Mark Scheme January 2009

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	√	
Cost of sales	(1912000)	√ o/f	
Gross profit	2343000	√ o/f	
Distribution costs	(1163800)	√ o/f	
Administrative expenses	(289250)	√ o/f	
Other operating income	99840	√ o/f	
Interest Receivable	3850	√	
Interest payable	(55000)	√ o/f	
Profit on ordinary activities before tax	938640	√ o/f	
Corporation tax	(210000)	√	
Profit on ordinary activities after tax	728640	√√C o/f	

13 x √

W1 Cost of Sales

Direct Labour	724000	√
Direct materials	520000	√
Factory Deprctn	214000	√√
Factory Overheads	375000	√
Production Director	63000	√
Stock Adjust	16000	√√
	1912000	√ o/f

9 x √

W2 Distribution Costs

Promotions and Advertising	58000	√
Warehouse Expenses	188000	√
Motor Lorries Depctn	95000	√√
Shop Rent	290800	√√
Transport Staff Wages	176000	√
Shop staff wages	288000	√
Sales Director	68000	√
	1163800	√ o/f

10 x √

W3 Administrative Expenses

Bad Debts Written Off	2250	√
Office staff	222000	√
Finance Director	65000	√
	289250	

3 x √

Other Operating Income

Factory Canteen Sales	75000	√
Rent received	24840	√√
	99840	

3 x √

W4 Interest Payable

Debenture	55000	√√

2 x √

Section A

Question Number	Answer	Mark
1(b)	**Answers could include** **Benefits** 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. ∫∫ This may help future potential investors ∫ / shareholders ∫ / creditors ∫ etc with decision making. ∫ Should be beneficial if required to be shown ∫ by FRS3. ∫ Could be said to give a True and Fair View √ **Disadvantages** Adds more figures and details to the accounts ∫ so makes them more difficult to understand. ∫ Extra cost √ in spending extra time preparing accounts. √ Maximum for arguing only one side 8 x ∫ = 4 marks **Evaluation** Should conclude that it is beneficial to disclose Exceptional Items. ∫∫	(12)

(Total 52 marks)

Question Number	Answer	Mark
2(a)	Reconciliation of operating profit to net cash flow from operating activities	(14)

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

Question Number	Answer	Mark
2(b)		(20)

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.

Net Cash Inflow from Operating Activities		86 000√ o/f
Returns on Investment and Servicing of Finance√		
Dividends Received		20 000 √
Interest Paid		(121 000) √ o/f
Preference Dividend Paid		(25 000) √
Taxation		
Tax Paid		(26 000) √
Capital Expenditure + Financial Investment√		
Payments to acquire tangible fixed assets		(40 000) √
Equity Dividends Paid√		
Final Dividend 2007	35 000 √	
Interim Dividend 2008	15 000 √√	(50 000)
Net Cash Outflow before Financing		(156 000) √ o/f
Financing √		
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)	**Answers may include the following :** **Max 6 marks** available for **arguing only one side.** **Not worried - Liquidity most important for short term survival** 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 √) **Worried - Profitability important.** 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 √ **4 marks** for **Conclusion (does not have to be at end)** 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 √	**(12)**

(Total 52 marks)

Question Number	Answer				Mark	
3(a)					**(6)**	

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	
3(b)					**(10)**	

(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	
3(c)					**(10)**	

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	
3(d)					**(6)**	

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	
3(e)					**(8)**	

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)	**Answers may include the following:** **Max 8 marks** available for **arguing only one side.** **For a Cash Budget** 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. √ **Against a Cash Budget** 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 √ <u>2 marks</u> for **Conclusion (does not have to be at end)** Should conclude that drawing up a cash budget is worthwhile for the firm.	(12)

(Total 52 marks)

Section B

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

(i) Actual Material Used	85800 √	=	13 metres√
	(2400 √ x 2.75√)		
(ii) Actual time taken	59160 √	=	4.25 hours √
	(2400 √ x 5.80√)		

Question Number	Answer		Mark
4(b)			**(16)**

(i) Material Usage variance			
	(13 o/f -12)√ x2.75 √	x 2400 √	= £6 600 o/f Adv √
(ii) Total Material Cost Variance			
	£85 800	- £79 200 √	= £6 600 Adv √
(iii) Labour Rate Variance			
	(£5.80 - £6.50) √ x	4.25 o/f√ x 2400√	= £7 140 o/f Fav √
(iv) Labour Efficiency Variance			
	(4.25 o/f – 3.5) √ x	£6.50 √ x 2400 √	= £11 700 o/f Adv √
(v) Total Labour Cost Variance	£59 160	- £54 600 √	= £4 560 Adv √

Question Number	Answer	Mark
4(c)	**Maximum 4 x √ for one side of argument** **For statement ie. Against Paying Low Wage Rate:** 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 √ **Against Statement ie. For Paying Low Wage Rate :** Labour Rate variance is favourable √ which may reduce labour costs √ **Conclusion 2 x √√ must relate to points made above.**	(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	2341000o/f√	= £33.44 o/f x 2150√	= 71902	√ o/f		
	70000√					

Question Number	Answer	Mark
5(b)	Answers could include 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 √	**(4)**

Question Number	Answer	Mark
5(c)	Answers could include: **Maximum of 4 marks for argument of one side.** **Case for Marginal Costing** 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. √ **Case for Absorption Costing** 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 √. Other Points If figures in the future are similar, choice of stock valuation will not have very much effect on the profit. √√ **Conclusion** **Max 2 marks** available. Should relate to points made above.	**(8)**

(Total 32 marks)

Question Number	Answer				Mark
6(a)					**(6)**

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

Question Number	Answer			Mark
6(b)				**(8)**

Purchase Price			
Number of Ordinary shares in Whistle Stopz plc	10000000 √	5000000√√	
	2		
	Method 1	**OR 2**	
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
6(c)				**(10)**

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)	**Answers may include:** **Maximum of 4 marks per side of argument.** **Case for takeover:** 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 ∫ **Case Against takeover:** 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. ∫ **Conclusion** **2 marks available** Should relate to points made above.	**(8)**

(Total 32 marks)

Question Number	Answer	Mark
7(a)		(14)

MARK SCHEME
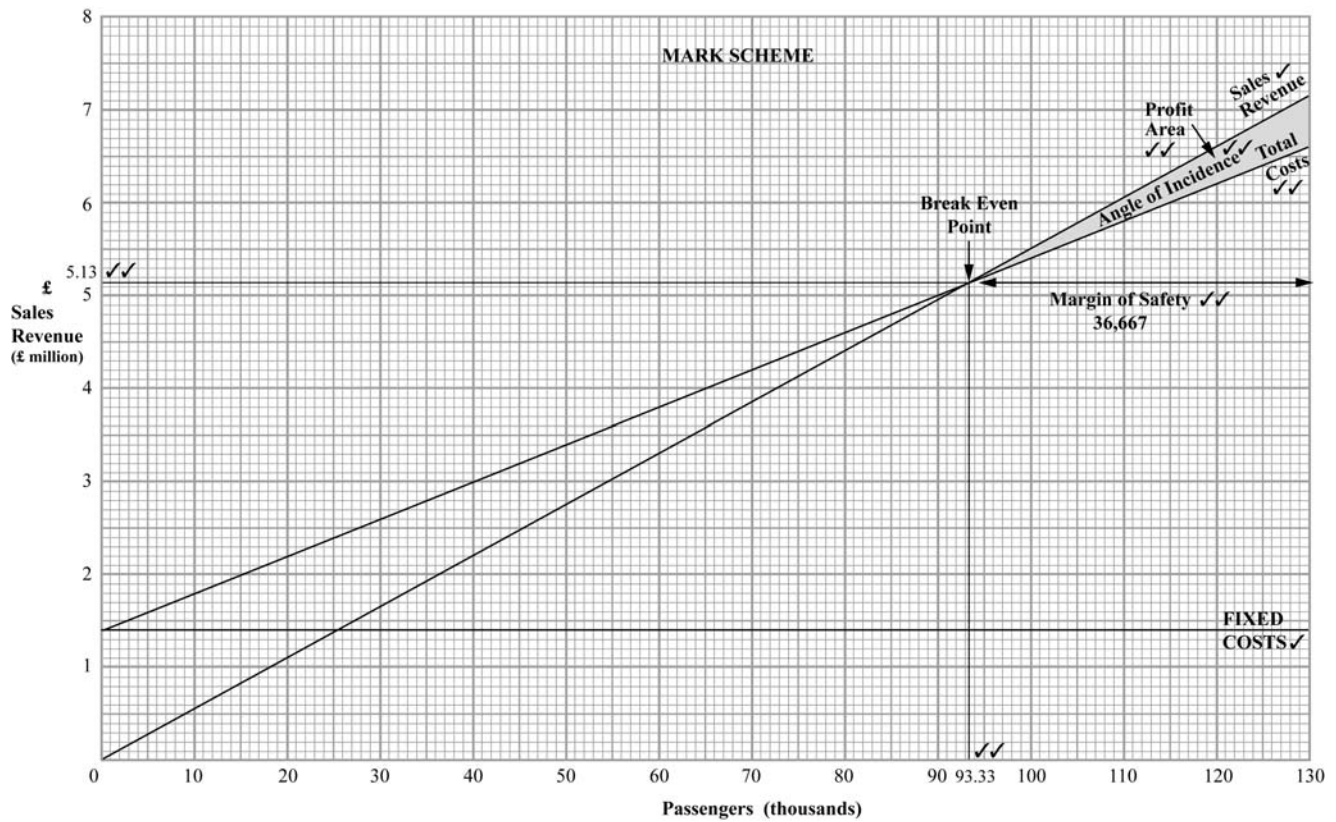
Question Number	Answer	Mark
7(b)		(10)

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					
	1400000	√ =	1400000	93333.33	passengers
	(55√ -40√)		15	√ o/f √ C	

Question Number	Answer	Mark
7(c)	Answers may include : **Maximum of 4 marks per side of argument.** **Better than budget** 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 √ **Worse than budget** 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. ∫ **Conclusion (does not have to be at end)** **2 marks available**. Should relate to above points. Profit is higher so actual figures are better than budget. ∫∫	**(8)**

(Total 32 marks)