Edexcel GCE

Accounting
Paper no. 6002

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Edexcel GCE
Accounting
6002

N29646A *N29646A*

Q1

a) Reconciliation of operating profit to net cash flow from operating activities

Net Profit	15 000	√
Add Interest : 14% x 20 000	2 800	√
14% x 20 000 √ x ¾ √	2 100	
Loss on sale of fixed assets	40 000	√
Depreciation (60 000 √ + 5 000 √)	65 000	
Increase in Stock	(6 000)	√
Increase in Debtors	(61 000)	√
Decrease in Creditors	(15 000)	√
Net Cash Inflow from Operating Activities	42 900	√ o/f √C

12 √ = 6 marks

b) Rapid Distribution plc Cash Flow statement for the Year ended 31st December 2007 √

Wording is required to obtain the mark(s). Also needs to be in correct place.

Net Cash Inflow from Operating Activities	42 900√ o/f
Returns on Investment and Servicing of Finance√	
Interest Paid	(4 900) √ o/f
Preference Dividend Paid	(2 000) √√√
Taxation √	
Tax Paid	(5 000) √
Capital Expenditure√	
Payments to acquire tangible fixed assets	(20 000) √
Receipts from sales of tangible fixed assets	20 000 √
Net Cash Outflow from Investing Activities	0 √
Equity Dividends Paid√	
Final Dividend 10 000 √ + Final Dividend 50 000 √	(60 000)
Net Cash Outflow before Financing	(29 000) √ o/f
Financing √	
Issue of Preference Shares 50 000 √	
Bank Loan 20 000 √	
Net Cash Outflow from Financing	70 000 √
Increase in Cash √	41 000 √ o/f

22 √ = 11 marks

c) Analysis of Changes in Cash and Bank Balances during year ended December 31 2006

	31 December 2005	31 December 2006	Change in Year
Cash	4 000	3 000√	(1 000)√
Bank	(27 000)	15 000 √	42 000 √
Total	(23 000)	18 000 √	41 000 √

Need first two columns for first √

6 √ = 3 marks

d) Answers may include the following :

3 marks (6 ✓) available for current liquidity position
3 marks (6 ✓) available for improving future liquidity

Firm has cleared bank overdraft, and now has money in the bank. ✓ However, liquidity position is not good. ✓

Current Ratio now stands at 125: 18 which is 6.94: 1 ✓ which is way too high. ✓ It needs to be reduced. ✓

Acid ratio now stands at 95 : 18 which is 5.27 :1 ✓ which is way too high ✓ and needs to be reduced. ✓

Debtors appear to have got out of control and are way too high. ✓ Credit control/ chasing up debtors needs to be carried out immediately. ✓

Dividend policy needs to be reviewed. ✓ Ordinary shareholders have been paid a 50% dividend for 2006 which is way too high ✓

Liquidity has been improved by issue of preference shares and taking of bank loan, ✓ these now need to be serviced, ✓ which involves making more profit before interest. ✓

Vans have been sold off, to improve liquidity, ✓ will the firm need these vans? ✓ Will this involve renting/leasing replacements etc. ✓

12 ✓ = 6 marks

(Total 26 marks)

Syllabus Content Area 3

Q2

(a)

Ordinary Shares	10 000 000 x 9%	900 000 ✓
Preference Shares	5 000 000 x 10%	500 000 ✓
Bank Loan	5 000 000 x 12%	600 000 ✓
	Total	2 000 000 ✓✓

WACC = $\frac{2\ 000\ 000}{20\ 000\ 000}$ ✓ x 100 ✓ = 10% ✓✓

10 ✓ = 5 marks

(b) Cash Inflow 8 ✓ x 6 ✓ x 700 ✓ x 365 ✓ = 12 264 000 ✓ (O/F)

Plus 10% = 13 490 400 ✓✓ (O/F)

Cash Outflow (120 000 x 80%) ✓✓ x 52 = 4 992 000 ✓

Plus 5% = 5 241 600 ✓✓ (O/F)

Year	Cash Inflow	Cash Outflow	Net Cash Flow	Discount Factor	Discounted Cash Flow
0		(25 000 000) ✓		1 ✓	(20 000 000) ✓
1	12 264 000	4 992 000	7 272 000 ✓ (O/F)	0.909	6 610 975 ✓ (O/F)
2	12 264 000	4 992 000	7 272 000 ✓ (O/F)	0.826	6 009 581 ✓ (O/F)
3	13 490 400	5 241 600	8 248 800 ✓ (O/F)	0.751	6 197 323 ✓ (O/F)
4	13 490 400	5 241 600	8 248 800 ✓ (O/F)	0.683	5 633 930 ✓ (O/F)
5	13 490 400	5 241 600	8 248 800	0.621	5 121 680 ✓ (O/F)
					9 573 490 ✓✓ C (✓O/F)

26 ✓ = 13 marks

(c) Project has NPV of 9 573 490 ✓ (O/F) so project is worth investing in. ✓

Other factors may be considered up to max of one mark
Eg Competition, changing tastes, new technology, figures only estimates etc

4 ✓ = 2 marks

(d) Answers may include
Gearing Ratio = $\frac{\text{Debt}}{\text{Capital Employed}}$ ✓ = 50% ✓✓

Maximum 2 ✓ FOR or AGAINST

Interest payments of ✓ £1.1 m per year. ✓ Although these are allowable for tax. ✓✓

Also have to ensure ordinary shareholders receive a return. ✓ of 9% ✓

Conclusion for capital structure ✓✓ ie Gearing is medium

12 ✓ = 6 marks

(Total 26 marks)

Q3

(a)

Trading & Profit + Loss Account						
Sales						
3 Months	3500	60	210000	✓		
9 months	2800	180	504000	✓✓		
Café Sales	52	2450	127400	✓		
					841400	✓ c
Purchases	52	1225			63700	✓
Gross Profit					777700	✓ + ✓ c
						8 x ✓
Loan Interest	500000	0.09	45000	✓✓		
Wages	17	19000	323000	✓		
Running Expenses	52	3500	182000	✓		
Depreciation						
Building	900000	0.02	18000	✓✓		
Furniture	50000	0.1	5000	✓		
Equipment			50000	✓		
					623000	
Net Profit					154700	✓ + ✓ c
						10 x ✓
						9 marks

(b)

Balance Sheet						
Buildings	900000	18000	882000	✓✓ o/f		
Furniture	50000	5000	45000	✓✓ o/f		
Equipment	300000	50000	250000	✓		
					1177000	✓ o/f
Working Capital						
Debtors	1120	20	22400	✓✓		
Bank			110200	✓✓ + ✓✓ c		
Current Assets			132600			
Creditors	4	1225	4900	✓✓		
Working Capital					127700	✓ o/f
Net Assets					1304700	✓ o/f
Ordinary Shares			750000	✓		
Profit + Loss Reserve			154700	✓ o/f		
Shareholders Interest					904700	✓ o/f
Bank Loan					400000	✓✓
Capital Employed					1304700	✓ o/f
						22 x ✓
						11 marks

Answers may include the following

For
Allows firm to see likely outcome/future situation. ✓✓
Allows firm to make changes to plans ✓ if budget figures do not look good ✓
Examples of above eg reduce planned expenditure ✓ or boost planned sales by advertising campaign ✓
Variance analysis ✓ allows firms to take corrective action ✓ once business started.

Against
Figures are only estimates/guesses. ✓✓
Unexpected events or changes may happen in the future. ✓✓
Time and cost of accounting staff ✓ to prepare budget/variance analysis etc. ✓

Maximum of four marks if only for argument of one side.

Conclusion
Is a useful tool ✓✓

6 marks

(Total 26 marks)

Q4

(a) Dividend cover is the number of times the total annual dividend ✓ could have been paid out of the net profit ✓ after tax and preference dividends. ✓

$$\text{Dividend Cover} = \frac{\text{Net profit after tax and preference dividends}}{\text{Ordinary Dividend for year}}$$

eg $\frac{500}{50}$ ✓ = Covered 10 times ✓The higher the number, ✓ the safer the dividend policy. ✓

6 ✓ = 3 marks

(b) (i) $\frac{5\,000}{1.25}$ ✓ = 4 000 ✓ shares (ii) $\frac{5\,000}{6250}$ ✓ = £0.80 ✓ share price

4 ✓ = 2 marks

(c)

	Pacific Chemicals	South China Containers
Interim Dividend	(3p x 4000) ✓ O/F = £120 ✓ O/F	(2p x 6250) ✓ O/F = £125 ✓
Final Dividend	(9.5p ✓ x 4000 O/F) ✓ = £380 ✓ O/F	(8p ✓ x 6250) ✓ O/F = £500 ✓
Total Dividend	£120 + £380 O/F = £500 ✓	£125 + £500 O/F = £625 ✓

12 ✓ = 6 marks

(d)

Pacific Chemicals	South China Containers
(£1.47 - £1.25) x 4000 ✓ O/F = £880 ✓	(95p - 80p) x 6250 O/F ✓ = £937.50 ✓

4 ✓ = 2 marks

(e)
Valid answers would include :

South China Containers would give the greatest amount of money ✓ for the wedding if sold now. ✓
BUT
Best dividend stream from South China Containers ✓ - £125 more ✓
Best capital growth from South China Containers ✓ £57.50 more ✓

Conclusion
Recommend selling Pacific Chemicals and holding on to South China Containers. ✓✓ in order to maximise long-term potential.

6 ✓ = 3 marks

(Total 16 marks)

Q5

(a)	Sanvulam	Hirandi
Fixed Costs	£10 800 ✓	£8 900 ✓
Variable Costs	5.5 p ✓	5.7 p ✓
Contribution	19.5p ✓	19.3p ✓
Break Even Point in units	10 800 ✓ / 0.195	8 900 ✓ / 0.193
	= 55 385 ✓	46 114 ✓
Break Even Point in Sales Revenue	£ 13 846. 25 ✓	£ 11 528.50 ✓
		= 12 ✓ = 6 marks
(b) Margin of Safety		
Minimum	None ✓	3886 ✓
Maximum	34 615 ✓	43 886 ✓
Average	11 282 ✓	20 553 ✓
		= 6 ✓ = 3 marks
(c) Sales	£ 200 000 ✓	£ 200 000 ✓
Less Fixed Costs	(£129 600) ✓	(£106 800) ✓
Less Variable Costs	(£ 44 000) ✓	(£ 45 600) ✓
= Profit	£ 26 400 ✓	£ 47 600 ✓
		= 8 ✓ = 4 marks
OR		
Contribution x Sales	800 000 x 0.195 ✓	800 000 x 0.193 ✓
	= £156 000 ✓	= £154 400 ✓
Less fixed Costs	(£129 600) ✓	(£106 800) ✓
= Profit	£26 400 ✓	£47 600 ✓

(d) Answers may include:
Hirandi has a larger profit ✓ of £21 200. ✓ OR £47 600 to £26 400 ✓
Hirandi has a lower break even point each month ✓ £11 528 to£13 846 ✓ OR by £2318 ✓
Sanvulam has a greater contribution per unit ✓ of 0.2 pence. ✓ OR 19.5p to 19.3 p

Conclusion – better location is Hirandi ✓✓

6 ✓ = 3 marks

(Total 16 marks)

Q6

(a)

Sales		15 525 000 ✓
Direct Materials	6 840 000 ✓	
Direct Labour	2 640 000 ✓	
Variable Factory Overheads	1 680 000 ✓	
Fixed Factory Overheads	1 320 000 ✓	
Less Closing stock	(520 000) ✓✓✓✓✓	
Cost of Goods Sold		11 960 000
Profit		3 565 000 ✓ ✓C

Calculation of Stock ie 5 ✓✓✓✓ ✓ shown above

Valuation of Closing Stock $\frac{12,\ 480\ 000}{120\ 000}$ ✓ = £104 per unit ✓

£104 x 5 000 ✓ = £520 000 ✓

12 ✓ = 6 marks

(b) The marginal cost of producing the units is (£57 ✓ + £22 ✓ + £12 ✓) = £91 ✓

Therefore the 5 000 televisions should be sold. ✓✓

6 ✓ = 3 marks

(c) (i) The marginal cost of producing another 10 000 is £91 + £11 extra labour

= £102 ✓ ✓

Therefore the units should not be produced. ✓✓

The offer to supply from the other firm should be accepted. ✓✓

6 ✓ = 3 marks

(d) Answers may include :

Contract with new customer ✓ could lead to further business in the future √ and this could be at a higher price. ✓ with a greater profit margin √
Enables product to be sold in the home market, ✓ ✓ at present seems only exported. ✓ which hould raise profile of company ✓
Contract with supplier ✓ may lead to further business in future. ✓ perhaps with a keener price √ or in times of high demand √
Selling at the lower price ✓ may upset the exporter. ✓ who may demand a lower price √ or find a different supplier √

8 ✓ = 4 marks

(Total 16 marks)

Q7

(a) (i) Calculation of Purchase price for Le Chic

Buildings	700 000 ✓
Machinery	22 000
Fixtures and Fittings	30 000 ✓
Furniture	30 000
Vehicles	70 000
Stock	155 000✓
Bank	45 000
Cash	23 000
Goodwill	50 000 ✓
(All other unticked assets = ✓)	
Creditors	(110 000) ✓
Purchase Price	1 015 000 ✓ ✓C

8 ✓ = 4 marks

(a) (ii)

Purchase Price £1 015 000 ✓ = 725 000 shares ✓✓
£1.40 ✓

4 ✓ = 2 marks

(b)

Realisation Account

Buildings	600 000 ✓	Creditors	110 000 ✓
Machinery	22 000		
Fixtures and Fittings	80 000 ✓	Chicarbour - Price Paid	1 015 000 ✓✓
Furniture	30 000		
Vehicles	70 000		
Stock	175 000 ✓		
Bank	45 000		
Cash	23 000		
Sundry Shareholders	80 000✓✓ C		
	1 125 000 ✓		1 125 000 ✓

10 ✓ = 5 marks

(c)

Wei Lun's shares 10 000 ✓ X 725 000 ✓ = 14 500 shares ✓
500 000 ✓

4 ✓ = 2 marks

(d) Evaluation of merger

Possible answers could include:

For Merger
Shareholders in Le Chic receive a profit on realisation✓ of £80 000 ✓ / Goodwill ✓ valuation of £50 000 ✓
New company should enjoy benefits of vertical integration ✓ as in same line of business. ✓
New company could enjoy economies of scale✓ eg bulk buying ✓
Fragrant Harbour has a healthy balance sheet, ✓ with lots of fixed assets ✓ and healthy working capital. ✓

Against Merger
Dilution ✓ of ownership/voting power ✓
We do not know the market price of the Le Chic shares. ✓✓
We do not know what the market price of Chicarbour shares are likely to be. ✓✓

Evaluation
Should conclude and relate to points made above. ✓✓

6 ✓ = 3 marks

(Total 16 marks)