Winter 2013
Past Paper (Mark Scheme)

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Mark Scheme (Results)

January 2013

GCE Accounting (6002/01)

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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.

1(a) Paper (Mark Scheme Title of Financial Position of Channel Oil Plc as at 31 December 2012 ...² or WAC12

Statement of Financial Position of Channel Oil Plc as at 31 December 2012 √

ASSETS
Non-current assets √
Property, Plant & Equipment √

Land	3 150 000	
Buildings	1 022 700	√
Oil Drilling Plant	4 550 000	
Oil Refining Plant	1 930 000	
Fittings	187 000	√ Any 4
Machinery	685 000	
Furniture	64 000	
Computer Equipment	495 000	√ Next 3
	12 083 700	

Investment property √
Investment property	780 000	√
	780 000	

Intangible Assets √
Oil drilling licence	2 000 000	
Patents	45 000	√ Both
	2 045 000	
		14 908 700 √o/f

Current Assets
Inventories √
Oil inventories	2 157 600	√
Non-oil inventories	116 000	√
	2 273 600	

Trade and Other Receivables √
Trade receivables	97 000	
Other receivables	7 000	√ Both
	104000	

Cash and Cash Equivalents √
Bank	114 000	
Cash	17 000	√ Both
	131 000	
		2 508 600

Total Assets √   **17 417300** √o/f

EQUITY AND LIABILITIES √
 Equity
Share Capital
Ordinary shares of £1	13000000	√

Other Reserves
Share Premium	2 500 000	

Revaluation Reserve √   78 700   √
(48700)√ +(30000) √
General Reserve	75 000	
Foreign Exchange reserve	600 000	√ All 3
	3 253 700	

Retained Earnings
 (-929 250) √ + (- 162 400) √   -1 091650   √√
                                                  15 162 050√ o/f

Non-Current Liabilities √
Long Term Borrowings
Debenture 8.5% 2017	1 200 000	
Bank loan	500 000	√ Both
Taxation	262 000	√
	1 962 000	

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Question Number	Answer	Mark

	Current Liabilities
	 Trade and other Payables √
	     Trade Payables 24 000
	     Other payables 16 500
	     Debenture Interest 51 000
	     Loan Interest 3 750 √ All 4
	                        95 250
	 Current Tax Payable
	     Income Tax Payable 198 000 √
	                         293 250
	                 17 417 300 √C√
	 Total Equity and Liabilities o/f
		(40)

Question Number	Answer	Mark
1(b)	**FOR** statement Current ratio is 2 508 600 : 293 250 √ which is 8.56 : 1 √ O/F This is way above / too high √ ideal ratio of 1.5/2 : 1. √ Too much working capital √ is tied up in stocks of oil √ Acid ratio is (2 508 600 – 2 273 600) : 293 250 √ which is 0.80 : 1 √ O/F This is below/ too low √ the ideal ratio of 1:1 √ A tax bill of £198 000 must be paid in 30 days √ but there is only £131 000 Cash and cash equivalents √ **AGAINST** statement A current ratio of above 2:1 is better than below 2:1. √ If the business can sell stocks quickly, then liquidity problem can be avoided. √ The nature of the industry √ may mean that it is normal for large stocks of oil to be carried. √ Working capital is £2 215 350 √ which is a healthy figure. √ Bank balance is positive at £114 000 √ which can be used to pay debenture and loan interest √ and settle trade and other payables √ Conclusion (two √'s) Channel Oil plc has a liquidity problem √√ Maximum of 8 √'s for arguing one side.	**(12)**

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Question Number	Answer	Mark
2(a)(i)	Budgeted cost of one carpet : Materials = (16 x £7.50) √ = £120 Labour = (8 x £8.60) √ = £34.40 √ (both) 2 £154.40 √ O/F	**(4)**

Question Number	Answer	Mark

2(a)(ii)	Actual cost of one carpet :
	
	Materials = £58 608 √ = £122.10
	                      480
	
	Labour = (4.25 x £8.50) √ = £36.125 √ (both)
	                                      £158.225 √ O/F
		(4)

Question Number	Answer	Mark

2(b)(i)	Labour Efficiency Variance = (Actual Hours - Standard Hours) x Standard Rate √
	
	              = (4.25 - 4) √ x £8.60 √
	
	              = £2.15 Adverse √
	
	Labour Rate Variance = (Actual Rate - Standard Rate) x Actual Hours √
	
	              = (£8.50 - £8.60) √ x 4.25 √
	
	              = £0.425 Favourable √
	
	Total Labour Variance = (Actual Hours x Actual Rate) - (Standard Hours x Standard Rate) √
	
	              = (4.25 x £8.50) √ - (4 x £8.60) √
	
	              = £36.125 - £34.40 = £1.725 Adverse √
		(12)

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Question Number	Answer	Mark
2(b)(ii)	Materials Price Variance = (Actual Price - Standard Price) x Actual Usage √ = ($\frac{58\ 608}{7\ 920}$ √ - £7.50 √) x $\frac{7\ 920}{480}$ √ = £1.65 Favourable √ Material Usage Variance = (Actual Usage - Standard Usage) x Standard Price √ = ($\frac{7\ 920}{480}$ - 16) √ x £7.50 √ = £3.75 Adverse √ Material Cost Variance = (Actual Usage x Actual Price) - (Standard Usage x Standard Price) √ = (16.5 x 7.40) √ - (16 x 7.50) √ = £122.10 - £120 = £2.10 Adverse √	**(14)**

Question Number	Answer	Mark
2(c)	Sales = £299 x 480 = £143 520 √ Variable costs = (£158.225 o/f x 480) = (£75 948) √√ Fixed costs = (£12 300) √ £55 272 √C √o/f	**(6)**

Question Number	Answer	Mark
2(d)	Answers may include : **AGAINST** Passing on the increase in production cost Could absorb rising costs √ by increasing efficiency. √ Customer could be unhappy and not buy √ and go to a rival supplier. √ New price could make firm's price higher than rivals. √ Present price of £299 is psychological √ and an increase will take them through the £300 barrier. √ **FOR** Passing on the increase in production cost Need to maintain profit margin, √ this (or mark up) could be fixed √ otherwise business makes losses / goes bankrupt √ Cannot keep same selling price for ever √ will have to increase price some day √ Customers may be quite willing to pay the higher price√ if they still think they get good value √ New price may still be below that of rival firms.√ **CONCLUSION** (√√) Should relate to above eg passing on increased costs is wrong/right √√ Maximum of 8 √ if only one side of argument.	**(12)**

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Question Number	Answer	Mark
3(a)		

Figures are in £ millions	Ordinary Share £1 Capital	Share Premium	Retained Earnings	General Reserve	Capital Redemption Reserve	Non-current Asset Replacement Reserve	Total Equity
Balance at December 31st 2012	900 √	350 √	4 √	0 √	40	100 √	1394 √

(6)

Question Number	Answer	Mark
3(b)(i)	To replace worn out airplanes. √ which have a finite life √ OR To upgrade computer system √ to ensure compatibility etc √	**(2)**

Question Number	Answer	Mark
3(b)(ii)	An amount was transferred from General Reserve √ to Retained earnings √	**(2)**

Question Number	Answer	Mark
3(b)(iii)	Interim dividend is 800 x 3 pence = 24 √ so, Final dividend must be (69 – 24) √ = 45 √ Per share $\frac{45 √}{900 √}$ = £0.05 = 5 pence per share √	**(6)**

Question Number	Answer	Mark
3(b)(iv)	<u>Original issue</u> Premium was $\frac{200 √}{800 √}$ = £0.25 √ so issue price was £0.25 + £1 = £1.25 √ <u>September issue</u> Premium was $\frac{150 √}{100 √}$ = £1.50 √ so issue price was £1.50 + £1 = £2.50 √ The share issue price was higher in September √ because the market price of the shares was higher then, compared to when the original shares were issued. √√ The share premium reflects the market price. √	**(12)**

Question Number	Answer	Mark
3(b)(v)	Share Capital, Share Premium, and CRR √ are capital reserves √ and cannot be used to pay dividends. √ Total of 1290 cannot be used for dividends. √ Retained earnings, General, and Asset Replacement √ are revenue reserves √ and can be used to pay dividends. √ Total of 104 can be used for dividends. √ However, Retained earnings has very little left, √ and General reserve has nothing. √ It is only the fact that the General reserve has been transferred back, √ that has enabled the present dividend to be paid. √ Asset Replacement could be transferred back to Retained earnings and used for dividends. √ However, as more has been transferred into Asset Replacement, √ it is likely an asset needs replacing soon. √	**(12)**

Question Number	Answer	Mark
3(c)	For statement Company will not have pay cash dividends, √ which is beneficial if a liquidity problem √ Bonus shares makes the Statement of Financial Position look like that of a larger company √ which may help to raise finance etc √ Original shareholders would have been kept happy √ and therefore quiet √ as they would have received free shares√ and these shares are eligible for dividends. √ Quicker/cheaper to issue bonus shares √ Against statement Bonus shares bring in no cash for the company √√ but a rights issue does bring in cash √ which is used to run the business/ pay bills √ or expand the business √ or strengthen the company Statement of Financial Position √ Issue of bonus shares sees share price fall √ more than the possible fall if a rights issue √ Bonus shares will result in more shares eligible for dividends√ so dividend per share likely to fall. √ Maximum of 8 √ for arguing one side. Conclusion Bonus issue would <u>not</u> be better for company √√	**(12)**

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Qst No	Answer	Mark
4(a)		

Cash Budget for 3 months February to April

	February		March	April	
INCOME					
Capital	15 000				
Loan	15 000	√ both			
Sales	0		3234 √√	5698	√√√
Total	30 000		3234	5698	
EXPENDITURE					
Machinery	12400				
Delivery Truck	9500	√ both			
Rent	3597	√			
Materials	840	√√	1120	1120	√ both
Water	640		640	640	√ all
Drawings	1600		1600	1600	√ all
Delivery Costs	840	√	1120	1120	√ both
Total Expenditure	29417	√ o/f	4480	√ o/f	4480 √ o/f
Monthly Balance	583	√ o/f	-1246	√ o/f	1218 √ o/f
Opening Balance	0		583		-663
Closing Balance	583	√ o/f	-663	√ o/f	555 √ o/f

Workings
Sales
March = (3 weeks x 5 days x 1400 x 0.22p x 0.70%) = £3 234 (or √√)
        Any 3 = first √

April = (3 weeks x 5 days x 1400 x 0.22p x 0.30%) = £1 386 √
        (4 weeks x 5 days x 1400 x 0.22p x 0.70% = £4 312 √
                                £5 698 √ o/f

Materials
February = (3 weeks x 5 days x 1400 x 0.04p) = £840 (or √√)
        (Any three items = first √)

(24)

Question Number	Answer	Mark
4(b)	O/F rule applies	

FOR correct drawings
April balance is £1 218 but needs to have monthly rent of £1199 deducted, √ leaving a "balance" of £19, √ so Kim cannot draw out any more. √
May will be the first month of "normal" sales revenue √ of £6 160 √ which leaves a "balance" of £481. √ This will be needed for irregular payments eg truck service, √ as a precaution, √ and to pay back the loan eventually. √

AGAINST correct drawings
£481 per month is not enough to meet irregular payments/bills√ as a precaution, √ and pay back the loan. √ The drawings should be smaller. √
With these drawings, March has a negative balance. √

Maximum for arguing only one side of the argument 4 marks

(8)

CONCLUSION
Should relate to points made above ie Drawings are at correct/incorrect level. √√

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Question Number	Answer	Mark
5(a)(i)	**Payback Period**	

Payback Period

Year	Cash Inflow	Cash Outflow	Net Cash Flow	Cumulative
0		-1,900,000 √	-1,900,000	
1	1,200,000	682,000 √√	518,000 √O/F	-1,382,000
2	1,260,000 √	682,000	578,000 √ O/F	-804,000
3	1,260,000	682,000	578,000	-226,000
4	1,323,000 √	732,000 √√	591,000 √ O/F	365,000
5	1,353,000	732,000	621,000	986,000

Pay back is after   3   and $\underline{226}$ x 12 years = 3 years   4.59 months
                                      591   √√ O/F   √√ O/F

(14)

Question Number	Answer	Mark
5(a)(ii)	**Average Rate of Return**	

Total Surplus of Project   =   £ 6 396 000   -   £ 5 410 000   =   £ 986 000
                                               √   o/f   √ o/f   √ o/f

Average Annual return   = $\underline{£\ 986\ 000}$ o/f √ =   £197 200 per year o/f   √
                                          5 years   √

Accounting rate of return   = $\underline{£\ 197\ 200}$ o/f √ x 100   =   10.38% √o/f √C
                                             £ 1 900 000   √

Other formulae are acceptable

(10)

Question Number	Answer	Mark
5(b)	**Evaluation – own figure rule applies.** Answers may include :	

Against Investment
Payback method says do not invest √ as project not within 3 year payback period √
May be better investment projects available? √

For Investment
ARR states invest √ as meets % return figure of 10% √
Project is profitable overall √ having total cash inflow £986 000 o/f √
It is possible to dispute 3 year payback period √, perhaps longer is better. √
What happens after 5 years? – renewal of contract?√ Any other/further business? √
Customer is in the public sector √ so little chance of bad debts. √

Other Relevant Points :
Accuracy of predictions? √
Objectives/strategy of company? √
Both methods ignore time value of money √ unlike NPV √
Could use other methods of appraisal √

Total of 4 marks for arguing one side only.

Conclusion : √√
Must relate to points made above

(8)

Question Number	Answer	Mark
6(a)(i)	Answers may include : Depreciation, business rates, √ loan interest, insurance, √	**(2)**

Question Number	Answer	Mark
6(a)(ii)	Semi variable costs are costs that may have a fixed element √ plus a variable element. √ OR For example there may be a standing charge √ and an element that varies with usage. √ OR A semi variable costs increases as output increases, √ but not in direct proportion to output. √ Possible examples gas, √ electricity, √ telephone √ water supply. √	**(4)**

Question Number	Answer					Mark
6(b)	(i)	Higher		Lower		
	Fixed Costs	£25,200 √		£41,100 √		
	Contribution	£8 √		£3 √		
	Break even point	3150 √ o/f √ C		13700 √ o/f √ C		**(8)**
	(ii) and (iii)					
	Sales units	3342		14784		
	Break even point	3150 √ o/f (both)		13700 √ o/f (both)		
	Margin of safety	192 √ o/f		1084 √ o/f		**(4)**
	Contribution	£8 √ o/f		£3 √ o/f		
	Profit	£1,536 √ o/f √ C		£3,252 √ o/f √ C		**(6)**

Question Number	Answer	Mark
6(c)	Own figure rule applies **Case for Higher End staying open** Lower break even point √ by 10 550 units. √ Lower level of fixed costs √ by £15 900 √ if stays open, no need to pay rent on other store. √ Higher contribution per unit √ by £5 per unit √ **Case for Lower End staying open** Higher profit √ by £1 716 √ Greater margin of safety √ by 892 units. √ Higher level of sales √ by 11 442 units √ If other store closes, building could be sold, √ and maybe this stores building purchased. √ Maximum of 4 √ for arguing one side only. Conclusion √√ Should **CLOSE Higher end** store as lower profit made . √√	**(8)**

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Question Number	Answer					Mark
7(a)(i) –(iii)	Jan 6	Realisation a/c √	4 200 000 √√			**(8)**
		Land a/c √		4 200 000		
	Jan 6	Current Taxation a/c	49 800		√	
		Realisation a/c		49 800	√	
	Jan 6	Ordinary Shares of £1.20 a/c	6 000 000		√	
		Sundry Shareholders a/c		6 000 000	√	

Question Number	Answer				Mark
7(b)					**(6)**
	Purchase Price				
	No. of Ordinary shares in Machine Tools Limited	6 000 000√	5 000 000√		
		1.20√			
	Shareholders receive/ Purchase Price	£1.00			
		£0.58			
		£0.27√ (all 3)			
	5 000 000	£1.85√	£9 250 000	√	

Question Number	Answer				Mark
7(c)					
	Calculation of Goodwill				
	Purchase Price	9 250 000	√ o/f		
	Original Book value of Machine Tools Limited (22 2 √ - 14.8 √ = 7.4)	(7 400 000)	Or √√		
	Adjustments - Stock	620 000	√		
	- Land	(210 000)	√		
	- Motor vehicles	125 000	√		
	- Equipment	125 000	√		
	- Current taxation	(9 300)	√		
	Excluding Bank	123 000	√		**(10)**
	Goodwill	2 623 700	√ o/f		

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Question Number	Answer	Mark
7(d)	AGAINST Revaluations The larger party may be in a position of strength and abuse this position √ to revalue assets to their own advantage √ ie lower value than true market value √ Revaluing assets and liabilities a pointless waste of time and money √ because the buyer can agree to pay whatever goodwill they feel is appropriate. √ Professional valuers may be required √ and these may charge considerable fees √ FOR Revaluations Even if one party is in a position of strength, the other party does not have to agree to a sale √ if they do not like the value put on assets. √ It is only fair √ that assets and liabilities are sold for their correct market value, √ not some historical book value √ that may not reflect market value. √ Maximum of 4 marks per side of argument. Conclusion 2 marks available It is appropriate for revaluations. √√	**(8)**

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