				
<i>I Intangible assets £</i>				
Patents	65000			£
Goodwill	120000			£
		185000		
<i>II Tangible Assets £</i>				
Buildings	600000			££
Machinery	215000			£
		815000		
			1000000	£ O/F
C Current Assets £				
<i>I Stocks</i>				
Stocks of Consumables	6600			£
Work in progress	340000			£
<i>II Debtors</i>				
Trade debtors	6000			£
Prepayments	2700			£
Rent received	1200			£
<i>IV Cash at bank and in hand</i>				
Cash In Hand	28000			£
		384500		£ O/F
D Prepayments and Accrued Income				
E Creditors: Amounts falling due within one year £				
Overdraft	14000			£
Trade Creditors	57000			£
Debenture interest	24000			£
		95000		£ O/F
F Net current assets (liabilities) £			289500	£ O/F
G Total assets less current liabilities £			1290400	£ O/F
H Creditors: amounts falling due after more than one year £				
Debentures			400000	£
I : Provisions for liabilities and charges £				
Taxation Provision			178000	£
J : Accruals and deferred income				
			712400	£ O/F
K :Capital and reserves £				
<i>I Ordinary share capital called up</i>	490910			£
<i>II Share premium account</i>	100000			£
<i>III Revaluation reserve</i>	170000			££
<i>V Profit and loss account</i>	-48510			£
			712400	£ O/F
11 x £				29 x £
		Total	40 x £=	20 marks

Question Number	Answer	Mark
1(b)	<p>FOR Importance Auditors are independent ✓ scrutineers of the accounts. ✓ who report that the accounts have been prepared “correctly” ✓ in accordance with company law ✓ or rather, give a True and Fair view. ✓ or do not ✓ . Auditors are reporting on how Directors have used the funds ✓ invested by shareholders. ✓. The auditors duty is to the shareholders. ✓ Auditors may give tax authorities ✓ more confidence that the tax computation is correct. ✓ Professional supervisory bodies ✓ exist to give guidelines to auditors ✓, eg Auditing Practices Board. Auditors should be professionally qualified ✓ eg Chartered Accountants.✓</p> <p>AGAINST Importance Auditors may not be very independent, ✓ going along with the wishes of clients, ✓ in order to keep their custom. ✓ which may include non-audit work. ✓ Auditors could be misled ✓ by the directors ✓ and provide an inaccurate report. ✓ Auditors do not guarantee ✓ that material fraud has not occurred. ✓</p> <p>Maximum of 4 marks (8 x ✓) for argument on one side</p> <p>CONCLUSION Should relate to points made above. Eg Auditors’ Report is important and of value. ✓✓</p>	(6)

Question Number	Answer	Mark
2(a)(i)		(6)

$$\begin{aligned} \text{Materials Price Variance} &= (\text{Actual Price} - \text{Standard Price}) \times \text{Actual Usage } \mathcal{L} \\ &= (0.08 - 0.07) \times 51\,500 \mathcal{L} \\ &= \mathcal{L}515 \mathcal{L} \text{ Adverse } \mathcal{L} \end{aligned}$$

$$\begin{aligned} \text{Material Usage Variance} &= (\text{Actual Usage} - \text{Standard Usage}) \times \text{Standard Price } \mathcal{L} \\ &= (51\,500 - 48\,000) \times 0.07 \mathcal{L} \\ &= \mathcal{L}245 \mathcal{L} \text{ Adverse } \mathcal{L} \end{aligned}$$

$$\begin{aligned} \text{Material Cost Variance} &= (\text{Actual Usage} \times \text{Actual Price}) - (\text{Standard Usage} \times \text{Standard Price}) \mathcal{L} \\ &= (51\,500 \times 0.08) - (48\,000 \times 0.07) \mathcal{L} \\ &= 4120 - 3360 = \mathcal{L}760 \mathcal{L} \text{ Adverse } \mathcal{L} \end{aligned}$$

Question Number	Answer	Mark
2(a)(ii)		(6)

$$\begin{aligned} \text{Labour Efficiency Variance} &= (\text{Actual Hours} - \text{Standard Hours}) \times \text{Standard Rate } \mathcal{L} \\ &= (822 - 800) \times \mathcal{L}5.60 \mathcal{L} \\ &= \mathcal{L}123.20 \mathcal{L} \text{ Adverse } \mathcal{L} \end{aligned}$$

$$\begin{aligned} \text{Labour rate Variance} &= (\text{Actual Rate} - \text{Standard Rate}) \times \text{Actual Hours } \mathcal{L} \\ &= (\mathcal{L}5.686 - \mathcal{L}5.6) \times 822 \mathcal{L} \\ &= (\mathcal{L}0.086 \times 822) = \mathcal{L}70.70 \mathcal{L} \text{ Adverse } \mathcal{L} \end{aligned}$$

$$\begin{aligned} \text{Total Labour Variance} &= (\text{Actual Hours} \times \text{Actual Rate}) - (\text{Standard Hours} \times \text{Standard Rate}) \mathcal{L} \\ &= (822 \times \mathcal{L}5.686) - (800 \times \mathcal{L}5.6) \mathcal{L} \\ &= \mathcal{L}4674 - \mathcal{L}4480 = \mathcal{L}194 \mathcal{L} \text{ Adverse } \mathcal{L} \end{aligned}$$

Question Number	Answer	Mark
2(b)		(3)

	ACTUAL		
Sales	15840	✓	
Materials	4120	✓	
Labour	4674	✓	
Fixed Costs	1600	✓	
Total Production Cost	10394		
Profit	5446	✓ O/F ✓ C	
	Total 6 x ✓ =	3 marks	

Question Number	Answer	Mark
2(c)		(5)

Per Unit	BUDGET	ACTUAL DEC	
Sales	4.95		
Materials	1.05	1.29	✓✓
Labour	1.40	1.46	✓✓
Fixed Costs	0.50	0.50	✓
Total Production Cost	2.95	3.25	✓ O/F ✓ C
Profit	2.00	2.00	✓ O/F
	New Price	5.25	✓ O/F ✓ C
	Total 10 x ✓ =	5 marks	

Question Number	Answer	Mark
2(d)	<p>FOR Passing on the increase in production cost Need to maintain profit margin, // cannot keep same selling price for ever. / Customers may be quite willing to pay the higher price. // // New price may still be below that of rival firms. //</p> <p>AGAINST Passing on the increase in production cost Could absorb rising costs / by increasing efficiency. / Customer could be unhappy / and go to a rival supplier. / / New price could make firm's price higher than rivals. //</p> <p>CONCLUSION Should relate to above eg passing on increased costs is wrong/right //</p> <p>Maximum of 10 / if only one side of argument.</p>	(6)

Question Number	Answer	Mark
3(a)		(6)

	<u>Capital Reserves</u>	<u>Revenue Reserves</u>
Examples	Share Capital ✓ Revaluation ✓ Capital Redemption Reserve etc	Profit + Loss A/c ✓ General Reserve etc ✓
Formed by	Eg Issue of shares, Capital redemption ✓ ✓	From Profit + Loss Account ✓ ✓
Used for dividends ?	No ✓ ✓	Yes ✓ ✓

Question Number	Answer	Mark
3(b)		(3)

10% £1 Preference Share Capital Account

Dec 1 Bank ✓	<u>125 000 ✓</u>	Jan 1 2007 Balance b/d	<u>125 000 ✓</u>
	<u>125 000</u>		<u>125 000 ✓</u>

£1 Ordinary Share Capital Account

		Jan 1 2007 Balance b/d	<u>800 000 ✓</u>
Dec 31 Balance c/d	<u>850 000 ✓</u>	Dec 1 Bank ✓	<u>50 000 ✓</u>
	<u>850 000</u>		<u>850 000</u>
		Jan 1 2008 Balance b/d	<u>850 000</u>

Share Premium Account

		Jan 1 2007 Balance b/d	<u>160 000 ✓</u>
Dec 31 Balance c/d	<u>170 000 ✓</u>	Dec 1 Bank ✓	<u>10 000 ✓</u>
	<u>170 000</u>		<u>170 000</u>
		Jan 1 2008 Balance b/d	<u>170 000</u>

Capital Redemption Reserve Account

		Jan 1 2007 Balance b/d	<u>125 000 ✓</u>
Dec 31 Balance c/d	<u>190 000 ✓ o/f</u>	Dec 1 Profit + Loss ✓	<u>65 000 ✓ ✓ ✓</u>
	<u>190 000</u>		<u>190 000 ✓ o/f</u>
		Jan 1 2008 Balance b/d	<u>190 000 ✓ o/f</u>

+ ✓ ✓ if ALL dates correct
✓ if SOME dates correct

Question Number	Answer	Mark
3(c)		(6)

$$\begin{aligned} \text{Return on Capital Employed} &= \frac{\text{Net profit after Tax}}{\text{Capital Employed}} \times 100 \quad \checkmark \\ &= \frac{146\,000 \checkmark}{1\,597\,000 \checkmark} \times 100 = 9.14 \checkmark \% \checkmark \end{aligned}$$

Alternative figures for Capital Employed acceptable

Question Number	Answer	Mark
3(d)	<p>Answers may include :</p> <p>FOR Decision Preference shares carry high return at 10% / Ordinary return will probably be lower / This will leave more funds in the business / that can be used to expand/generate profits. / ROCE will improve / as capital employed is reduced / this will please shareholders and institutions / Gearing ratio will improve / as fixed interest debt / is replaced by equity capital /</p> <p>AGAINST Decision Possible dilution of ownership of existing shareholders / if any sales on open market. / Issue costs / eg lawyers, accountants /</p> <p>Maximum of 8 x / for argument of one side</p> <p>CONCLUSION Should relate to points above eg Decision is a good one / /</p>	(6)

Question Number	Answer	Mark
4(a)		(10)

CASH BUDGET

	Month 1	Month 2	Month 3	Month 4	Per row
Income					
Share Capital	20000				✓
Bank Loan	20000				✓
Sales - Cash	10500	12600	15120	18144	✓✓
Sales - Credit		3500	4200	5040	✓
Total Income	50500	16100	19320	23184	✓✓
Expenditure					
Shop Premium	12500				✓
Fixtures and Fittings	13000				✓
Purchases	22000	7000	8400	10080	✓
Expenses	4000	4000	4000	4000	✓
Directors Drawings	3200	3200	3200	3200	✓
Total Expenditure	54700	14200	15600	17280	✓✓
Monthly Balance	-4200	1900	3720	5904	✓✓ o/f
Opening Balance	0	-4200	-2300	1420	✓✓ o/f
Closing Balance	-4200	-2300	1420	7324	✓✓ o/f

Question Number	Answer	Mark
4(b)		(2)

DEBTORS BUDGET

	Month 1	Month 2	Month 3	Month 4	
Debtors	3500	4200	5040	6048	✓✓✓✓ o/f

Question Number	Answer	Mark
4(c)	<p>FOR the level of drawings Closing balance is healthy ✓ in months 3 and 4. ✓ As long as overdraft agreed ✓ for months 1 + 2 ✓</p> <p>AGAINST the level of drawings Negative Cash Flow in month 1 + 2 ✓ means may have to arrange overdraft. ✓ Could reduce drawings ✓ for months 1 + 2 ✓ Figures are only predictions, ✓ what if sales are much lower? ✓</p> <p>CONCLUSION Should relate to above eg drawings are at correct level. ✓✓</p> <p>Maximum of 6 ✓ if only one side of argument. o/f Rule Applies</p>	(4)

Question Number	Answer	Mark
5(a)		(12)

Net Profit after interest and tax for year = $625\,000 \text{ £} \times 11 \text{ £} = 68\,750 \text{ £}$

Earnings per Ordinary share = $\frac{68\,750 \text{ £}}{850\,000 \text{ £}} = 11.47 \text{ pence £}$

Ordinary Dividend paid for year = $\frac{68\,750 \text{ £}}{2.4 \text{ £}} = 28\,646 \text{ o/f £}$

Dividend Cover = $\frac{68\,750 \text{ £}}{35\,800 \text{ £}} = 1.91 \text{ times £}$

Share Price = $12 \text{ £} \times 11 \text{ £} = 132 \text{ pence £}$

Price/Earnings Ratio = $\frac{132 \text{ p}}{11.47 \text{ p}} = 11.51 \text{ times £ o/f}$

Dividend paid per share = $\frac{28\,646 \text{ £}}{850\,000 \text{ £}} = 6 \text{ pence per share £}$

Dividend Yield = $\frac{6 \text{ p}}{132 \text{ p}} = 4.55 \text{ % £ o/f}$

Units required for third £ per calculation

Question Number	Answer	Mark
5(b)	<p>FOR Grapefruit</p> <p>Higher dividend yield ✓ by 2.36 % points ✓ Higher dividend paid per share ✓ by 1.42 pence per share ✓ EPS higher ✓ by 0.47 pence per share ✓ May argue that market price lower, ✓ so can buy more shares. ✓ More generous to shareholders with dividend cover policy by 0.49 times.</p> <p>FOR Hallway</p> <p>Safer dividend cover policy ✓ by 0.49 times ✓ P/E Ratio is higher ✓ by 3.02 times. ✓ Does the market know something good about Hallway, ✓ or bad about grapefruit.? ✓</p> <p>Maximum of 4 x ✓ for argument for one side. o/f Rule applies</p> <p>CONCLUSION Recommend investing in Grapefruit ✓ ✓</p>	(4)

Question Number	Answer	Mark
6(a)		(6)

(a)	Al Quarat	Jenberouk	Sudamis	Total
Sales Revenue	4200000/	10500000/	1400000/	16100000
Direct Labour	1800000	2400000	1000000	5200000
Direct Materials	600000	900000	480000	1980000
Fixed Costs	2880000	4200000	240000	7320000
	All costs /	All costs /	All costs /	
Profit (Loss)	-1080000/	3000000/	-320000/	1600000 / / /
			12 x / = 6 marks	

Question Number	Answer	Mark
6(b)		(6)

Per Barrel	Al Quarat	Jenberouk	Sudamis
Sales Revenue	35/	35/	35/
Direct Labour	15	8	25
Direct Materials	5	3	12
Fixed Costs	24	14	6
	All costs /	All costs /	All costs /
Profit (Loss)	-9/	10/	-8/
Contribution	15/	24/	-2/
			12 x / = 6 marks

Question Number	Answer	Mark
6(c)		(4)

(c)	Al Quarat	Jenberouk	Sudamis
Future	Continue Short Term //	Continue Long Term //	Close Now //
Plus Comment //		Profitable //	Loss making //
	Positive Contribution //	Positive Contribution //	Negative Contribution //
			Running out of oil //

Question Number	Answer	Mark
7(a)		(9)

Reconciliation of operating profit to net cash flow from operating activities

Net Profit	27680	√
Add Interest - Overdraft	415	√
Bank loan 12 x 2/3 x 15 000	1200	√√
Loss on sale of fixed asset	810	√√
Profit on sale of fixed asset	-1500	√√
Depreciation on machinery	20000	√√
Depreciation on computer	900	√√
Increase in stock of parts	-728	√
Decrease in debtors	509	√
Increase in accrued expenses	80	√
Decrease in trade creditors	-56	√
Net Cash Flow from Operating Activities	49310	√ o/f √C

Question Number	Answer	Mark
7(b)		(3)

Analysis of changes in Cash and Bank Balances during year ended December 1st 2007

	31-Dec-06	31-Dec-07	Change in Year	
Cash	765	987	222	√
Bank	-2853	(4096)	-1243	√
Total	-2088	(3109)	-1021	√

Other formats acceptable but only one √ per number. Need first two columns for first tick

Question Number	Answer	Mark
7(c)	<p>Answers may include:</p> <p>FOR Importance Firm needs to be liquid in order to pay its own bills ✓ to continue trading ✓ eg wages, suppliers. ✓ Failure to pay bills ✓ eg tax, ✓ could result in closure of firm, ✓ or extra financial penalties. ✓ Firm could have profit in books ✓ but lack of liquidity could force firm to cease trading. ✓</p> <p>AGAINST Importance It is profit ✓ that determines the long term survival of a business. ✓ Sources of funds are available ✓ to help firms survive short term liquidity problems ✓ eg overdrafts, loans. ✓</p> <p>Maximum if argue for only one side 4 x ✓ = 2 Marks</p> <p>CONCLUSION Should relate to above. Eg Liquidity is important to a business. ✓✓</p>	(4)

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