

Mark Scheme (Pre-Standardisation) January 2010

GCE

GCE Accounting (6002/01)

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.

Section A

Question Number	Answer	Mark																																																																																																				
1(a)(i)	<p>Profit and Loss Account for Rajshahi Footwear plc for Y/E 31December 2009</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 30%;"></td> <td style="width: 30%; text-align: right;">W1 Cost of Sales</td> <td style="width: 10%;"></td> </tr> <tr> <td>Turnover</td> <td style="text-align: right;">2777000</td> <td>Direct Labour</td> <td style="text-align: right;">324000</td> </tr> <tr> <td></td> <td style="text-align: right;">✓</td> <td>Direct materials</td> <td style="text-align: right;">456000</td> </tr> <tr> <td>Cost of sales</td> <td style="text-align: right;">848000</td> <td>Factory Deprctn</td> <td style="text-align: right;">70000</td> </tr> <tr> <td></td> <td style="text-align: right;">✓ o/f</td> <td>Stock Adjust</td> <td style="text-align: right;">-2000</td> </tr> <tr> <td>Gross profit</td> <td style="text-align: right;">1929000</td> <td></td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td></td> <td style="text-align: right;">✓ o/f</td> <td></td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td>Distribution costs</td> <td style="text-align: right;">531000</td> <td style="text-align: right;">848000</td> <td style="text-align: right;">6</td> </tr> <tr> <td></td> <td style="text-align: right;">✓ o/f</td> <td></td> <td></td> </tr> <tr> <td>Administrative expenses</td> <td style="text-align: right;">134000</td> <td style="text-align: right;">W2 Distribution Costs</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">✓ o/f</td> <td>Advertising</td> <td style="text-align: right;">72000</td> </tr> <tr> <td>Interest payable</td> <td style="text-align: right;">96000</td> <td>Fuel for Vehicles</td> <td style="text-align: right;">63000</td> </tr> <tr> <td></td> <td style="text-align: right;">✓</td> <td>Lorry Drivers Wages</td> <td style="text-align: right;">97000</td> </tr> <tr> <td>Profit on ordinary activities before tax</td> <td style="text-align: right;">1168000</td> <td>Shop Rent</td> <td style="text-align: right;">95000</td> </tr> <tr> <td></td> <td style="text-align: right;">✓ o/f</td> <td></td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td>Corporation tax</td> <td style="text-align: right;">175000</td> <td>Shop Staff</td> <td style="text-align: right;">204000</td> </tr> <tr> <td></td> <td style="text-align: right;">✓</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Profit on ordinary activities after tax</td> <td style="text-align: right;">993000</td> <td style="text-align: right;">531000</td> <td style="text-align: right;">6</td> </tr> <tr> <td></td> <td style="text-align: right;">✓ o/f ✓ C</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">10</td> <td style="text-align: right;">W3Administrative Expenses</td> <td></td> </tr> <tr> <td></td> <td></td> <td>Office Expenses</td> <td style="text-align: right;">81000</td> </tr> <tr> <td></td> <td></td> <td>Professional Fees</td> <td style="text-align: right;">53000</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">134000</td> <td style="text-align: right;">2</td> </tr> </table> <p style="text-align: center;">24 Marks</p> <p>Notes to Mark Scheme Prepayments 7000 may appear under D Prepayments. Items marked with a letter or Roman Numeral should appear on the face of the balance sheet.</p>			W1 Cost of Sales		Turnover	2777000	Direct Labour	324000		✓	Direct materials	456000	Cost of sales	848000	Factory Deprctn	70000		✓ o/f	Stock Adjust	-2000	Gross profit	1929000		✓✓		✓ o/f		✓✓	Distribution costs	531000	848000	6		✓ o/f			Administrative expenses	134000	W2 Distribution Costs			✓ o/f	Advertising	72000	Interest payable	96000	Fuel for Vehicles	63000		✓	Lorry Drivers Wages	97000	Profit on ordinary activities before tax	1168000	Shop Rent	95000		✓ o/f		✓✓	Corporation tax	175000	Shop Staff	204000		✓		✓	Profit on ordinary activities after tax	993000	531000	6		✓ o/f ✓ C				10	W3Administrative Expenses				Office Expenses	81000			Professional Fees	53000				✓				✓			134000	2	(24)
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1(b)	<p>FOR Usefulness Accounts are prepared in standard format which allows stakeholders ✓ to compare the accounts of one company with another. ✓ Eg for investment potential. ✓ Having a standard format makes it harder for companies to “window dress” or manipulate accounts. ✓✓ The Companies Act must state a good way to prepare the accounts ✓ as it was prepared by highly qualified professionals ✓ eg accountants, lawyers. ✓ Readers of accounts ✓ eg auditors ✓ only have to familiarise themselves with the one format. ✓ A standard format allows accounting aids to be developed and used ✓ eg software programmes. ✓ A standard format makes it easier for Regulatory authorities ✓ to enforce procedures.✓</p> <p>AGAINST Usefulness Preparing the accounts in this format could be time consuming, ✓ and time means money. ✓ Staff have to train to learn the format. ✓✓ The format still has scope for different interpretation ✓ eg stock value, depreciation. ✓ Original Act is now 25 years old, ✓ and we live in constantly changing times. ✓</p> <p>Maximum of 8 ✓ marks for argument on one side</p> <p>CONCLUSION Should relate to points made above. Eg In accordance with Companies Act is important and of value. ✓✓</p>	(12)

(Total 52 Marks)

Question Number	Answer	Mark
2(c)	<p>FOR usefulness of Cash Budgets</p> <p>The Farm has a very seasonal cash flow ✓✓, especially from sales. ✓ The Cash Budget will show if the sales will be sufficient to cover all outgoings ✓, and when shortages may occur. ✓ The budget may allow the Farm 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. ✓</p> <p>AGAINST the usefulness of Cash Budgets</p> <p>The budget takes time ✓ and money ✓ and expertise ✓ to draw up. The figures are only predictions ✓ and may be inaccurate or misleading. ✓ Inaccurate production figures may be caused by weather ✓ or volatile market prices. ✓</p> <p>Maximum for arguing only one side of the argument 8 marks</p> <p>CONCLUSION Should relate to points made above ie Cash Budgets are useful. ✓✓</p>	(12)

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3(c)	<p>Calculation of Gearing Ratio</p> $\text{Gearing Ratio} = \frac{\text{Debt } \text{£}}{\text{Capital Employed } \text{£}} \times 100 \text{ } \text{£}$ $= \frac{400\,000 \text{ £} + 75\,000 \text{ £}}{1\,273\,600 \text{ £} + 400\,000 \text{ £}} \times 100$ $= 28.4\% \text{ } \text{£ o/f } \text{£ C}$	(8)

Question Number	Answer	Mark
3(d)	<p>Evaluation of 2009:</p> <p>Answers may include :</p> <p>Positives :</p> <p>Ordinary dividend received of 5.2p \checkmark per share which is quite good. \checkmark Gearing ratio of 28% which is healthy $\checkmark\checkmark$ and lower than start of year $\checkmark\checkmark$ Redemption of Preference shares will improve the future figure for ROCE $\checkmark\checkmark$ also reduce future preference dividends. $\checkmark\checkmark$ Capital and Reserves have risen, \checkmark which means book value of firm has risen, \checkmark which probably means share price has risen. $\checkmark\checkmark$</p> <p>Negatives :</p> <p>Funds are leaving the company \checkmark to pay preference share dividends \checkmark and redeem preference shares. \checkmark Possible that liquidity adversely affected \checkmark to pay preference shareholders. \checkmark</p> <p>Maximum for arguing one side only = 8 marks</p> <p>Conclusion Should relate to above - 2009 been good for Ordinary shareholders $\checkmark\checkmark$</p>	(12)

(Total 52 marks)

Section B

Question Number	Answer	Mark
4(a)(i)	<p>Standard hours = $(7 \times 5 \times 9)\checkmark \times 4\checkmark = 1260$ ($=\checkmark\checkmark$) Actual Hours = $1260\checkmark$ o/f + $(7 \times 4)\checkmark = 1288$ ($=\checkmark\checkmark$)</p>	(4)

Question Number	Answer	Mark
4(a)(ii)	<p>Labour Efficiency Variance = $(1260 - 1288)\checkmark$ o/f \times $\text{£}6.50\checkmark$ = $\text{£}182\checkmark$ o/f Adverse \checkmark</p>	(4)

Question Number	Answer	Mark
4(a)(iii)	<p>Standard Wages Cost = $(7 \times 9 \times 5 \times 4)\checkmark \times \text{£}6.50\checkmark = \text{£}8190$ ($=\checkmark\checkmark$) Actual Wages Cost = $\text{£}8190\checkmark$ o/f + $(7 \times 4 \times 11)\checkmark = \text{£}8498$ o/f ($=\checkmark\checkmark$)</p>	(4)

Question Number	Answer	Mark
4(a)(iv)	<p>Total Wages Cost Variance = $\text{£}8190\checkmark$ o/f - $\text{£}8498\checkmark$ o/f = $\text{£}308$ o/f \checkmark Adverse \checkmark</p>	(4)

Question Number	Answer	Mark
4(a)(v)	<p>Actual wage rate = $\frac{\text{£}8498}{1288}$ o/f $\checkmark = \text{£}6.60$ per hour o/f $\checkmark\checkmark$</p>	(4)

Question Number	Answer	Mark
4(a)(vi)	<p>Wage rate variance = $(\text{£}6.60$ o/f - $\text{£}6.50\checkmark) \times 1288$ o/f \checkmark = $\text{£}128.80$ o/f \checkmark Adverse \checkmark</p>	(4)

Question Number	Answer	Mark
4(b)	<p>Possible answers may include :</p> <p>POSITIVE EFFECTS Helps to establish production targets (✓) that may be comfortable for workers to achieve(✓) Eg numerical example (✓) May be basis of possible bonus for production targets met etc (✓) which may see workers taking home more pay (✓) Anything that benefits the firm will benefit the workers (✓) eg for job security, pay, bonuses, competitive pricing of products etc (✓) Meeting production targets ✓ will motivate workers. ✓</p> <p>NEGATIVE EFFECTS Helps to establish production targets (✓) that may be difficult for workers to achieve (✓) Eg numerical example (✓) May be basis of possible bonus for production targets met etc (✓) which may see workers missing targets (✓) and taking home less (✓) Missing production targets ✓ will demotivate workers. ✓</p> <p>Maximum for arguing only one side of argument = 4 marks</p> <p>CONCLUSION should relate to points made above ✓✓</p>	(8)

(Total 32 marks)

Question Number	Answer	Mark
5(a)	<p>(i) Fixed Costs = £6000 + £11000 + £4750 = £21 750 ✓ Variable costs = 15p + 10p + 2p = 27p ✓</p> <p>Break Even Point = $\frac{£21\,750}{0.85 - 0.27}$ ✓ = 37 500 units ✓✓</p> <p>(ii) BEP in sales revenue = 37 500 x 0.85 = £31 875 ✓✓</p>	(8)

Question Number	Answer	Mark	
5(b)	Sales 35 000 x 0.85	29 750 ✓	(4)
	Variable Costs 35 000 x 0.27	(9 450) ✓	
	Fixed Costs	(21 750) ✓	
	Loss	(1 450) ✓	

Question Number	Answer	Mark
5(c)(i)	Total contribution required = £10 000 ✓ + £21 750 ✓ = £31 750 No of units to be sold = $\frac{£31\,750}{0.58}$ ✓ = 54 742 tiles ✓	(5)

Question Number	Answer	Mark
5(c)(ii)	Margin of safety = 54 742 ✓ – 37 500 ✓ = 17 242 tiles ✓	(3)

Question Number	Answer	Mark																
5(d)	<table border="1"> <tr> <td>Sales</td> <td>35 000 x 1.00</td> <td>35 000</td> <td>✓</td> </tr> <tr> <td>Variable Costs</td> <td>35 000 x 0.26</td> <td>(9 100)</td> <td>✓</td> </tr> <tr> <td>Fixed Costs</td> <td></td> <td>(15 750)</td> <td>✓</td> </tr> <tr> <td>Profit</td> <td></td> <td>10 150</td> <td>✓</td> </tr> </table>	Sales	35 000 x 1.00	35 000	✓	Variable Costs	35 000 x 0.26	(9 100)	✓	Fixed Costs		(15 750)	✓	Profit		10 150	✓	(4)
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Question Number	Answer	Mark
5(e)	<p>Answers may include the following:</p> <p>NOT a good suggestion Increase in prices not recommended ✓ due to recession, and competition, ✓ and will probably reduce sales. ✓ Rent decrease difficult ✓ if signed a long term lease or agreement. ✓ Manager's salary reduction will demotivate managers ✓ and performance may suffer. ✓ Director labour's pay cut will demotivate ✓ and could result in industrial action. ✓ May not be able to reduce other fixed costs ✓ eg Business Rates to council, interest on loan etc ✓</p> <p>GOOD suggestion May be possible to negotiate a rent decrease ✓ due to recession ✓ It is possible to impose a cut in the managers salary ✓ It is possible to impose a cut in pay to direct labour force ✓ It may be possible to reduce some fixed costs ✓ eg heating, insurance ✓</p> <p>Maximum for argument of one side 4 marks</p> <p>Conclusion Should relate to above 2 marks</p>	(8)

(Total 32 marks)

Question Number	Answer	Mark																																													
6(a)	<table border="1"> <tr> <td>Net Profit</td> <td>98438</td> <td>/</td> </tr> <tr> <td>Add Interest - Overdraft</td> <td>776</td> <td>/</td> </tr> <tr> <td>Add Interest - Debenture</td> <td>24000</td> <td>//</td> </tr> <tr> <td>Depreciation on machinery</td> <td>20000</td> <td>//</td> </tr> <tr> <td>Depreciation of all other fixed assets</td> <td>15000</td> <td>/</td> </tr> <tr> <td>Profit on sale of furniture</td> <td>-425</td> <td>//</td> </tr> <tr> <td>Loss on sale of motor van</td> <td>2400</td> <td>/</td> </tr> <tr> <td>Decrease in stock of finished goods</td> <td>1092</td> <td>/</td> </tr> <tr> <td>Increase in stock of work in progress</td> <td>-4015</td> <td>/</td> </tr> <tr> <td>Decrease in debtors</td> <td>2194</td> <td>/</td> </tr> <tr> <td>Decrease in prepayments</td> <td>230</td> <td>/</td> </tr> <tr> <td>Increase in trade creditors</td> <td>3947</td> <td>/</td> </tr> <tr> <td>Increase in accrued expenses</td> <td>118</td> <td>/</td> </tr> <tr> <td></td> <td></td> <td></td> </tr> <tr> <td>Net Cash Flow from Operating Activities</td> <td>163755</td> <td>/ o/f /C</td> </tr> </table>	Net Profit	98438	/	Add Interest - Overdraft	776	/	Add Interest - Debenture	24000	//	Depreciation on machinery	20000	//	Depreciation of all other fixed assets	15000	/	Profit on sale of furniture	-425	//	Loss on sale of motor van	2400	/	Decrease in stock of finished goods	1092	/	Increase in stock of work in progress	-4015	/	Decrease in debtors	2194	/	Decrease in prepayments	230	/	Increase in trade creditors	3947	/	Increase in accrued expenses	118	/				Net Cash Flow from Operating Activities	163755	/ o/f /C	(18)
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6(c)	<p>Possible answers could include:</p> <p>AGREE with Statement Current Ratio is very weak / at 0.67 : 1 / Current Ratio worsened over the last year from 1:1 / which was weak / Creditors are rising / is this due to lack of liquidity? / Positive bank balance at start year now an overdraft. /</p> <p>DISAGREE with Statement Debtors are falling / so are probably being chased up. / Bills such as tax and debenture interest appear to have been paid over the year. //</p> <p>Positive Net Cash Flow from Operating Activities of £163 755 //</p> <p>Maximum for arguing only one side of argument 4 marks</p> <p>CONCLUSION Should relate to above points Liquidity of business gives cause for concern //</p>	(8)

(Total 32 marks)

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7(a)	<p>Years 1, 2 and 3 Cash Inflow = $365 \times 0.28 \times \text{£}4 = \text{£}408.8 \text{ } \text{£}$</p> <p>Years 4 and 5 Cash Inflow = $365 \times 0.31 \times \text{£}4.4 = \text{£}497.86 \text{ } \text{£}$</p> <table border="1"> <thead> <tr> <th>NPV Calculation</th> <th>(£m)</th> <th></th> <th></th> <th></th> <th></th> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td>Discounted</td> </tr> <tr> <th>Year</th> <th>Cash Inflow</th> <th>Cash outflow</th> <th>Net Cash Flow</th> <th>Discount Factor</th> <th>Net Cash Flow</th> </tr> </thead> <tbody> <tr> <td>0</td> <td></td> <td>-900.00 £</td> <td>-900.00 £</td> <td>1</td> <td>-900.00 £</td> </tr> <tr> <td>1</td> <td>408.80 £ o/f</td> <td>93.00 £</td> <td>315.80 £ o/f</td> <td>0.901</td> <td>284.54 £ o/f</td> </tr> <tr> <td>2</td> <td>408.80</td> <td>93.00 £</td> <td>315.80</td> <td>0.812</td> <td>256.43 £ o/f</td> </tr> <tr> <td>3</td> <td>408.80</td> <td>104.40 £</td> <td>304.40 £ o/f</td> <td>0.731</td> <td>222.52 £ o/f</td> </tr> <tr> <td>4</td> <td>497.86 £ o/f</td> <td>104.40 £</td> <td>393.46 £ o/f</td> <td>0.659</td> <td>259.29 £ o/f</td> </tr> <tr> <td>5</td> <td>497.86</td> <td>104.40 £</td> <td>393.46</td> <td>0.593</td> <td>233.32 £ o/f</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>NPV</td> <td>356.10 £ o/f £C</td> </tr> </tbody> </table>	NPV Calculation	(£m)										Discounted	Year	Cash Inflow	Cash outflow	Net Cash Flow	Discount Factor	Net Cash Flow	0		-900.00 £	-900.00 £	1	-900.00 £	1	408.80 £ o/f	93.00 £	315.80 £ o/f	0.901	284.54 £ o/f	2	408.80	93.00 £	315.80	0.812	256.43 £ o/f	3	408.80	104.40 £	304.40 £ o/f	0.731	222.52 £ o/f	4	497.86 £ o/f	104.40 £	393.46 £ o/f	0.659	259.29 £ o/f	5	497.86	104.40 £	393.46	0.593	233.32 £ o/f					NPV	356.10 £ o/f £ C	(24)
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7(b)	<p>FOR investing in project Project has a NPV greater than 0 ie £356 m Figures may not be accurate and NPV may be even greater. Other possible investment projects may be made available in the future</p> <p>AGAINST investing in the project Figures may not be accurate and NPV may be smaller.</p> <p>Maximum marks available for arguing one side of the project = 2 marks</p> <p>CONCLUSION Should relate to above ie Worth Investing in the project = 1 mark</p>	(8)

(Total 32 marks)