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Mark Scheme (Results)
Summer 2010

GCE

GCE ACCOUNTING(6002) Paper 01

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Section A

Question Number	Answer					Mk
1(a)	Q1 Mark Scheme					
	Bengal Bay Railway plc					
	Balance sheet as at 31 March 2010 √					
	A Called up share capital not paid			2800	√	
	B Fixed assets					
	I Intangible assets √					
	Licences and patents purchased	750000			√	
			750000			
	II Tangible Assets					
	Buildings	2120000			√	(4
	Land	5500000			√√	
	Plant and Machinery	3987000			√	
	Trains and locomotives	4320000			√	
			15927000			
				16677000	√ O/F	
	C Current Assets					
	I Stocks					
	Stocks of Consumables	127000			√	
	II Debtors					
	Trade debtors	24000			√	
	Prepayments	4760			√	
	Rent Received	3970			√	
	IV Cash at bank and in hand					
	Cash In Hand	345000			√	
			504730		√ O/F	
	D Prepayments and Accrued Income					
	E Creditors: Amounts falling due within one year √					
	Bank Overdraft	652000			√	
	Interest on Bank Loan	25000			√	
	Trade Creditors	122000			√	
	Accruals	7400			√	
			806400		√ O/F	
	F Net current assets (liabilities) √			-301670	√ O/F	
	G Total assets less net current liabilities √			16378130	√ O/F	
	H Creditors: amounts falling due after more than one year √					
	Bank Loan			3000000	√	

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I : Provisions for liabilities and charges √				
Legal costs provision		250000		√
Taxation Provision		61000		√
			311000	√ O/F
J : Accruals and deferred income				
			13067130	√ O/F
K :Capital and reserves				
I Ordinary share capital called up	9997200			√
II Share premium account	1999440			√
III Revaluation reserve √	350000			√
IV Other Reserves - General Reserve	500000			√
V Profit and loss account	220490			√
			13067130	√ O/F
8 x √				32 x √
		Total	40 x √ =	20 marks

(a) Notes to Mark Scheme

Called up share capital not paid 2 800 may appear under C II Current assets (Debtors)
Rent received 3970 may appear under D Prepayments and Accrued Income.

Prepayments 4 760 may appear under D Prepayments and Accrued Income.

Accruals 7 400 may appear under J Accruals and Deferred Income

Taxation Provision 61 000 may appear under E Creditors due within one year.
(but Pension provision must be under I Provisions for liabilities)
Items marked with a letter or Roman Numeral should appear on the face of the balance sheet.
Items where no tick is awarded for wording do not have to be exact in their wording.

Question Number	Answer	Mark
1(b)	FOR Importance Auditors are independent ✓ scrutineers of the accounts. ✓ who report that the accounts have been prepared "correctly" ✓ in accordance with company law ✓ or Accounting Standards or Stock Exchange regulations (only needs one)✓ 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.✓ Companies Act could require report ✓ AGAINST Importance	(12)

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	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. ✓ Report maybe costly to produce ✓ Maximum of 8 marks for argument on one side CONCLUSION - 2 marks Should relate to points made above. Eg Auditors' Report is important and of value. ✓✓	

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Question Number	Answer	Mark
2(a)		(4)

	July		August		September	
Savings	6500	√				
Insurance Policy	8500	√				
Share Issue			15000	√		
Bank Loan					20000	√
Monthly total	15000		15000		20000	
Opening balance	0		15000		30000	
Closing balance	15000		30000		50000	

July 15000 is acceptable for two ticks.
Different layouts are acceptable

Question Number	Answer	Mark
2(b)		(36)

	October		November		December	
INCOME						
Sales	0		15390	√√√	35910	√√
Total	0		15390	√√√	35910	√√
EXPENDITURE						
Machinery	10720	√√				
Rent	2985	√				
Furniture	1250	√				
Computer	595	√				
Delivery Van	5000	√				
Materials	12960	√√√	17280	√√	17280	
Wages	2970	√√√	2970		2970	
Delivery Costs	900	√√	1200	√	1200	
Total	37380	√ 0/F	21450	√ 0/F	21450	√ 0/F
Monthly Balance	-37380	√ 0/F	-6060	√ 0/F	14460	√ 0/F
Opening Balance	50000	√√	12620	√ 0/F	6560	√ 0/F
Closing Balance	12620	√ 0/F	6560	√ 0/F	21020	√ 0/F

Mark scheme details

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	Sales **November = (4 x 9 x 5 x 75 x 3 weeks x 0.76p) x 0.50% √ = £15 390 (or √√√√)** **(Any 2 items = √ any 4 items = √√)** **December = as above PLUS = £15 390 √O/F** **4 x 9 x 5 x 75 x 4 weeks x 0.76p x 0.50% = £20 520 √** **£35 910(Or √ √)o/f** **Machinery = 4 √ x £2 680 √ = £10 720 (or √√)** **Materials** **October = 4 x 9 x 5 x 75 x 3 x 0.32p = £12 960 (or √√√)** **(Any two items = √ any 4 items = √√)** **Nov/Dec = (4 x 9 x 5 x 75 x 4)√ x 0.32p = £17 280 √√** **Wages = 3 x 45 x 4 weeks x £5.50 = £2 970 (or √√√)** **(Any two items = √ any 4 items = √√))** **Delivery Costs = £60√ x (5 x 3) = £900 (or √√)** **£60 x (5 x 4) = £1200 √**	

Question Number	Answer	Mark
2(c)	**FOR usefulness of Cash Budgets** **Lee will need to show potential investors✓ eg family and friends, banks ✓ business will be successful and is able to give a return/pay back ✓** **The Cash Budget will show if the sales receipts will be sufficient to cover all outgoings ✓, and when shortages may occur. ✓** **The budget may allow Lee to see when alternative arrangements ✓ eg overdraft ✓ may be required. Also for how long, ✓ and how much.✓** **The budget may show where a cash surplus may be present, ✓ so allows the firm time to plan what to do with the surplus ✓ eg invest in shares, currencies etc. ✓** **Budget can act as a method of control ✓** **Budget can give variances which can be analysed and action taken ✓** **Answers could involve analysis of Lee Ping's cash budgets** **AGAINST the usefulness of Cash Budgets** **The budget takes time ✓ and money ✓ and expertise ✓ to draw up.** **The figures are only predictions ✓ and may be inaccurate or misleading✓** **Eg Inaccurate sales figures may be caused by change in demand from supermarkets✓**	**(12)**

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	Budget maybe inaccurate ✓ and may demotivate workers not meeting targets ✓ Maximum for arguing only one side of the argument 8 marks CONCLUSION Should relate to points made above ie Cash Budgets are useful. ✓✓	

Question Number	Answer	Mark
3(a)(i)		(7)

	Highland Bank plc
Buildings	13
Machinery	1.4 √ (any 2 FA)
Fixtures and Fittings	1.6
Vehicles	1 √ (all FA)
Stock	3
Debtors	11 √ (any 2 CA)
Bank	2
Cash	2 √ (all CA)
Creditors	(7) √
Purchase Price	28 √ o/f √ C

Question Number	Answer	Mark
3(a)(ii)	Purchase Price £28 000 000 √ o/f = 22 400 000 shares √ o/f √ C £1.25 √	(4)

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

Caledonian Bank plc Realisation Account

Buildings	16	Creditors	3 √
Machinery	1		
Fixtures and Fittings	2	St Andrew's Bank (Purchase Consideration) √	47 √
Vehicles	2 √ (all FA)		
Stock	2		
Debtors	25		
Bank	4		
Cash	5 √ (all CA)	Sundry Shareholders (Loss on Realisation) √	7√o/f √C

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		57		57		

Question Number	Answer	Mark
3(b)(ii)	Caledonian Bank plc Sundry Shareholders Account	(7)

St Andrews Bank (Purchase Consideration) √	47 √	Share Capital	40 √
Realisation Account (Loss on Realisation) √	7√o/f	Share Premium	10 √
		Profit & Loss Account	4 √
	54		54

Question Number	Answer	Mark
3(c)	Balance sheet of St Andrew's Bank plc as at April 1st 2010 √	(14)

	St Andrew Bank plc
Buildings	27
Machinery	2 √ (any 2 FA)
Fixtures and Fittings	3
Vehicles	2 √ (any 2 FA)
Goodwill	3 √√
Fixed Assets Total	37
Stock	5
Debtors	30 √ (any 2 CA)
Bank	6
Cash	7 √ (any 2 CA)
Current Assets Total	48
Creditors	10 √
Working capital	38
Net Assets	75 √ O/F
Ordinary Shares of £1 each	60 √√
Share Premium	15 √√
Capital and Reserves	75 √

Question Number	Answer	Mark
3(d)	Possible answers could include: <u>For Merger</u> New company should enjoy benefits of horizontal integration ✓ as in same line of business. ✓ which leads to larger market share ✓ which results in increased profits and dividends ✓ New company could enjoy economies of scale✓ eg bulk buying ✓ New company should be able to reduce costs ✓ eg reduce staff ✓or close some branches ✓ Highland Bank appears to be in poor financial position ✓ eg profit and loss reserve negative ✓ and debtors contained many bad debts.✓ They probably need a stronger company to take them over ✓ to improve position ✓ or guarantee survival. ✓	(12)

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	She gets no dividends at present ✓ because Profit & Loss account balance is negative ✓ and she may get dividends now ✓ Reduces risk ✓ and reduces competition ✓ <u>Against Merger</u> Shareholders in Highland Bank plc do not benefit from any Goodwill✓ The book value of the company before the merger was £47m ✓ but the value at the time of the merger was only £28 m, ✓ a decrease of £19m. ✓ (loss on realisation ✓) Increased number of shareholders /Dilution of ownership (need one) ✓ and voting power ✓ We do not know what the market price of St Andrew's Bank plc shares is likely to be. ✓ It is quite possible it will not settle at £1.25 ✓ St Andrew's Bank could be purchasing the assets of the Highland Bank at a value under the market price ✓ Own figure rules apply to calculations (Maximum of 8 marks for argument if candidate argues only one side of argument) <u>Conclusion</u> Should conclude and relate to points made above. ✓✓	

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Section B

Question Number	Answer				Mark
4(a)(i)	Actual Direct Materials	1050 √ x 9 √ x 0.70 √	=	£6615 √	(4)

Question Number	Answer				Mark
4(a)(ii)	Actual Direct Labour	7√ x (42 x 4√) x £6.50√	=	£7644 √	(4)

Question Number	Answer				Mark
4(b)(i)	Labour Rate Variance	(£6.50 - £6.30) √ x	(7 x 42 x 4)√	= £235.20 √ Adv√	(4)

Question Number	Answer				Mark
4(b)(ii)	Labour Efficiency Variance	(42 – 40) x 7 x 4 √	x £6.30 √	= £352.80 √ Adv √	(4)

Question Number	Answer				Mark
4(b)(iii)	Total Labour Cost Variance	£7 644	- £7 056	= £588 √ Adv √ o/f	(2)

4 b(iii) Can be O/F by adding 4b(i) and 4b (ii)

Question Number	Answer	Mark
4(c)	Labour Rate Variance is adverse so Marcos could reduce the rate paid. ƒ perhaps by negotiating with trade unions ƒ or by employing low grade workers ƒ This could be difficult for the workers to accept ƒ as they would be demotivated and output may fall. ƒ and strikes etc could take place ƒ Labour Rate variance is adverse, possibly due to workers having to work overtimeƒ at a higher rate (to complete the job.) ƒ Marcos needs to ensure workers work faster eg by training ƒ or having reliable machinery etc. Labour Efficiency Variance is adverse so workers must work faster (i.e increase efficiency) ƒ eg by training ƒ or improving motivation ƒ or having reliable machinery etc. ƒ Improve quality of materials ƒ which may result in less wastage and reworking ƒ Three marks maximum per point	(6)

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Question Number	Answer	Mark
4(d)	FOR the use of Management By Exception Management by exception sees management only investigating differences ✓ against preset tolerances ✓ Saves management time ✓ as no need to take any action ✓ if no variance / unless adverse variance. ✓ Here, Marcos does not need to spend any time worrying about material cost ✓ and usage ✓ etc Costs may well be reduced if variances are adverse ✓ AGAINST the use of Management by Exception It is possible that costs could be reduced ✓ eg find a cheaper supplier, ✓ but Marcos will not spend this time looking for another supplier ✓ as there is no adverse variance. ✓ Standards set could be poor ✓ Maximum of 4 marks for argument of one side. CONCLUSION Should conclude and relate to points made above ✓ 8730; ✓ 8730;	(8)

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Question Number	Answer	Mark
5(a)(i)	Return on Capital employed = Net profit after interest and tax x 100 √ Capital employed = £280 000 √ x 100 = 4.67% O/F √ £6 000 000 √	(4)

Question Number	Answer	Mark
5(a)(ii)	Earnings per ordinary share = Net profit after interest and tax √ Issued ordinary shares = £280 000 √ = 7p per share O/F √ 4 000 000 √	(4)

Question Number	Answer	Mark
5(a)(iii)	Dividend paid per share = Total ordinary dividend √ Issued ordinary shares = £240 000 √ = 6p per share O/F √ 4 000 000 √	(4)

Question Number	Answer	Mark
5(a)(iv)	Dividend cover = Net profit after interest and tax √ Total ordinary dividend = £280 000 √ = 1.166 times O/F √ £240 000 √	(4)

Question Number	Answer	Mark
5(a)(v)	Price/earnings ratio = Market price of share √ Earnings per share = 84p √ = 12 times o/f √ 7p o/f √	(4)

Question Number	Answer	Mark
5(a)(vi)	Dividend yield = Dividend per share x100 √ Market price of share = 6 p o/f √ x 100 = 7.14% o/f √ 84p √	(4)

First tick is for complete formula
Units must be present in answer e.g. % or pence etc

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Question Number	Answer	Mark
5(b)	BETTER than industry average Price/Earnings ratio is better ✓ by 3 times ✓ - reflecting the generous dividends? ✓ Dividend per share is better from the shareholders point of view ✓ by 0.5p per share ✓ Dividend yield is better from the shareholders point of view ✓ by 3.14% ✓ Dividend cover could be said to be better from the shareholders point of view as a higher percentage of profit is paid as a dividend. ✓ - by 1.34 times ✓ WORSE than industry average ROCE worse ✓ by 1.83 % points ✓ EPS is worse ✓ by 1p per share ✓ Dividend cover is less so funds not retained in the business ✓ by 1.34 times ✓ Own figure rule applies for all figures Maximum of 4 marks for arguing one side Conclusion -Red Arrow plc as a business has performed worse than the industry average. ✓✓	(8)

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Question Number	Answer	Mark
6(a)(i)	**Payback Period** | Year	Cash Inflow		Cash Outflow		Net Cash Flow		Cumulative
---	---	---	---	---	---	---	---
0			50,000,000		-50,000,000	√ O/F	
1	13,500,000	√	5,000,000	√√	8,500,000	√ O/F	-41,500,000
2	19,250,000	√	5,000,000		14,250,000	√ O/F	-27,250,000
3	19,250,000		7,000,000	√√	12,250,000	√ O/F	-15,000,000
4	26,000,000	√	7,000,000		19,000,000	√ O/F	4,000,000
5	26,000,000		7,000,000		19,000,000		23,000,000 | **Pay back is after 3 and 15/19 years 0/F = 3 years 0/F √√ 0.79 months O/F √√**	(16)

Question Number	Answer	Mark
6(a)(ii)	**Average Rate of Return** **Average Annual return = £ 23 000 000 √√ o/f / 5 years √ = £4 600 000 per year o/f √** **Accounting rate of return = £ 4 600 000 o/f √ / £50 000 000 √ x 100 = 9.2% o/f √ √C**	(8)

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Question Number	Answer	Mark
6(b)	Answers may include, own figure rule applies from calculations in (a) : FOR INVESTMENT Payback method says invest ✓ as within a 4 year payback period ✓ profits will be earned for 1 year and 3 months ✓ (could be argued against investment) ARR states invest ✓ as to meets % return figure of 8% ✓ AGAINST INVESTMENT These points could be considered: Payback is 3 years plus 9 months which maybe considered too long - but reason must be given as to why it is too long ✓ Accuracy of predictions? ✓ What happens after 5 years? ✓ Net Present Value calculations? ✓ no account taken of falling value of money over time ✓ Other possible investment projects available? ✓ Objectives/strategy of company? ✓ How can the company finance this investment ? ✓ Opportunity cost ? ✓ Are there any alternative investment possibilities ? ✓ Total of 4 marks for arguing one side only. CONCLUSION: Must relate to points made above Eg Make a bid for the project ✓✓	(8)

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Question Number	Answer	Mark
7(a)(i)	Semi Variable costs are expenses that may vary with output ✓, but not directly ✓. AND/OR are costs that have a fixed element ✓ and a variable element ✓ and could include: telephone, electricity, gas, water. Need two correct for first ✓ and third example for second ✓ Variable costs are expenses that change directly ✓ with output. ✓ Examples are direct wages, direct materials, royalties, patents, sales commission, fuel Need two correct for first ✓ and third example for second ✓	(8)

Question Number	Answer	Mark
7(a)(ii)	Contribution can be found using the formulas : Contribution per unit = selling price per unit ✓ - variable costs per unit ✓ OR Total contribution = Sales Revenue ✓ - Variable Costs ✓ It is a contribution toward paying off fixed costs. ✓✓ Profit can be found using the following formula: Profit = Sales Revenue ✓ - Total Costs ✓ Or Profit = Total Contribution ✓ - Fixed Costs ✓ To calculate profit, you must take account of fixed costs. ✓✓ Profit is not the same as contribution ✓	(8)

Question Number	Answer	Mark
7(b)	Contribution per unit = (£6.00 - £3.84) √ = £2.16 √ Required Total contribution = (£1 250 + £2 000) √ = £3 250 √ Required output = £3 250 √ o/f = 1504/5 units √ o/f √ C £2.16 √ o/f	(8)

Question Number	Answer	Mark
7(c)	FOR effectiveness A tool that allows a business to forecast profit/loss✓ at different output levels. ✓ Helps a business break down costs ✓ into fixed or variable ✓ Helps identify margin of safety ✓ and the angle of incidence ✓ AGAINST effectiveness Cost and revenue figures are only predictions ✓ and cannot be assumed as 100% accurate. ✓ Eg in practice, straight lines on graphs are likely to be curves ✓ as discounts are given or received for bulk sales ✓ or overtime worked at a higher rate. ✓ Theory assumes that all output is sold. ✓✓ Costs and sales figures are affected by outside influences ✓ eg inflation, ✓ boom or recession, ✓ seasonal factors, ✓ fashions, ✓ life styles ✓ etc (max of two reasons)	(8)

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	Maximum of 4 marks for arguing only one side of argument. **CONCLUSION** **Break-even analysis is / is not an effective aid to business decision-making.** **✓✓**	

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