Mark Scheme with Examiners' Report

GCE A Level Accounting (9011)

London Examinations
June 2004

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ACCOUNTING 9011, MARK SCHEME

PAPER 1

Section A

Question 1

(a)

Reconciliation of operating profit to net cash Inflow from operating activities	£000	
Operating profit (18150 + 15) 1 1	18165	1
Depreciation charges (Workings 1)	1600	8
Loss on sale of tangible fixed assets	700	5
Increase in stock	(1500)	1
Increase in debtors	(1000)	1
Decrease in creditors	(650)	1
	17315	1

(20/2 = 10 marks)

(b) Lorenz plc: Cash Flow Statement for the year ended 30 April 2004 1

		£000	£000	
Net cash inflow from operating activities (W1)	1		17315	1 of
Returns on investments & servicing of finance	1			
Interest Paid			(15)	1
Net cash outflow from returns on investments & servicing of finance	1		17300	1
Taxation				
Corporation tax paid			(6500)	1
Investing activities	1			
Payments to acquire tangible fixed assets		(7000) 1		
Receipts from sales of tangible fixed assets		1200 1	(5800)	1
Dividends paid (4250 + 10000 – 8000) 1 1 1			(6250)	1
Net cash outflow before financing			(1250)	1
Financing	1			
Issue of ordinary share capital			500	1
Decrease in cash			(750)	1 of

(20/2 = 10 marks)

(c)

Analysis of changes in cash during the year		
Balance at 1 June 2003 (1200) – 700	(500)	1
Net cash outflow	(750)	1 of
Balance at 31 May 2004 (1800) – 550	(1250)	1

(0-3 marks)

Financing was not sufficient to cover outflows
Cash/liquidity position has deteriorated
Fixed asset purchases a major cause of deteriorating liquidity position.
(Other valid points) (0-2 marks)
(5 marks)

Workings 1

Depreciation Account (£000s)

	1	1 1	1
Disposals	4100	Balance b/f (43500 – 23500)	20000
1 1	1		1
Balance c/f (44500 – 27000)	17500	(=) Profit & Loss	1600
	21600		21600

Disposal Account

Cost	6000 1	Proceeds	1200 1
		Depreciation	4100 1
		Profit & Loss	700 1+1of
	6000		6000

(25 marks)

Question 2

(a)

Trading Profit & Loss Account For Year Ended 31 December 2003

			£	
Sales (W1)			233027	3
Less: Cost of goods sold:				
Purchases (W2)	180571	2		
Less: Stock @ 31/12/03	25200	1	155371	1 of
Gross Profit			77656	1 of
Less: Depreciation – Vehicles	2205	2		
Depreciation – lease	2100	2		
1 1				
Light and heat (£1995 + £201)	2196	(2)		
Insurance (W3)	630	3		
Loan interest (W4)	735	3		
Vehicle repairs and petrol	2268	1		
Wages	13314	1		
General Expenses	1281	1		
Provision for doubtful debts (W5)	172	1	24901	
Net Profit			52755	1 +1 of

(26/2 = 13 marks)

(b)

Balance Sheet as at 31 December 2003

Fixed Assets	Cost		Depreciation		NBV	
	£		£		£	
Vehicles	14700		2205	1 of	12495	1 of
Lease	44100		2100	1 of	42000	1 of
	58800		4305		54495	1 of
Current Assets						
Stock			25200	1		
Debtors	8600					
Less: Provision	172		8428	1 of		
Bank (W6)			70833	1		
Insurance Prepaid			315	1 of		
			104776			
Less: Current Liabilities						
Creditors	1210	1				
Light & Heat Due	201	1				
Interest Due	735	1	2146			
Net Current Assets					102630	1 of
					157125	
Less: Long Term Liabilities						
4% Loan (£21000 - £5250)					15750	(1of)
					141375	
Financed By:					£	
Capital					105000	1
Add: Net profit					52755	1 of
					155755	
Less: Drawings					16380	1
					141375	1

(18/2 = 9 marks)

(c)

1. A structured record system.
2. Access to information, eg debtors.
3. A comparison of actual figures with budgets, eg monthly sales.
4. Data for short term decision making, eg advertising if sales do not achieve the budgeted figure.
5. A check on the work of employees, eg via control accounts.
6. A reduction in accountancy fees for the purpose of final accounts preparation.

(3 points x 1 mark = 3 marks)

(Total 25 marks)

Workings

1 Sales - £193452 (1) + £30975 (1) + £8600 (1) = £233027

2 Purchaces - £179361 (1) + £1210 (1) = £180571

3 Insurance – $\left(\frac{£945}{18} \right)^{1}$ x 12 1 - £630
1
(= £315 prepaid)

4 Interest – $\frac{(£21000 \times 4\%)}{2} + \frac{(£21000 - £5250 \times 4\%)}{2}$
= £420 (1) + £315 (2) = £735 (= Owing)

5 Provision - £8600 x 2% = £172 1

6 Bank – Total receipts – Total payments
= £319452 (1) - £248619 (1) = £70833

Question 3

(a)

Adjusted Net Profit

		£		£
Profit per final accounts				87440
Add:	Commission received	1560	1	
	Stock Error	4000	2	
	Profit on disposal (W1)	400	3	
	Depreciation error (W2)	40	2	
	Depreciation error (W3)	90	2	6090
				95350
Less:	Wages omitted	5870	1	
	Repair charge	400	1	
	Contract charge (W4)	300	2	6570
				86960 2 (1 of)

(16/2 = 8 marks)

Workings

(1) Disposal

	£			£	
Cost	10000		Depreciation	4000	1
P & L	400	2 (1 of)	(2000 + 2000)		
			Bank	6400	
	10400			10400	

1 1
(2) £400 x 10% = £40 Overcharged

1 1
(3) £900 x 10% = £90 Overcharged

1 1
(4) £900/3 = £300 per annum

(b)

Current Account

	M			M	
	£			£	
Balance b/d	4950	1	Balance b/d	-----	
Interest on drawings	220	1	Interest on capital	7200	1
Drawings	12000	1			
Balance c/d	15010		Interest on loan	850	1
			Share of profit	24130	1+ 1 of
	32180			32180	
Adjustment (W3)	206	2 (1 of)	Balance b/d	15010	(1 of)

Workings

(1) Appropriation – prior to profit correction.

			£
Net Profit			87440
Interest on drawings:	(W2)		
	Hassan	293	
	Mustapha	220	513
			87953
Interest on capital:			
	Hassan	9600	
	Mustapha	7200	
		16800	
Salary – Hassan		14000	
Loan interest = Mustapha		850	31650
			56303
Share of profit:			
	Hassan	32173	
	Mustapha	24130	56303

W2 H $\left[(8000 \times 0.04) \times \frac{9}{12}\right] + \left[(8000 \times 0.04) \times \frac{2}{12}\right]$

= £240 + = £53 = £293

$$M\left[(6000 \times 0.04) \times \frac{9}{12}\right] + \left[(6000 \times 0.04) \times \frac{2}{12}\right]$$

= £180 + = £40 = £220

Working

			£
(3)	Adjusted net profit		86960
	Appriopriations net (£31650 - £513)		31137
			55823
	Shared – H	31899	
	M	23924	55823

Thus: Original share – Adjusted share
H 32173 - 31899 = 274 DR
M 24130 - 23924 = 206 DR

(c)

Capital

	H	M	A		H	M	A	
	£	£	£		£	£	£	
Goodwill (W2)	-----	-----	14000	Balance	160000	120000		1 for both figures
			2 (1of)					
Balance	166000	128000	78000	Cash	-----	-----	80000	1 for both figures
	1	1	1	Vehicles			12000	
				Goodwill(W1)	6000	8000	-----	
					2 (1of)	2 (1of)		
	166000	128000	92000		166000	128000	92000	
				Balance b/d	166000	128000	78000	
					(1of)	(1of)	(1of)	

(14/2 = 7 marks)

(1)	Before		After	Adjustment	
	£		£		£
H 4	48000	3	42000	Cr captial	6000
M 3	36000	2	28000	Cr capital	8000
A -	------		14000	Dr capital	14000
	84000		84000		-------

(d) Liquidity improves via capital investment of £80,000 in cash.

Investment potential in fixed assets via cash invested i.e. expansion of business, investment potential in a wider stick range, resulting in improved profitability.

Work shared between three partners resulting in a specialised approach to business activities.

Ahmed may have business contacts.
Ahmed may have specialised knowledge e.g. marketing skills

(Other valid points)

1st point 2 marks
2nd point 2 marks
3rd point 1 mark

(Total 25 marks)

Question 4

(a)

Trading and Profit and Loss Account For The Year Ended 31 January 2004

	Clothing		Shoes		Household Goods	
	£		£		£	
Sales	200000	1	200000	1	100000	1
Less: Cost of Goods Sold:	160000	1	160000	1	80000	1
Gross Profit	40000	1 of	40000	1 of	20000	1 of
Less: Wages & Salaries	15000	1	10000	1	5000	1
Administration Expenses	15000	1	15000	1	7500	1
Lighting & Heating	4000	1	4000	1	2000	1
Rent & Insurance	1600	1	1600	1	800	1
Net Profit	4400	1 of	9400	1 of	4700	1 of

(24/2 = 12 marks)

(b)

The Profit/Loss and expenses of each department can be analysed to aid decision making (0 – 1)

The contribution of each department can assessed in order to further refine decision marking (0 – 2)

(Total 15 Marks)

Question 5

a (i) Corrected Sales Ledger Control Account

	£			£	
Balances b/d	18309	1	Returns Inwards	2010	1
Credit Sales	20814	1	Bank	18971	1
			Set-off	509	1
			Discount Allowed	943	1
			Bad Debts	300	1
			Balances c/d	16390	2 (1 of)
	39123			39123	
Balances b/d	16390	1 of			

($\frac{10}{2}$ = 5 marks)

a (ii) Statement of Corrected Total Debtors as at 31 March 2004

		£		£	
Debtors Balances per schedule				16967	1
Add:	Debtors Account overcast	30	1		
	Cheque Value Transposed (£1382 - £1328)	54	2	84	
				17051	
Less:	Bad Debts not credited	28	1		
	Returns not credited	124	1		
	Set-off omitted	509	1	661	
	Corrected Balances per control			16390	3 (1 of)

($\frac{10}{2}$ = 5 marks)

(b)

- An audit on the efficiency of staff.
- Facilitates the detection and correction of errors.
- Minimises the potential for fraud by staff.
- Provides total debtors and creditors amounts without waiting for the extraction of individual balances.
- Provides debtors and creditors totals for the Trial Balance.

First point 2 marks
Second point 2 marks.
Third point 1 mark.
(5 marks)

(Total 15 marks)

Syllabus Topic (iv)

Question 6

(i) $\dfrac{\overset{2}{\pounds 114000}}{\underset{1}{\pounds 570000}}$ (W1) x 100 = 20% 1

(ii) $\dfrac{\overset{2}{\pounds 68400}}{\underset{1}{\pounds 570000}}$ (W3) x 100 = 12% 1

(iii) $\dfrac{\overset{1}{\pounds 456000}\ (W2)}{(\underset{1}{\pounds 24200} + \underset{1}{\pounds 33996})\ /\ 2} = \underset{1}{15.67}\ \underset{1}{\text{Times}}$

(iv) $\dfrac{\overset{1}{\pounds 72960}}{\underset{1}{\pounds 38400}}$ = 1.9 : 1 1

(v) $\dfrac{\overset{1}{\pounds 72960} - \overset{1}{\pounds 33996}}{\underset{1}{\pounds 38400}}$ = 1.01 : 1 1

Workings

1. Gross profit £570000 x 20% = 114000

2. Cost of goods sold £57000 - £114000 = £456000 *(of)*

3. Net profit £114000 – (£456000 x 10%) = £68400 *(of)*

(20/2 = 10 marks)

(b)

The current ratio is close to the “text” ideal of 2:1, but, the acid test is below the “text” ideal of 1.10 : 1 and D. Milham may be unable to pay creditors as they fall due.

(0- 2 marks)

The value of current assets & liabilities possibly indicates:

- A high value of stock.
- A high value of debtors.
- A high value of creditors who may refuse to supply goods in future if outstanding debts are not paid.
- A reliance on a large overdraft to finance the business.

(3 x 1 marks)

Accept also:

- A ratio of 1.01 may be the norm for D. Milhams type of business.
- Negotiated a long credit period with suppliers.
- A mainly cash sales situation, little or no credit sales. Thus a small value or nil value re debtors.
- A high cash/bank balance which is not being utilised effectively.

(5 marks)

(Total 15 marks)

Question 7

(a) The total of the share capital, which a company is allowed to issue to shareholders. The amount is stated in the company's memorandum of association. It maybe increased via application to the registrar of companies

(First point 0 –1)
(Second point 0 – 2)

(b) An additional value charged when a company issues further shares in addition to its existing share capital. Calculated at a value which equates the price of the share to the par value plus the worth of reserves attributed to existing shareholders. Thus, old and new shareholders are treated equitably.

(First point 0 – 2)
(Second point 0 – 3)

(c) When shares are redeemed or purchased other than out of the proceeds of a new issue, the amount of distributable reserves being treated as used for the purpose must, in accordance with the Companies Act, be transferred to a capital redemption reserve. In effect Dr distributable reserve and Cr capital redemption reserve.
The objective is to reduce the value of reserves available for dividend purposes and protect the interests of creditors.

(First point 0 – 2)
(Second point 0 – 3)

(d) Where the agreed percentage rate of dividend is not paid fully, or in part, the shortage can be carried forward to future years. Such arrears must be paid before ordinary shareholders receive anything.

(0 – 3)

(e) A revenue reserve voluntarily transferred from profits created to retain funds in the business where it is considered that depreciation policy is insufficient to adequately reflect the retention required when the current cost of an asset in use is considered.

(First point 0 – 2)
(Second point 0 – 2)

(Total 20 marks)

Question 8

(a) Fundamental accounting concepts are the broad basic assumptions which underlie financial accounts, as recognised in SSAP2/FRS18. The four fundamental accounting concepts are as follows:

Going concern, which assumes that the business will continue in operational existence for the foreseeable future.

Accruals whereby revenue and costs are accrued, i.e. recognised as they are earned or incurred, not as money is received or paid.

Consistency, should be consistent in the way in which accounting policies are applied if there is a good reason for a change in practice, that change should be disclosed via a note to the accounts. Consistency is important in that a firm's accounts over time should be capable of comparison.

Prudence, whereby revenue and profits are not anticipated, but are recognised only when their realisation can be assessed with reasonable certainty. It also applies to the need for all known liabilities to be provided for, whether their amount is known with certainty or is a 'best estimate'.

(4 x 2 marks each)

(b) Realisation. Profit can only be taken into account when realisation has occurred, eg the buyer accepts liability to pay for the goods or services.

Business Entity. The affairs of the business are treated as being separate from the non-business activities of its owner.

Materiality An item and its treatment is determined on the basis of its significance to the organisation. The order of magnitude will vary between different organisations.

The assumption of the stability of currency. Assets are normally shown at cost price.

Others:
Duality
Time Interval
Substance over form
Money measurement
Materiality

(3 x 2 marks each)

(c) Accounting bases are the methods developed for applying fundamental concepts to financial transactions and items, for the purpose of financial accounts

(2 marks)

Accounting policies are the specific accounting bases selected which are best suited to present fairly the company's results and financial position.

(2 marks)

Two examples of matters for which different accounting bases may be recognised are:

Depreciation, as methods and rates used have a direct bearing on both the level of profit and the net asset value.

Research and development expenditure, where the decision whether or not to capitulise development expenditure will affect profit levels and balance sheet totals.

Stocks and long term contracts, as different valuation methods will affect the levels of gross and net profit and balance sheet values.

(Any 2 x 1 marks each)

(Total 20 marks)

PAPER 2

Question 1

(a) Semi-fixed costs are those which are constant for a range of output **(1)**, then increase in steps **(1)** as output further expands. Semi-variables generally apply to overhead costs **(1)**. Examples, rent and property costs, management and supervision **(1)**.

4 Marks

(b) Forecast Profit Statement For The Project.

	100 000 Units £000	200 000 Units £000	300 000 Units £000	
Sales	700	1 400	2 050	**2 Marks**
less				
Annual Lease	60	60	60	**2 Marks**
Machinery Deprec	36	72	108	**2 Marks**
Raw materials	500	900	1 200	**2 Marks**
Labour	100	200	300	**2 Marks**
Supervision/Manage	18	36	79	**2 Marks**
Administration	45	70	85	**2 Marks**
	759	1 338	1 832	
Forecast profit/(loss)	(59)	62	218	**1 Mark OF** if at least four expenses deducted from sales.
	700	1 400	2 050	

Note: 1 mark for each row of sales or expenses if two items correct.

15 Marks

(c) Consideration of relevant points including:
Reference to profitability plus a decision **OF**
Lack of experience in the market of the new product.
Limited market research for product.
Long term commitment for premises.
Major capital investment in equipment and staff.
Loss making unless high volumes of sales achieved.
Note: 1 mark for recognition plus 1 mark for development x 3 points.

6 Marks

(Total 25 Marks)