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Mark Scheme Summer 2009

GCE

GCE Accounting (8011-9011)

Edexcel Limited. Registered in England and Wales No. 4496750
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A PEARSON COMPANY

Section A

Question Number	Answer					Mark
1(a)						
	Oceanic Fruit Trading plc					
	Balance sheet as at 31 March 2009 √					
	A: Called up share capital not paid			1200	√	
	B: Fixed assets					
	I Intangible assets √					
	Goodwill	120000			√	
	Licence	150000			√	
			270000			
	II Tangible Assets √					
	Buildings	775000			√ √	
	Machinery	115000			√	
	Ships and Vehicles	890000			√	
			1780000			
				2050000	√ O/F	
	C: Current Assets					
	I Stocks					
	Stocks of Consumables	8400			√	
	II Debtors					
	Trade debtors	6000			√	
	Prepayments	3300			√	
	IV Cash at bank and in hand					
	Cash at Bank	24500			√	
	Cash In Hand	8600			√	
			50800		√ O/F	
	D: Prepayments and Accrued Income					
	E: Creditors: Amounts falling due within one year √					
	Interest on Bank Loan	800			√	
	Debenture interest	16000			√	
	Bank Loan	50000			√	
	Rent Received	1100			√	
	Trade Creditors	57000			√	
			124900		√ O/F	
	F: Net current assets (liabilities) √			-74100	√ O/F	
	G: Total assets less current liabilities √			1977100	√ O/F	
	H: Creditors: amounts falling due after more than one year √					
	Debentures			200000	√	

I : Provisions for liabilities and charges					
Taxation Provision				71000	✓
J : Accruals and deferred income					
				1706100	✓ O/F
K :Capital and reserves ✓					
I Ordinary share capital called up		598800			✓
II Share premium account		240000			✓
III Revaluation reserve ✓		50000			✓
IV Other Reserves - Foreign Exchange Reserve		87000			✓
V Profit and loss account		730300			✓
				1706100	✓ O/F
9 x ✓					**31 x ✓**
			Total	**40 x ✓ =**	**40 marks**

Notes to Mark Scheme
Called up share capital not paid 1200 may appear under C II Current assets (Debtors).
Prepayments 3300 may appear under D Prepayments and Accrued Income.
Taxation Provision 71000 may appear under E Creditors due within one year.
Headings should appear on the face of the balance sheet to get the tick.

(40)

Question Number	Answer	Mark
1(b)	FOR Importance of Balance Sheet: • shows items of value firm possesses and may use for running firm over long term ✓ (fixed assets), ie shows financial strength of firm. ✓ • shows liquidity position of firm ✓ by Net Current Assets (Current Assets – Current Liabilities) ✓ • shows financial weaknesses of firm ✓ (long term liabilities – debt that must be serviced) ✓ • shows a book value of the firm, ie Capital and Reserves ✓ • Shareholders can see the book value of their investment ✓ • some figures in the Profit & Loss account may be estimates ✓ for example depreciation and stock values. ✓ FOR importance of Profit & Loss Account: • shows how well the firm has performed over the last trading period. ✓ This is very important as for example balance sheet may look healthy, but trading at a loss ✓ • enables firm to see the relationship between sales and purchasing/production ✓ ie Gross Profit ✓ • enables the firm to see the relationship between Gross Profit and Expenses ✓ ie Net profit ✓ • some figures in the Balance Sheet may be estimates ✓ for example depreciation and stock values. ✓ Maximum of 8 x ✓'s for argument on one side. CONCLUSION Should relate to points made above. For example balance Sheet is more important. ✓✓2 ✓'s for conclusion.	**(12)**

(Total 52 Marks)

Question Number	Answer	Mark
2(a)		**(8)**

	Budget	**Actual**	**Variance**		
	£	**£**	**£**		
Sales	168 000	159 750	8250	ADV	✓
Less					
Material Costs	27 000	30 160	3160	ADV	✓
Labour Costs	29 440	29 016	424	FAV	✓
Variable Overheads	12 310	13 358	1048	ADV	✓
= Cost of Goods Sold	68 750	72 534	3784	ADV	✓
Gross Profit	**99 250**	**87 216**	12034	ADV	✓
Fixed Overheads	58 500	58 500	0		✓
Net Profit	**40 750**	**28 716**	12034	ADV	✓

Question Number	Answer	Mark
2(b)(i)	$\frac{£30\,160 \quad ✓}{400\,000 ✓ \times 0.145 ✓}$ = 0.52 kg ✓	**(4)**

Question Number	Answer	Mark
2(b)(ii)	Material Usage Variance = (Actual Usage - Standard Usage) x Standard Price ✓ = (0.52 o/f - 0.50) ✓ x £0.135 ✓ x 400 000 ✓ = £1080 ✓ Adverse ✓	**(6)**

Question Number	Answer	Mark
2(b)(iii)	Material Price Variance = (Actual Price - Standard Price) x Actual Usage ✓ = (£0.145 - £0.135) ✓ x 0.52 o/f kg ✓ x 400 000 ✓ = £2080 ✓ Adverse ✓	**(6)**

Question Number	Answer	Mark
2(c)(i)	£29 016 ✓ / £5.85 ✓ x 32 ✓ = 155 hours ✓	**(4)**

Question Number	Answer	Mark
2(c)(ii)	Labour Efficiency Variance = (Actual Hours - Standard hours) x Standard Rate ✓ = (155 o/f - 160) ✓ x 32 ✓ x £5.75 ✓ = £920 ✓ Favourable ✓	**(6)**

Question Number	Answer	Mark
2(c)(iii)	Labour Rate Variance = (Actual Rate - Standard Rate) x Actual Hours ✓ = (£5.85 - £5.75) ✓ x 32 ✓ x 155 o/f ✓ = £496 ✓ Adverse ✓	**(6)**

Question Number	Answer	Mark
2(d)	Evaluation of best course of action to take. Answers may include: • selling price below budget ✓ competitive market? ✓ Difficult to raise price ✓ promotions? ✓ • Investigate why 0.52 kg of material used per loaf. Wastage? ✓ Could reduce this figure. ✓ • World price of wheat rising. ✓ Difficult to reduce purchase price. ✓ • However, firm could try to find cheaper suppliers ✓ or receive discounts for buying in greater bulk. ✓ • Labour just had a pay rise. ✓ Difficult to now reduce pay rate. ✓ • Hours used less than budget. ✓ Any scope possible for further reduction? ✓ • Variable overheads difficult to reduce rate, ✓ but could reduce usage. ✓ • Fixed overheads unlikely to reduce rent, or managers salaries. ✓ Lay off staff? ✓ Conclusion Probably best to try to control quantity of material used in production. ✓✓ (This could be included in evaluation of action points above.)	**(12)**

(Total 52 marks)

Question Number	Answer	Mark
3(a)(i)	**Calculation of Purchase price for Wessex Quarries Limited**	**(8)**

	Wessex Quarries Ltd
Buildings	160
Machinery	380 ✓ Any two FA
Furniture	37
Vehicles	145 ✓ Any two FA
Stock	25
Debtors	22 ✓ Any two CA
Bank	12
Cash	2 ✓ Any two CA
Goodwill	30 ✓
Creditors	(72) ✓
Purchase Price	741 ✓ o/f ✓ C

Question Number	Answer	Mark
3(a)(ii)	Purchase Price $\frac{£741\ 000}{£1.50}$ ✓ o/f = 494 000 shares ✓ o/f ✓ C	**(4)**

Question Number	Answer	Mark
3(b)(i)		**(8)**

Highway Connections Realisation Account

Buildings	200	Creditors	46✓
Machinery	950 ✓ Any two FA		
Furniture	70	Roadworks	2202✓
Vehicles	550 ✓ Any two FA	(Purchase Consideration)	
Stock	58		
Debtors	22 ✓Any two CA		
Bank	36		
Cash	21 ✓Any two CA		
Sundry Shareholders (Profit on Realisation)	341✓ o/f ✓ C		
	2248		2248

Question Number	Answer	Mark
3(b)(ii)	**Highway Connections Sundry Shareholders Account**	**(6)**

Roadworks 2202 ✓	✓	Share Capital	800 ✓
(Purchase Consideration		Share Premium	200 ✓
1468 shares at £1.50 each)		Profit & Loss Account	861 ✓
		Realisation Account ✓	341 o/f
		(Profit on Realisation)	
2202		2202	

Question Number	Answer	Mark
3(c)	**Balance sheet of Roadworks Limited as at April 1st 2007**	**(14)**

	Roadworks Limited
Buildings	440 ✓
Machinery	1330 ✓
Furniture	97 ✓
Vehicles	695 ✓
Goodwill	304 ✓
Fixed Assets Total	2866
Stock	80 ✓
Debtors	44 ✓
Bank	48 ✓
Cash	23 ✓
Current Assets Total	195
Creditors	118 ✓
Working capital	77
Net Assets	2943 ✓ C
Ordinary Shares of £1 each	1962 ✓
Share Premium @ 50p share	981 ✓
Capital Employed	2943 ✓C

Question Number	Answer	Mark
3(d)	**Evaluation of merger** Possible answers could include: **For Merger** Shareholders in Highway Connections "receive a profit" on realisation of £341 000 o/f ✓ also Goodwill valuation of £274 000. ✓ New company should enjoy benefits of vertical integration as in same line of business. ✓ New company could enjoy economies of scale ✓ for example bulk buying of machinery ✓ Or enjoy managerial economies of scale ✓ or marketing economies of scale ✓ Larger company could enjoy financial benefits for example easier to get bank loans ✓ at a lower interest rate. ✓ **Against Merger** Dilution of ownership ✓ and voting power. ✓ Wessex Quarries do not appear to be in a healthy financial state ✓ for example negative profit & loss reserve. ✓ Original Wessex balance sheet appears to have many assets overvalued ✓ for example machinery overvalued by £100 000. Also liquidity position of Wessex is worrying ✓ as they appear to have low working capital ratio/negative working capital ✓ . Wessex may be a drain on the liquid resources of the new company, ✓ especially with the large amount of creditors to pay. ✓ We do not know the market price of the Highway Connections shares. ✓ We do not know what the market price of Roadworks shares are likely to be. ✓ (Maximum of 8 marks for argument if candidate argues only one side of argument) **Evaluation** Should conclude and relate to points made above. ✓✓	**(12)**

(Total 52 marks)

Section B

Question Number	Answer	Mark
4(a)(i)	Purchases Budget (£) MONTH 1: £9 600 ✓ | MONTH 2: £9 600 ✓ | MONTH 3: £9 600 ✓	**(3)**

Question Number	Answer	Mark
4(a)(ii)	Purchases Budget – Units MONTH 1: 240 ✓ | MONTH 2: 240✓ | MONTH 3: 240 ✓	**(3)**

Question Number	Answer	Mark
4(a)(iii)	Production Budget - Units MONTH 1: 180 ✓ | MONTH 2: 240 ✓ | MONTH 3: 240 ✓	**(3)**

Question Number	Answer	Mark
4(a)(iv)	Sales Budget - Units MONTH 1: 110 ✓ | MONTH 2: 220 ✓ | MONTH 3: 220 ✓	**(3)**

Question Number	Answer	Mark
4(a)(v)	Stock Budget - Units	**(6)**

	MONTH 1	MONTH 2	MONTH 3
To Stock each month	70 ✓	20 ✓	20 ✓
Total in Stock	70 ✓	90 ✓	110 ✓

Question Number	Answer	Mark
4(a)(vi)	Creditors Budget (£) MONTH 1: £7 200 ✓ | MONTH 2: £7 200 ✓ | MONTH 3: £7 200 ✓	**(3)**

Question Number	Answer	Mark
4(a)(vii)	Debtors Budget MONTH 1: £33 000 ✓ | MONTH 2: £66 000 ✓ | MONTH 3: £66 000 ✓	**(3)**

Question Number	Answer	Mark
4(b)	**For Decision** • Makes full use of factory ✓ ie capacity utilisation is 100%, ✓ no wastage ✓ • Sales may be more than 55 a week. ✓ Able to meet this demand from production ✓ or stock. ✓ • In the event of production breakdown ✓ customers orders can be met ✓ this will maintain customer loyalty. ✓ • Beds kept in stock do not deteriorate / perish ✓ so money is not lost. ✓ **Against Decision** • Stock is building up continually, ✓ and this involves a number of costs for example rent ✓ insurance ✓ and ties up working capital. ✓✓ • Eventually will run out of storage space, ✓ so must find alternative premises ✓ or reduce production. ✓ • It is possible that beds could deteriorate in stock ✓ for example due to dampness. ✓ • Possible that tastes change ✓ and firm left with stock that they cannot sell. ✓ Maximum of 4 marks for arguing one side only. **Evaluation** 2 marks available for overall conclusion, should relate to points made above.	**(8)**

(Total 32 marks)

Question Number	Answer	Mark
5(a)(i)	Earnings per ordinary share = £400 000 ✓ / 2 500 000 ✓ = 16p ✓	**(3)**

Question Number	Answer	Mark
5(a)(ii)	Dividend paid per share = £350 000 ✓ / 2 500 000 ✓ = 14p ✓	**(3)**

Question Number	Answer	Mark
5(a)(iii)	Price/Earnings ratio = £1.85✓ / 16 ✓ o/f = 11.56 times/ years ✓	**(3)**

Question Number	Answer	Mark
5(a)(iv)	Dividend cover = £400 000 ✓ / £350 000 ✓ = 1.142 times ✓	**(3)**

Question Number	Answer	Mark
5(b)(i)	Total ordinary dividend for the year = 4.8p ✓ x 3 000 000 ✓ = £144 000 ✓	**(3)**

Question Number	Answer	Mark
5(b)(ii)	Share price = 4.32 ✓ x 20 ✓ = 86.4p ✓	**(3)**

Question Number	Answer	Mark
5(b)(iii)	Net profit after interest and tax = £144 000 o/f ✓ x 0.9 ✓ = £129 600 ✓	**(3)**

Question Number	Answer	Mark
5(b)(iv)	Dividend yield = 4.8 ✓ / 86.4 ✓ o/f = 5.55% ✓	**(3)**

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>5(c)</td><td>Company doing WORSE in 2008-9

<table>
<tr><td></td><td>2007-8</td><td>2008-9</td><td>Difference</td></tr>
<tr><td>Net Profit after Interest and tax worse √</td><td>£400 000</td><td>£129 600 o/f</td><td>£270 400 √</td></tr>
<tr><td>Earnings per share worse √</td><td>16p o/f</td><td>4.32p</td><td>11.68p √</td></tr>
<tr><td>Dividend paid worse √</td><td>£350 000</td><td>£144 000 o/f</td><td>£206 000 √</td></tr>
<tr><td>Share price worse √</td><td>£1.85</td><td>86.4p o/f</td><td>98.6p √</td></tr>
<tr><td>Dividend per share worse√</td><td>14p o/f</td><td>4.8p</td><td>9.2p √</td></tr>
</table>

Company doing BETTER in 2008-9

<table>
<tr><td></td><td>2007-8</td><td>2008-9</td><td>Difference</td></tr>
<tr><td>Price/Earnings Ratio better √</td><td>11.56 o/f</td><td>20</td><td>8.44 √</td></tr>
</table>

Maximum of 4 marks for arguing one side only.

Conclusion 2 marks – company is doing worse in 2008-9.</td><td>(8)</td></tr>
</table>

(Total 32 marks)

Question Number	Answer	Mark
6 (a)(i)	**Payback Period** 210 x 500 x £20 = £ 2 100 000 √√ 210 x 600 x £25 = £ 3 150 000 √√	

Year	Cash Inflow	Cash Outflow		Net Cash Flow		Cumulative
0		6,000,000		-6,000,000	√	
1	2,100,000	820,000	√√	1,280,000	√ o/f	-4,720,000
2	2,100,000	820,000		1,280,000		-3,440,000
3	2,100,000	820,000		1,280,000		-2,160,000
4	3,150,000	1,020,000	√√	2,130,000	√	-30,000
5	3,150,000	1,020,000		2,130,000		2,100,000

Pay back is after 4 and $\frac{30}{2130}$ years = 4 years 0.16 months (5 days)
√√ o/f √ o/f

(14)

Question Number	Answer	Mark
6(a)(ii)	**Average Rate of Return** Total Surplus of Project = £ 8 100 000 - £ 6 000 000 = £ 2 100 000 √ o/f √ √ o/f Average Annual return = $\frac{\text{£ 2 100 000}}{\text{5 years}}$ o/f √ = £420 000 per year o/f √ √ Average rate of return = $\frac{\text{£ 420 000}}{\text{£ 6 000 000}}$ o/f √ √ x 100 = 7% o/f √ √C Other formulae for calculating Average Rate of Return could receive full marks.	**(10)**

Question Number	Answer	Mark
6(b)	**Evaluation** Answers may include : **FOR INVESTMENT** • Payback method invest ✓ as project profitable overall ✓ and within 5 year payback period. ✓ **AGAINST INVESTMENT** • ARR states do not invest ✓ as fails to meet % return figure of 10% ✓ Other Relevant Points: Accuracy of predictions? ✓ What happens after 5 years? ✓ Other possible investment projects available? ✓ Objectives/strategy of company? ✓ If incomes fall✓ consumers are likely to reduce expenditure on leisure activities (income elastics). ✓ Total of 4 marks for arguing one side only. Conclusion : Must relate to points made above. ✓✓	**(8)**

(Total 32 marks)

Question Number	Answer	Mark
7(a)		**(12)**

	Nevgrad	Ostorov	Yutanga	Total	
Sales Revenue	2160000√	1920000√	2640000√	6720000	
Direct Labour	1,620,000	1,080,000	1,265,000	3965000	
Direct Materials	630,000	680,000	605,000	1915000	
Fixed Costs	270,000	320,000	440,000	1030000	
	All costs √	All costs √	All costs √		
Profit (Loss)	-360000√ o/f	-160000√ o/f	330000√ o/f	-190000	√o/f√√ C

Question Number	Answer	Mark
7(b)		**(12)**

Per BTU	Nevgrad	Ostorov	Yutanga
Sales Revenue	24√	24√	24√
Direct Labour	18	13.5	11.5
Direct Materials	7	8.5	5.5
Fixed Costs	3	4	4
	All costs √	All costs √	All costs √
Profit (Loss)	-4√	-2√	3√
Contribution	-1√	2√	7√

Question Number	Answer	Mark
7(c)		**(8)**

	Nevgrad	Ostorov	Yutanga
Future	Do not reopen√	Marginal costing says reopen√	Reopen√
Present √	Not profitable√	Not profitable√	Profitable √
Present	Negative Contribution √	Positive Contribution√	Positive Contribution √
Comment	Maximum 1 √	Maximum 1 √	Maximum 1 √

Maximum of 3 √'s per oilfield.

(Total 32 marks)