

Mark Scheme (Results)

January 2012

GCE Accounting (6002)
Paper 01

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January 2012

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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.

Question Number	Answer	Mark								
1(a)	<p data-bbox="300 320 667 353">Statement of Change in Equity</p> <table data-bbox="300 405 979 577"><tr><td data-bbox="300 405 644 439">Opening Balance Jan 1 2011</td><td data-bbox="831 405 979 439">(214000) Dr</td></tr><tr><td data-bbox="300 443 427 477">Dividends</td><td data-bbox="852 443 979 477">(44000) Dr</td></tr><tr><td data-bbox="300 481 730 515">Comprehensive Income for the Year</td><td data-bbox="852 481 948 515">351000</td></tr><tr><td data-bbox="300 548 587 582">Balance at Dec 31 2011</td><td data-bbox="868 548 948 582">93000</td></tr></table>	Opening Balance Jan 1 2011	(214000) Dr	Dividends	(44000) Dr	Comprehensive Income for the Year	351000	Balance at Dec 31 2011	93000	(6)
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1(b)	<p>Statement of Financial Position as at 31 December 2011 ✓ 34 marks</p> <p>ASSETS</p> <p>Non-current assets ✓</p> <p>Property, Plant & Equipment</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 20px;">Buildings</td> <td style="text-align: right;">1754000</td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Fittings</td> <td style="text-align: right;">117000</td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Machinery</td> <td style="text-align: right;">380000</td> <td>✓ any 3</td> </tr> <tr> <td style="padding-left: 20px;">Furniture</td> <td style="text-align: right;">83000</td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Computer Equipment</td> <td style="text-align: right;">649000</td> <td>✓ next 2</td> </tr> <tr> <td></td> <td style="text-align: right;">2983000</td> <td></td> </tr> </table> <p>Goodwill 85000 ✓</p> <p>Other Intangible Assets</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 20px;">Copyright</td> <td style="text-align: right;">125000</td> <td>✓</td> </tr> <tr> <td style="padding-left: 20px;">Patents</td> <td style="text-align: right;">165000</td> <td>✓</td> </tr> <tr> <td></td> <td style="text-align: right;">290000</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">3358000</td> <td>✓</td> </tr> </table> <p>Current Assets</p> <p>Inventories 132000 ✓</p> <p>Trade and Other Receivables</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 20px;">Trade receivables</td> <td style="text-align: right;">27900</td> <td>✓</td> </tr> <tr> <td style="padding-left: 20px;">Prepayments</td> <td style="text-align: right;">5400</td> <td>✓</td> </tr> <tr> <td style="padding-left: 20px;">Rent Received</td> <td style="text-align: right;">2000</td> <td>✓</td> </tr> <tr> <td></td> <td style="text-align: right;">35300</td> <td></td> </tr> </table> <p>Cash and Cash Equivalents</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 20px;">Cash</td> <td style="text-align: right;">3000</td> <td>✓</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>170300</u></td> <td>✓</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>3528300</u></td> <td>✓ o/f ✓ C</td> </tr> </table> <p>Total Assets ✓</p> <p>EQUITY AND LIABILITIES ✓</p> <p>Equity</p> <p>Share Capital</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 20px;">Ordinary shares of £1</td> <td style="text-align: right;">2000000</td> <td>✓</td> </tr> </table> <p>Other Reserves</p> <table style="width: 100%; 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Q1 Mark Scheme		
a) Appropriation Account		
Opening Balance Jan 1 2011	-214000	√
Profit for year	475000	√
Taxation	-124000	√
Dividends	-44000	√
Balance at Dec 31 2011	93000	√ o/f √ C

Home Gaming plc Balance sheet as at 31 December 2011				
B Fixed assets				
I Intangible assets √				
Goodwill	85000			√
Copyright	125000			√
Patents	165000			√
		375000		
II Tangible Assets √				
Buildings	1754000			
Fittings	117000			
Machinery	380000			√ any 3
Furniture	83000			
Computer equipment	649000			√ next 2
		2983000		
			3358000	√ O/F
C Current Assets				
I Stocks				
Stocks	132000			√
II Debtors				
Debtors	27900			√
Prepayments	5400			√
Rent Received	2000			√
IV Cash at bank and in hand				
Cash In Hand	3000			√
		170300		√ O/F
E Creditors: Amounts falling due within one year				
Bank Overdraft	41000			√
Debenture Interest	52000			
Interest on Bank Loan	10000			
Trade Creditors	11000			√ any 3
Accruals	3300			
Dividend Payable	44000			√ next 2
Taxation Payable	124000			√
		285300		√ O/F

F Net current assets (liabilities) ✓			-115000	
G Total assets less current liabilities ✓			3243000	✓ O/F
H Creditors: amounts falling due after more than one year ✓				
Bank Loan	100000			✓
Debenture 13% 2016	800000			✓
			900000	✓
			2343000	✓ O/F ✓ C
K :Capital and reserves ✓				
I Ordinary share capital called up	2000000			✓
II Share premium account	125000			
III Revaluation reserve	15000			
IV Other Reserves - General Reserve	110000			✓ all 3
V Profit and loss account	93000			✓ O/F
			2343000	✓ O/F ✓C
Total 34 Marks				

Accruals 3300 may be shown under Accruals and Deferred Income
Income tax 124000 may be shown under Provisions and Deferred charges

Question Number	Answer	Mark										
1(b)	<p><u>Statement of Change in Equity</u> ✓</p> <table style="margin-left: 40px;"> <thead> <tr> <th></th> <th style="text-align: right;"><u>Retained Earnings</u></th> </tr> </thead> <tbody> <tr> <td>Opening Balance Jan 1 2011</td> <td style="text-align: right;">-214000 Dr ✓</td> </tr> <tr> <td>Dividends</td> <td style="text-align: right;">-44000 Dr ✓</td> </tr> <tr> <td>Comprehensive Income for the Year</td> <td style="text-align: right;">351000 ✓ ✓</td> </tr> <tr> <td>Balance at Dec 31 2011</td> <td style="text-align: right;">93000 ✓o/f ✓C</td> </tr> </tbody> </table>		<u>Retained Earnings</u>	Opening Balance Jan 1 2011	-214000 Dr ✓	Dividends	-44000 Dr ✓	Comprehensive Income for the Year	351000 ✓ ✓	Balance at Dec 31 2011	93000 ✓o/f ✓C	(6)
	<u>Retained Earnings</u>											
Opening Balance Jan 1 2011	-214000 Dr ✓											
Dividends	-44000 Dr ✓											
Comprehensive Income for the Year	351000 ✓ ✓											
Balance at Dec 31 2011	93000 ✓o/f ✓C											

Question Number	Answer	Mark
1(c)	<p>FOR benefit of showing Net Current Assets (Liabilities)</p> <p>Allows the user to see <u>clearly/easily</u> ✓ which is largest of current assets and current liabilities ✓</p>	

	<p>This enables the user to judge the net amount of liquid assets ✓ If Net Current Liabilities, ✓ then clearly the entity has a liquidity problem. ✓ and allows them to take action ✓ Helps potential investors ✓ to make a decision whether to invest. ✓ Helps suppliers ✓ make a decision concerning possible credit to be given. ✓</p> <p>AGAINST benefit of showing Net Current Assets (Liabilities)</p> <p>Net Current Assets only shows an amount in a monetary value. ✓ This does not show if this amount is sufficient. ✓ The amount required would be affected by the entity's size ✓ and industry. ✓</p> <p>More useful measures of liquidity are the Current Ratio ✓ and Acid (Quick) Ratio. ✓ These could be calculated ✓ using either of the two formats. ✓</p> <p>It may be better to show all the monies put into the entity ✓ on the same side of the Statement of Financial Position / Balance Sheet ie Total Equity and Liabilities. ✓</p> <p>Maximum of 8 marks for arguing one side only.</p> <p>Evaluation: It is / is not necessary to show Net Current Assets (Liabilities) on the Statement of Financial Position. ✓✓ (2 marks for Evaluation).</p>	<p>(12)</p>
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Question Number	Answer					Mark				
2(a)(b)	(i) Product	Televisions	Computers	Washing Machines	Freezers					
	Sales per square metre	£400 ✓	£750 ✓	£350 ✓	£150 ✓					
	Variable costs per square metre	£200 ✓	£500 ✓	£125 ✓	£75 ✓					
	Contribution per square metre.	£200 ✓	£250 ✓	£225 ✓	£75 ✓					
	(ii) Ranking order of contribution	3	1 ✓ any 2 O/F	2	4 ✓ any 2 O/F		(12)			
	(iii) Department Selection	C	A ✓ any 2 O/F	B	D ✓ any 2 O/F		(2)			
	(b) Total Contribution	£200 x 60 x 8	£250 x 100 x 8	£225 x 80 x 8	£75 x 50 x 8		(2)			
		= £96 000 ✓✓	=£200 000 ✓✓	= £144000 ✓✓	= £30 000 ✓✓					
<p>O/f rule applies for Rows 3,4, 5, 6 and 7</p> <p>Total Contribution for Store =</p> <table style="margin-left: 100px;"> <tr><td>£96 000</td></tr> <tr><td>£200 000</td></tr> <tr><td>£144 000</td></tr> <tr><td><u>£30 000</u></td></tr> <tr><td>£470 000 J J o/f</td></tr> </table> <p>Profit for Store = £470 000 J o/f - £255 000 J = £215 000 J o/f J</p>						£96 000	£200 000	£144 000	<u>£30 000</u>	£470 000 J J o/f
£96 000										
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£144 000										
<u>£30 000</u>										
£470 000 J J o/f										
					(14)					

Question Number	Answer	Mark
2(c)	<p>Selling price per oven £325</p> <p>Variable costs per oven £125</p> <p>Contribution per oven £ 200 ✓</p> <p>Number of items that can be sold in Department D = $\frac{50 \checkmark}{1.25 \checkmark} = 40 \checkmark$</p> <p>Number of items sold per year = $40 \checkmark \times 6 \checkmark = 240 \checkmark$</p> <p>Total contribution for ovens in dept D = $(240 \times £200) \checkmark = £48 000 \checkmark$ o/f ✓ C</p>	(10)

Question Number	Answer	Mark
2(d)	<p>FOR selling ovens in dept D</p> <p>Contribution for selling ovens in D is greater ✓ by £18 000 than freezers. ✓</p> <p>Figures are only predictions✓ actual figure for sales/contribution etc could be higher ✓</p> <p>Fewer items need to be sold ✓ to make contribution of e.g. £30 000 ✓ 400 freezers compared to 150 ovens ✓ i.e. 250 less items ✓</p> <p>AGAINST selling ovens in dept D</p> <p>Figures are only predictions✓ actual figure for sales/contribution etc could be lower. ✓</p> <p>What does the store know about the quality of the ovens? ✓ Has the manager of the store seen the product/ had a demonstration? ✓</p> <p>What does the store know about reliability of supply, delivery✓ and after sales service of the ovens? ✓</p> <p>Will this mean not selling one of the other products? ✓ What effect will this have? ✓ Maybe they supply one of the other products as well. ✓</p> <p>Maximum of 8 marks for arguing 1 side only</p> <p>Conclusion (2 marks)</p> <p>Bazaar Electricals Limited should/should not sell ovens in dept D ✓✓</p>	(12)

Question Number	Answer					Mark
3(a)	Jan 6	Realisation a/c	9 500 000	✓✓	✓	(8)
		Buildings a/c			9 500 000 ✓	
	Jan 6	Trade Payables a/c	2 200 000		✓	
		Realisation a/c			2 200 000 ✓	
	Jan 6	Ordinary Shares of £1.25 a/c	20 000 000		✓	
		Sundry Shareholders a/c			20 000 000 ✓	

Question Number	Answer			
3(b)	Purchase Price			
	No. of Ordinary shares in Rowlands plc	<u>20 000 000</u> ✓	16 000 000✓✓	
		1.25✓		
	Shareholders receive/ Purchase Price	£1.00		
		£0.66		
		<u>£0.59</u> ✓		
	16 000 000	£2.25✓	£36 000 000	✓ o/f ✓ C

Question Number	Answer			Mark
3(c)	Calculation of Goodwill			(12)
	Purchase Price	36 000 000	✓	
	Original Book value of Rowlands plc	(24 900 000)	✓	
	Adjustments - Buildings	(950 000)	✓✓	
	- Machinery	1 320 000	✓	
	- Computer	600 000	✓	
	- Trade payables	(100 000)	✓	
	- Stock	500 000	✓	
	Excluding Bank	2 400 000	✓	
	Excluding Cash	300 000	✓	
Goodwill	15 170 000	✓ o/f ✓ C		

Question Number	Answer		Mark	
3(d)	Rowlands plc Sundry Shareholders Account		(8)	
	Atlantic Foods ✓ 36 000 000 ✓	Share capital		20 000 000 ✓
	(Purchase Consideration)	Profit + Loss reserve		4 900 000 ✓
		Profit on Realisation✓✓		11 100 000 ✓✓
	36 000 000			36 000 000

Question Number	Answer	Mark
3(e)	<p>Answers could include :</p> <p>Goodwill will appear in the balance sheet of Atlantic Foods plc as an intangible asset ✓ , under the heading of Non-current assets. ✓</p> <p>Correct treatment of goodwill would be to amortize ✓ over its useful economic life. ✓</p> <p>Likely to derive benefits from the expenditure over a number of years, ✓ so spread the cost of this expenditure over a number of years ✓ ie matching concept ✓ gives a True and Fair view of the accounts. ✓</p> <p>To write off immediately may make profit unrealistically low, ✓ and tax charge would be unfairly low. ✓</p> <p>In line with recommended practice ✓ ie FRS 10 ✓</p>	(4)

Question Number	Answer	Mark
3(f)	<p>Answers may include :</p> <p>Maximum of 8 marks if argument is one-sided.</p> <p>Case FOR takeover :</p> <p>Atlantic Foods may improve in the future ✓ and the share price could rise above £1.66. ✓</p> <p>This will give Atlantic Foods a foothold/start or greater presence ✓ in UK. ✓</p> <p>Atlantic Foods may benefit from economies of scale ✓ and make more profits. ✓</p> <p>Likelihood of dividends in the future. ✓</p> <p>Investment may be more secure ✓ as business is now enlarged. ✓</p> <p>Case AGAINST takeover:</p> <p>Goodwill paid is very high ✓ - about 60% ✓ above net asset values. ✓</p> <p>Atlantic Foods may suffer from diseconomies of scale ✓ and see profits reduced. ✓</p> <p>Atlantic Foods has to pay out a large amount of cash ✓ (£9 440 000) ✓ which will have a negative effect on liquidity. ✓</p> <p>Issue of more shares ✓ will see value of Atlantic Foods shares fall. ✓ and / or less dividends per share ✓ and / or reduction in voting power ✓</p> <p>Conclusion 2 marks available Should relate to points made above.</p>	(12)

Question Number	Answer	Mark											
4(a)	(i) Purchases Budget (£)	(3)											
	<table border="1"> <thead> <tr> <th>MONTH 1</th> <th>MONTH 2</th> <th>MONTH 3</th> </tr> </thead> <tbody> <tr> <td>£9 450/</td> <td>£ 12 600/</td> <td>£12 600 /</td> </tr> </tbody> </table>		MONTH 1	MONTH 2	MONTH 3	£9 450/	£ 12 600/	£12 600 /					
	MONTH 1	MONTH 2	MONTH 3										
	£9 450/	£ 12 600/	£12 600 /										
	ii) Purchases Budget - Units	(3)											
	<table border="1"> <thead> <tr> <th>MONTH 1</th> <th>MONTH 2</th> <th>MONTH 3</th> </tr> </thead> <tbody> <tr> <td>225/</td> <td>300/</td> <td>300/</td> </tr> </tbody> </table>		MONTH 1	MONTH 2	MONTH 3	225/	300/	300/					
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	iii) Production Budget - Units	(3)											
	<table border="1"> <thead> <tr> <th>MONTH 1</th> <th>MONTH 2</th> <th>MONTH 3</th> </tr> </thead> <tbody> <tr> <td>150/</td> <td>300 /</td> <td>300 /</td> </tr> </tbody> </table>		MONTH 1	MONTH 2	MONTH 3	150/	300 /	300 /					
MONTH 1	MONTH 2	MONTH 3											
150/	300 /	300 /											
iv) Sales Budget - Units	(3)												
<table border="1"> <thead> <tr> <th>MONTH 1</th> <th>MONTH 2</th> <th>MONTH 3</th> </tr> </thead> <tbody> <tr> <td>72 /</td> <td>288 /</td> <td>288 /</td> </tr> </tbody> </table>		MONTH 1	MONTH 2	MONTH 3	72 /	288 /	288 /						
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Question Number	Answer	Mark
4(b)	<p>For Method Narayang may have little choice in method as terms may be decided by supplier(s) ✓ who may be in a strong position ✓ especially as Narayang are a new business. ✓ Narayang may be able to negotiate better terms in the future, ✓ especially if they prove to be a regular customer, ✓ and/or a reliable supplier. ✓ After the first two months, ✓ cash flow will be regular, ✓ with receipts of £25 632 and payments of £12 600 for supplies. ✓ Discounts could be given for prompt payment ✓</p> <p>Against Method Firm is waiting longer to collect sales receipts than they are taking to pay suppliers. ✓ This gives a simple working capital cycle ✓ of one week. ✓ Negative effect on cash flow ✓ in the first two months of business. ✓ Selling on credit may result in bad debts ✓</p> <p>Maximum of 4 marks for arguing one side only Evaluation: Method is good/bad ✓✓ 2 marks available for overall conclusion, should relate to points made above.</p>	(8)

Question Number	Answer	Mark
5(a)	Gearing ratio = $\frac{\text{Debt}}{\text{Capital Employed}} \times 100 \%$ OR $\frac{\text{Debt}}{\text{Equity}} \times 100 \%$ $= \frac{24\,000\,000}{40\,000\,000} \times 100$ OR $\frac{24\,000\,000}{16\,000\,000} \times 100$ $= 60\%$ OR 150%	(4)

Question Number	Answer	Mark
5(b)	The gearing ratio is too high, being over 50% (100%). It would be better if the ratio were between 30% and 50%. It could be improved by (max of two) : - issuing more ordinary shares - Redeeming preference shares - Paying off bank loan - Redeeming the debenture Making more profit and keeping it in reserves.	(4)

Question Number	Answer	Mark
5(c)	(i) Earnings per share = $\frac{£400\,000}{10\,000\,000}$ = 4 pence per share (ii) Price/earnings ratio = $\frac{120}{4}$ = 30 times (iii) Dividend cover = $\frac{400\,000}{280\,000}$ = 1.429 times (iv) Dividend yield = $\frac{(2.8 \times 100)}{£1.20}$ = 2.33%	(12)

Question Number	Answer	Mark
5(d)	(i) EPS is low (relating to own figure) (ii) Price/earnings ratio is fairly high (relating to own figure) (iii) Dividend cover is acceptable (relating to own figure) (iv) Dividend yield is acceptable in today's market / low (relating to own figure)	(4)

Question Number	Answer	Mark
5(e)	The ratios could be improved by: EPS - increasing profits ✓ or redeeming ordinary shares ✓ Price/earnings - raising share price ✓ by increasing profits ✓ or redeeming ordinary shares ✓ Dividend cover - increasing annual profits ✓ or paying a lower dividend ✓ Dividend yield - paying a higher dividend, ✓ after making higher profits ✓	(8)

Question Number	Answer	Mark
6(a)	<p>Answers may include :</p> <p>For product, obtain a product specification/ giving standard quantities for materials and labour/</p> <p>Standard prices for materials obtained by consulting buyers and suppliers /</p> <p>Standard labour rates obtained by consulting human resources department and/or unions./</p> <p>Standard overheads obtained / by consulting management / finance department. /</p> <p>Looking at figures for past cost of sales /</p>	(4)

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6(c)(i)	<p>Labour Efficiency Variance = (Actual Hours - Standard hours) / x Standard Rate /</p> $= (3250 / - 3200 /) \times 10.20 /$ $= \text{£}510 \text{ Adverse } / \text{ o/f}$	(6)

Question Number	Answer	Mark
6(c)(ii)	<p>Labour Rate Variance = (Actual Rate - Standard Rate) / x Actual Hours /</p> $= \left(\frac{\text{£}33\,660 /}{3\,250} - \text{£}10.20 / \right) \times 3250 /$ $= \text{£}510 \text{ Adverse } / \text{ o/f}$	(6)

Question Number	Answer	Mark
6(d)	<p>Evaluation</p> <p>Answers may include.</p> <p>FOR usefulness</p> <p>Allows performance to be compared ✓ with predetermined standards. ✓</p> <p>Variances can be analysed ✓ and action taken to control costs. ✓</p> <p>Helps eliminate waste, ✓ idle time, inefficiency etc ✓</p> <p>Allows management by exception, ✓ which sees action taken only for large variances. ✓</p> <p>AGAINST usefulness</p> <p>Takes time, expertise ✓ and money to prepare. ✓</p> <p>Inaccurate standards set ✓ may be misleading and unhelpful. ✓</p> <p>Maximum of 4 marks for one-sided argument.</p> <p>Conclusion</p> <p>Standard costing is useful ✓✓</p>	(8)

6002 01 Assessment Objectives January 2012

Qstn	Spec Ref	AO1 Knowlg + Undestng 48	AO 2 Applicatn 60	AO 3 Analysis 48	AO 4 Evaluatn 44	Total
1a clip b	1	10	14	10		34
1b clip a	1	2	2	2		6
1c single	1				12	12
						52
2a clip	8	5	6	5		16
2b clip	8	4	6	4		14
2c clip	8	3	4	3		10
2d clip	8				12	12
						52
3a single	1	3	2	3		8
3b clip	1	2	4	2		8
3c clip	1	3	6	3		12
3d clip	1	2	4	2		8
3e clip	1	2	0	2		4
3f clip	1				12	12
						52
Sectn A Total Max 104	Any 2 Qstns	24	32	24	24	104
4a clip	4	8	8	8		24
4b clip	4				8	8
						32
5a clip b	2	1	2	1		4
5b clip a	2				4	4
5c clip de	2	4	4	4		12
5d clip ce	2				4	4
5e clip cd	2	3	2	3		8
						32
6a single	5	2	0	2		4
6b clip c	5	2	4	2		8
6c clip b	5	4	4	4		12
6d single	5				8	8
						32
7a single	7	3	0	3		6
7b clip	7	3	6	3		12
7c clip	7	2	2	2		6
7d single	7				8	8
						32
Totals for Sectn B 96	Any 3 questns	24	24	24	24	96
TOTAL		48	56	48	48	200

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