

# Mark Scheme January 2009

GCE

GCE Accounting (8011-9011)

## 6002 Mark Scheme

Question Number	Answer	Mark
(a)		(40)

## Q1 (a)

## Profit and Loss Account for Standard Bicycles plc for Y/e 31st Dec 2008 ✓

Turnover	4255000	✓	Direct Labour	724000	✓	
Cost of sales	(1912000)	✓ o/f	Direct materials	520000	✓	
Gross profit	2343000	✓ o/f	Factory Deprctn	214000	✓✓	9 x ✓
Distribution costs	(1163800)	✓ o/f	Factory Overheads	375000	✓	
Administrative expenses	(289250)	✓ o/f	Production Director	63000	✓	
Other operating income	99840	✓ o/f	Stock Adjust	16000	✓✓	
Interest Receivable	3850	✓		1912000	✓ o/f	
Interest payable	(55000)	✓ o/f				
Profit on ordinary activities before tax	938640	✓ o/f	<b>W2 Distribution Costs</b>			
Corporation tax	(210000)	✓	Promotions and Advertising	58000	✓	
Profit on ordinary activities after tax	728640	✓✓C o/f	Warehouse Expenses	188000	✓	
			Motor Lorries Depctn	95000	✓✓	
			Shop Rent	290800	✓✓	
			Transport Staff Wages	176000	✓	
			Shop staff wages	288000	✓	
			Sales Director	68000	✓	10 x ✓
				1163800	✓ o/f	
			<b>W3Administrative Expenses</b>			
			Bad Debts Written Off	2250	✓	
			Office staff	222000	✓	
			Finance Director	65000	✓	3 x ✓
				289250		
			<b>Other Operating Income</b>			
			Factory Canteen Sales	75000	✓	
			Rent received	24840	✓✓	3 x ✓
				99840		
			<b>W4 Interest Payable</b>			
			Debenture	55000	✓✓	2 x ✓

## Section A

Question Number	Answer	Mark
1(b)	<p><b>Answers could include</b></p> <p><b>Benefits</b>  This will benefit users of accounts because they can see that the expense of the Exceptional Item will not be expected to be repeated regularly in the future. ✓✓  Although in the normal line of business ✓ the Exceptional Item should be disclosed because of its size. ✓  This allows reader to predict more accurately future expected performance. ✓✓</p> <p>This may help future potential investors ✓ / shareholders ✓ / creditors ✓ etc with decision making. ✓</p> <p>Should be beneficial if required to be shown ✓ by FRS3. ✓  Could be said to give a True and Fair View ✓</p> <p><b>Disadvantages</b>  Adds more figures and details to the accounts ✓ so makes them more difficult to understand. ✓  Extra cost ✓ in spending extra time preparing accounts. ✓</p> <p>Maximum for arguing only one side 8 x ✓ = 4 marks</p> <p><b>Evaluation</b>  Should conclude that it is beneficial to disclose Exceptional Items. ✓✓</p>	(12)

(Total 52 marks)

Question Number	Answer	Mark																											
<b>2(a)</b>	Reconciliation of operating profit to net cash flow from operating activities	<b>(14)</b>																											
	<table border="1"> <tbody> <tr> <td>Net Operating Loss</td> <td>(178 000)</td> <td>√</td> </tr> <tr> <td>Add Interest : Bank overdraft</td> <td>1 000</td> <td>√</td> </tr> <tr> <td>Bank Loan 112 500 + 7 500</td> <td>120 000</td> <td>√√</td> </tr> <tr> <td>Less Dividends Received</td> <td>(20 000)</td> <td>√</td> </tr> <tr> <td>Depreciation 140 √+ 10 √+ 60 √√</td> <td>210 000</td> <td>= √√ √√</td> </tr> <tr> <td>Increase in Stock</td> <td>(12 000)</td> <td>√</td> </tr> <tr> <td>Increase in Debtors</td> <td>(15 000)</td> <td>√</td> </tr> <tr> <td>Decrease in Creditors</td> <td>( 20 000)</td> <td>√</td> </tr> <tr> <td>Net Cash Inflow from Operating Activities</td> <td>86 000</td> <td>√ o/f √C</td> </tr> </tbody> </table>	Net Operating Loss	(178 000)	√	Add Interest : Bank overdraft	1 000	√	Bank Loan 112 500 + 7 500	120 000	√√	Less Dividends Received	(20 000)	√	Depreciation 140 √+ 10 √+ 60 √√	210 000	= √√ √√	Increase in Stock	(12 000)	√	Increase in Debtors	(15 000)	√	Decrease in Creditors	( 20 000)	√	Net Cash Inflow from Operating Activities	86 000	√ o/f √C	
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Question Number	Answer	Mark
<b>2(b)</b>		<b>(20)</b>

### Cash Flow Statement for the Year ended 31 December 2008

Wording is required to obtain the mark(s). Item also needs to be in correct place.

<u>Net Cash Inflow from Operating Activities</u>		86 000√ o/f
<u>Returns on Investment and Servicing of Finance</u> √		
Dividends Received		20 000 √
Interest Paid		(121 000) √ o/f
Preference Dividend Paid		(25 000) √
<u>Taxation</u>		
Tax Paid		(26 000) √
<u>Capital Expenditure + Financial Investment</u> √		
Payments to acquire tangible fixed assets		(40 000) √
<u>Equity Dividends Paid</u> √		
Final Dividend 2007	35 000 √	
Interim Dividend 2008	15 000 √√	(50 000)
Net Cash Outflow before Financing		(156 000) √ o/f
<u>Financing</u> √		
Issue of Ordinary Shares	100 000 √	
Increase in bank loan	100 000 √	
Net Cash Inflow from Financing		200 000 √
Increase in Cash √		44 000√ o/f √C

Question Number	Answer	Mark
2(c)		(6)

Analysis of Changes in Cash and Bank Balances during year ended 31 200

	1 January 2008	31 December 2008	Change in Year
Cash	12 000	18 000 ✓	6 000 ✓
Bank	(11 000)	27 000 ✓	38 000 ✓
Total	1 000	45 000 ✓ o/f	44 000 ✓ o/f

Need first two columns for first ✓

Other layouts for reconciliation are acceptable.

Question Number	Answer	Mark
2(d)	<p><b>Answers may include the following :</b>  <b>Max 6 marks available for arguing only one side.</b></p> <p><b>Not worried - Liquidity most important for short term survival</b>  Liquidity problems result in unable to pay daily bills ✓ eg wages, electricity (need two) ✓  Unable to pay some bills may result in closure of business ✓ eg tax bill ✓  Unable to pay some bills may mean business unable to operate ✓ eg electricity cut off ✓  Can survive short term losses ✓ if previous profits have been built up ✓  If depreciation (a non-cash expense ✓) is not included, Sunset plc makes a "profit" ✓  The Net Cash figure shows an inflow/increase ✓ ( But this has been due to a loan ✓ and new share issue ✓)</p> <p><b>Worried - Profitability important.</b>  If not profitable, business would close down ✓ in the long run ✓  If short term liquidity problem, ✓ many sources are available as source of finance ✓ eg banks, shareholders, debt factoring etc (need two sources) ✓  No/low profitability may result in firm unable to attract finance ✓ or investors/shareholders ✓  No/low profitability may see share price fall, ✓ as investors lose confidence ✓  Sunset only has no liquidity problem at present ✓ because it has increased the bank loan ✓ and asked shareholders for more funds ✓  The extra loan now means interest payments of £127 500 ✓ to be made a year which will reduce profit ✓</p> <p><b>4 marks for Conclusion (does not have to be at end)</b>  Liquidity more important for short term survival, ✓ so statement is basically true ✓  However, Sunset plc should be worried (about long term) ✓ as company is not profitable/not making a profit ✓</p>	(12)

(Total 52 marks)

Question Number	Answer	Mark
<b>3(a)</b>		<b>(6)</b>

Machine	Mixer	Oven	Decorator	Wrapper		
Production capacity	60	90	30	120		
Ratio	2	3	1	4	√√	
Common Numerator	12	12	12	12	√√	
Number of Machines	6	4	12	3	√√	

Question Number	Answer	Mark
<b>3(b)</b>		<b>(10)</b>

(i) Price per machine	£2,450	£1,880	£1,630	£2,740		
Number of machines	6	4	12	3		
Total per machine	£14,700	£7,520	£19,560	£8,220	£50,000	√
x2	12	8	24	6	√√√√	
(ii) Total cost per machine	£29,400	£15,040	£39,120	£16,440	£100,000	√√√√√

Question Number	Answer	Mark
<b>3(c)</b>		<b>(10)</b>

Production	hours	days	cakes pr hr	Total cakes	In a pack	Packs
	24	5	360 x 2	86 400	6	14 400
	√	√	√ √	√	√	√
Production Budget for Month 1	Week 1	Week 2	Week 3	Week 4	Total	
Production in Cakes	14 400	14 400	14 400	14 400	57 600	√o/f √C
				√ o/f		

Question Number	Answer	Mark
<b>3(d)</b>		<b>(6)</b>

Sales Budget	Week 1	Week 2	Week 3	Week 4	Total	
Sales Budget for Month 1	£12,960	£12,960	£12,960	£12,960	£51,8400	√o/f√C
	√ o/f	√ o/f	√ o/f	√ o/f		

Question Number	Answer	Mark
<b>3(e)</b>		<b>(8)</b>

75% of weekly sales	£9,720√	£9,720	£9,720	£9,720		
Debtors Budget for Month 1	Week 1	Week 2	Week 3	Week 4		
Debtors	£9,720	£19,440	£29,160	£38,880		
	√ o/f	√√ o/f	√√ o/f	√√ o/f		

Question Number	Answer	Mark
3(f)	<p><b>Answers may include the following:</b></p> <p><b>Max 8 marks</b> available for arguing only one side.</p> <p><b>For a Cash Budget</b>            Allows firm to see inflows and outflows of cash in the period, ✓ and to see whether overall there is an inflow or outflow of cash for the period. ✓            This will help the firm with planning and decision-making ✓ e.g. arrange an overdraft ✓ or arrange a loan, ✓ or chase up debtors, ✓ or negotiate with suppliers, ✓ or adjust prices ✓ prevent overtrading ✓            Can compare Budget to Actual ✓ and variance analysis can take place. ✓</p> <p><b>Against a Cash Budget</b>            Takes staff time to draw up budget ✓ and this means money. ✓            Budget is only an estimate ✓ so could be inaccurate ✓ and this could lead to inaccurate decision-making ✓</p> <p><b><u>2 marks</u> for Conclusion (does not have to be at end)</b>            Should conclude that drawing up a cash budget is worthwhile for the firm.</p>	(12)

(Total 52 marks)

## Section B

Question Number	Answer	Mark
4(a)		(8)

(i) Actual Material Used	$\frac{85800 \checkmark}{(2400 \checkmark \times 2.75 \checkmark)}$	=	13 metres $\checkmark$
(ii) Actual time taken	$\frac{59160 \checkmark}{(2400 \checkmark \times 5.80 \checkmark)}$	=	4.25 hours $\checkmark$

Question Number	Answer	Mark
4(b)		(16)

(i) Material Usage variance	$(13 \text{ o/f } - 12) \checkmark \times 2.75 \checkmark$	$\times 2400 \checkmark$	= £6 600 o/f Adv $\checkmark$
(ii) Total Material Cost Variance	£85 800	- £79 200 $\checkmark$	= £6 600 Adv $\checkmark$
(iii) Labour Rate Variance	$(£5.80 - £6.50) \checkmark \times$	$4.25 \text{ o/f } \checkmark \times 2400 \checkmark$	= £7 140 o/f Fav $\checkmark$
(iv) Labour Efficiency Variance	$(4.25 \text{ o/f } - 3.5) \checkmark \times$	$£6.50 \checkmark \times 2400 \checkmark$	= £11 700 o/f Adv $\checkmark$
(v) Total Labour Cost Variance	£59 160	- £54 600 $\checkmark$	= £4 560 Adv $\checkmark$



Question Number	Answer	Mark
4(c)	<p><b>Maximum 4 x ✓ for one side of argument</b></p> <p><b>For statement ie. Against Paying Low Wage Rate:</b>  Labour Rate variance is favourable, so probably less skilled workers than expected employed. ✓ This could result in the adverse Labour Efficiency variance, ✓ as they will take more time to complete the job than higher skilled workers. ✓ This also explains the adverse Total Labour Cost Variance. ✓  Also, the lower skilled workers (favourable Labour Rate variance) ✓ would waste more material, ✓ explaining the Material Usage variance, ✓ and the Total Material Cost Variance. ✓  Workers are less motivated ✓ so productivity may suffer ✓</p> <p><b>Against Statement ie. For Paying Low Wage Rate :</b>  Labour Rate variance is favourable ✓ which may reduce labour costs ✓</p> <p><b>Conclusion 2 x ✓✓ must relate to points made above.</b></p>	(8)

(Total 32 marks)

Question Number	Answer	Mark
5(a)		(20)

Profit and Loss Statement						
Calculation of sales	(1900 + 70000) ✓	- 2150 ✓	= ( 69750 x 45) ✓	=3138750	✓	
	Marginal	Absorption				
Sales	3138750	3138750				
Less						
Direct Materials	(910000)	(910000)	✓			
Direct Labour	(665000)	(665000)	✓			
Semi-variable costs	(430000)	(430000)	✓			
Fixed Overheads	(336000)	(336000)	✓			
Opening Stock	(41800) ✓	(60800) ✓	✓			
Closing Stock	51600	71902				
Profit	807550 ✓ o/f ✓ C	808852	✓ o/f ✓ C			
Calculation of closing stock						
Marginal	(13 + 9.50 + 1.50) ✓	x 2150 =	51600	✓		
Absorption	2341000 o/f ✓	= £33.44 o/f x 2150 ✓	= 71902	✓ o/f		
	70000 ✓					

Question Number	Answer	Mark
5(b)	<p>Answers could include</p> <p>The order could be accepted ✓ on the grounds that £30 is greater than the marginal cost of £24.00 ✓ £30 gives a (positive) contribution. ✓ of £6 per unit ✓ New customer may result in more orders in the future, ✓ perhaps at a higher price. ✓ However in the long term, ✓ selling at £30 would result in a Net Loss / not all costs are covered. ✓ Existing customers would be unhappy ✓ to hear of this low price on offer and could go elsewhere ✓</p>	(4)

Question Number	Answer	Mark
5(c)	<p>Answers could include:</p> <p><b>Maximum of 4 marks for argument of one side.</b></p> <p><b>Case for Marginal Costing</b>            Could be said to help decision making ✓ when deciding whether to accept an offer price ✓ or make or buy ✓ or discontinue a product/profit centre. ✓            Sees costs allocated to a time period, ✓ so it may be argued that profit for that time period is more accurate. ✓ External accounts ✓ are drawn up on the basis of a time period. ✓            May be argued it is prudent ✓ to write off costs in time period incurred. ✓</p> <p><b>Case for Absorption Costing</b>            Sees costs allocated to products. ✓ Could be useful for management ✓ when fixing prices ✓ or reviewing if a product/project has been profitable ✓ Recommended ✓ by SSAP 9. ✓ Could be said to give a True and Fair view ✓.</p> <p><b>Other Points</b>            If figures in the future are similar, choice of stock valuation will not have very much effect on the profit. ✓✓</p> <p><b>Conclusion</b>  <b>Max 2 marks available.</b> Should relate to points made above.</p>	(8)

(Total 32 marks)

Question Number	Answer	Mark
<b>6(a)</b>		<b>(6)</b>

<b>(i)</b> Jan 5	Realisation a/c	500 000		√
	Machinery a/c		500 000	√
<b>(ii)</b> Jan 5	Creditors a/c	64 000		√
	Realisation a/c		64 000	√
<b>(iii)</b> Jan 5	Ordinary Shares of £2 a/c	10 000 000		√
	Sundry Shareholders a/c		10 000 000	√

Question Number	Answer	Mark
<b>6(b)</b>		<b>(8)</b>

Purchase Price			
Number of Ordinary shares in Whistle Stopz plc	10000000 √	5000000√√	
	2		
	<b>Method 1</b>	<b>OR 2</b>	
Shareholders receive/ Purchase Price	£1.00	5 000 000 √	
	£0.45	2 250 000 √	
	£0.65 √ (3 items)	3 250 000 √	
	5000000 √	£2.10√	£10 500 000 √ o/f √ C

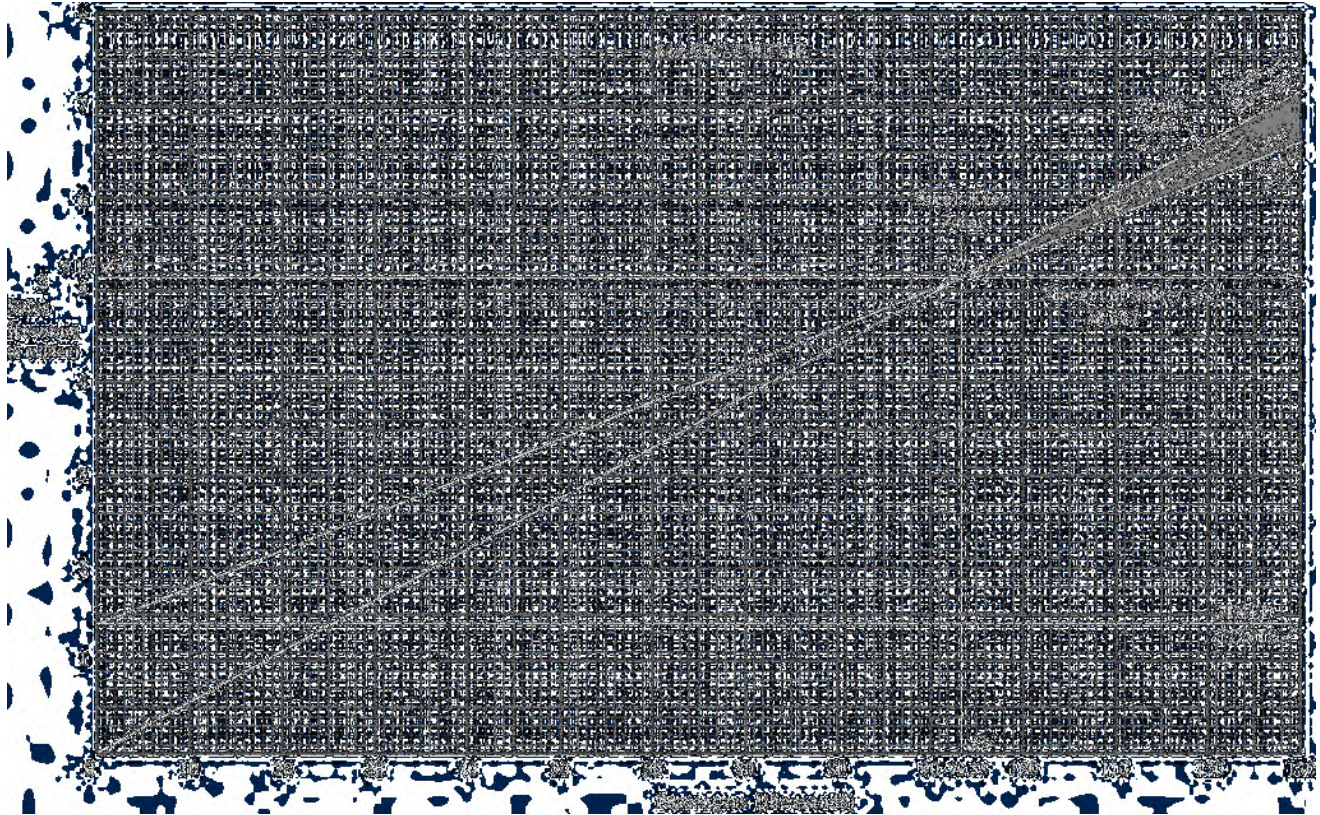
Question Number	Answer	Mark
<b>6(c)</b>		<b>(10)</b>

Calculation of Goodwill			
Purchase Price		10500000	√ o/f
Buildings	8500000	√	
Machinery	500000	√	
Fixtures & Fittings	1600000	√	
Furniture	300000	√	
Stock	75000	√	
		(10975000)	
Creditors	64000	√	
Long Term Loan	1000000	√	
		1064000	
Goodwill		589000	√ o/f √ C

Question Number	Answer	Mark
6(d)	<p><b>Answers may include:</b>  <b>Maximum of 4 marks per side of argument.</b></p> <p><b>Case for takeover:</b>            KC has received some goodwill, ✓ as purchase price is greater than net value of assets sold. ✓ Goodwill is actually 589 000 / 5 000 000 ✓ = 11.78p per share. ✓ Whistle Stopz plc appear to having problems. ✓ Liquidity / working capital is very low. ✓ Profit and loss reserve balance is very low. ✓ May be good to sell shares at decent price ✓ before it gets worse. ✓ Selling share for £2.10 which is above market value ✓ of £2.03 by £0.07 per share ✓</p> <p><b>Case Against takeover:</b>            KC bought the shares for £2.50 but is only receiving £2.10 per share now. ✓ He is making a loss of £0.40 per share. ✓ Goodwill paid is low ✓ - only about 5% above asset values. ✓ Whistle Stopz plc may improve in the future ✓ and the share price could rise above £2.10. ✓</p> <p><b>Conclusion</b>  <b>2 marks available</b>            Should relate to points made above.</p>	(8)

(Total 32 marks)

Question Number	Answer	Mark
7(a)		(14)



Question Number	Answer	Mark
7(b)		(10)

Calculation of Profit					
Actual Profit					
Sales Revenue	130000	55	7150000	√	
Variable Costs	130000	40	5200000	√	
Fixed Costs			1400000	√	
Profit			550000	√ o/f √ C	
Actual Break Even Point					
	$\frac{1400000}{(55\sqrt{-40\sqrt{}}$	√ =	$\frac{1400000}{15}$	93333.33	passengers
					√ o/f √ C

Question Number	Answer	Mark
7(c)	<p>Answers may include :</p> <p><b>Maximum of 4 marks per side of argument.</b></p> <p><b>Better than budget</b>            Passenger figures of 130 000 are better ✓ than budget figures by 10 000 ✓            Sales price per passenger of £55 is better ✓ than the budget figure of £50 ✓            Actual sales of £7 150 000 ✓ is better than the budget sales of £6 000 000 ✓</p> <p><b>Worse than budget</b>            Profit of £550 000 is worse than the budget profit ✓ of £600 000 ✓ (by £50 000).            Variable costs of £40 per passenger are higher ✓ than budget figures of £35 ✓            Fixed costs of £1 400 000 are higher ✓ than budget figure of £1 200 000 ✓            Actual Total Costs of £6 600 000 ✓ is worse than Budget Total Costs of £5 400 000 ✓ although this is partly due to more passengers. ✓            Break even figure for passengers of 93 334 is higher ✓ than budget figure of 80 000. ✓</p> <p><b>Conclusion (does not have to be at end)</b>  <b>2 marks available.</b> Should relate to above points.            Profit is higher so actual figures are better than budget. ✓✓</p>	(8)

(Total 32 marks)

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