



Mark Scheme (Results)

Summer 2012

GCE Accounting (6002) Paper 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.

Question Number	Answer	Mark	
1(a)	Q1a Mark Scheme		
	Statement of Comprehensive Income for Colombo Fireworks plc for Y/e 31st March 2012 ✓		
		W1 Cost of Sales	
		Direct Materials 447760 ✓	
		(68740) ✓	
		Less Discount Received) ✓	
		Factory Depreciation 126000 ✓	
	Turnover	332176	8 x
		5 ✓	✓
		103607	
	Cost of sales	0 ✓ o/f	
		228569	
	Gross profit	5 ✓ o/f	
		W2 Distribution Costs	
	Other Income	75201 ✓ o/f	
		125090	
	Distribution cost	2 ✓ o/f	7 x
		665902 ✓ o/f	✓
	Administrative expenses	47980 ✓ o/f	
	Financial cost	286112 ✓ o/f	
		110000 ✓	
	Profit on ordinary activities before tax	286112 ✓/C	8 x
	Corporation tax	12 x ✓	✓
	Profit on ordinary activities after tax		
		W3 Administrative Expenses	
		Bad Debts Written Off 9450 ✓	
		Discount allowed 96432 ✓	
		Computer depreciation 26600 ✓	
	Fees to debt collection agency 2000 ✓		
	Hire of photocopiers 7300 ✓	3 x	
	Insurance 11120 ✓	✓	
	Administration staff wages 289000 ✓		
	Accountancy staff wages 224000 ✓		
	665902		
	W4 Other Income		
	Dividends received 32810 ✓		
	Interest on bank balance 4651 ✓		
	Rent received 37740 ✓	3 x	
	75201	✓	
	W5 Financial cost		
	Interest on overdraft 2980 ✓		
	Interest on bank loan 45000 ✓	2 x	
	47980 ✓	✓	
TOTAL 40 marks		(40)	
Discount Allowed also accepted in Distribution Costs			

Question Number	Answer	Mark
<p>1(b)</p>	<p>Answers may include:</p> <p>The fireworks activities should be shown as Continued Operations ✓ in the accounts next year. All revenues and expenses relating to these should be shown separately. ✓</p> <p>For usefulness This will benefit users of accounts because they can see that profits or losses from the Discontinued Operations will not be expected to be realised in the future ✓✓ This allows reader to predict more accurately future expected performance. ✓ This may help future potential investors / shareholders / creditors ✓ etc with decision making. Eg buy more shares/allow credit ✓ Should be beneficial if required to be shown ✓ by FRS3 / IFRS 5 ✓</p> <p>Against usefulness Adds more figures and details to the accounts ✓ so makes them more difficult to understand. ✓ especially for those with little accounting knowledge. ✓ Takes time to add extra detail ✓ and therefore this means extra expense ✓</p> <p>Maximum for arguing only one side 8 x ✓ = 4 marks</p> <p>Evaluation Should conclude that it is beneficial to show Discontinued Activities. ✓✓</p>	<p>(12)</p>

Question Number	Answer	Mark
2(a)	<p>(i) Kilograms of clay per tile = $\frac{341\ 120}{83\ 200} \checkmark = 4.1 \text{ kilos } \checkmark$</p> <p>(ii) Cost per kilogram of clay = $\frac{\pounds 17\ 056}{341\ 120} \checkmark = 0.05 \text{ pence per kilo } \checkmark$</p> <p>(iii) Standard time to produce budgeted output = $\frac{83\ 200}{40} \checkmark = 2\ 080 \text{ hours } \checkmark$</p> <p>(iv) Actual wage rate per hour = $\frac{\pounds 12\ 792}{2\ 132} \checkmark = \pounds 6.00 \text{ per hour } \checkmark$</p>	(12)

Question Number	Answer	Mark
2(b)(i)	<p>Material Usage Variance = (Actual Usage - Standard Usage) x Standard Price \checkmark</p> <p>\checkmark = (4.1 o/f - 4.0) x 83 200 \checkmark x 0.06</p> <p>= $\pounds 499.20 \text{ o/f Adverse } \checkmark$</p> <p>Materials Price Variance = (Actual Price - Standard Price) x Actual Usage \checkmark</p> <p>\checkmark = (0.05 o/f - 0.06) \checkmark x 341 120</p> <p>= $\pounds 3\ 411.20 \text{ o/f Favourable } \checkmark$</p> <p>Material Cost Variance = (Actual Usage x Actual Price) - (Standard Usage x Standard Price) \checkmark</p> <p>x 0.06) \checkmark = (341 120 x 0.05 o/f) \checkmark - (332 800</p> <p>= $\pounds 17\ 056 - \pounds 19\ 968 = \pounds 2\ 912 \text{ o/f}$</p> <p>Favourable \checkmark</p>	(12)

Question Number	Answer	Mark
2(b)(ii)	<p>Labour Efficiency Variance = (Actual Hours - Standard Hours) x Standard Rate ✓ $= (2\,132 - 2\,080 \text{ o/f}) \checkmark \times \text{£}5.85 \checkmark$ $= \text{£}304.20 \text{ o/f Adverse } \checkmark$</p> <p>Labour Rate Variance = (Actual Rate - Standard Rate) x Actual Hours ✓ $= (\text{£}6.00 \text{ o/f} - \text{£}5.85) \checkmark \times 2\,132 \checkmark$ $= (\text{£}0.15 \times 2\,132) = \text{£}319.80 \text{ o/f Adverse } \checkmark$</p> <p>Total Labour Variance = (Actual Hours x Actual Rate) - (Standard Hours x Standard Rate) ✓ $= (2\,132 \times \text{£}6.00 \text{ o/f}) \checkmark - (2\,080 \times \text{£}5.85) \checkmark$ $= \text{£}12\,792 - \text{£}12\,168 = \text{£}624 \text{ o/f Adverse } \checkmark$</p>	(12)

Question Number	Answer	Mark
2(c)	<p>Sales (83 200 x 0.75) = £62 400 ✓ Material cost £17 056 Labour cost £12 792 Fixed cost £12 500 (✓ all 3) Total cost £42 348 Profit for month £20 052 ✓o/f✓C</p>	(4)

Question Number	Answer	Mark
<p>2(d)</p>	<p>Evaluation Answers may include:</p> <p><u>For statement</u> If this is a cost variance ✓ then expenditure has been more than expected ✓ If budget is realistic, this is bad ✓ and may be caused by : Workers not working as hard as they could ✓ Workers being paid more than a market rate wage ✓ Inefficient machinery ✓ Materials being wasted ✓ Paying more than the market rate for materials ✓ If this is a sales variance, ✓ then revenue is less than expected ✓ This could be caused by: Sales volume being less than expected ✓ Sales price being less than expected ✓</p> <p><u>Against statement</u> Budget set may be unrealistic ✓ and actually the business has performed well. ✓ There may be a positive aspect to the adverse variance eg: Material prices have risen on the world market, ✓ but our buyers are still getting a comparatively good price ✓ Adverse variances may be due to production being greater than expected ✓ which is good for the business ✓</p> <p>Maximum of 8 marks for one side of argument.</p> <p><u>Conclusion</u> Statement is (correct)/not correct ✓✓</p>	<p>(12)</p>

Question Number	Answer			Mark
3(a)		<u>Created by</u>	<u>Used for / Utilised examples</u>	(12)
	(i) Retained earnings	Trading profits built up over past and present years	Dividends paid to ordinary shareholders	
	(ii) General reserve	Transfer from Retained earnings/ profits	Any, perhaps unspecified, use. Issue bonus shares Transfer back to Retained earnings	
	(iii) Share premium reserve	Issue of ordinary shares above their nominal value	Write off preliminary expenses on formation of company or a share issue. Pay premium on redemption of shares or debentures Issue Bonus Shares	
	(iv) Capital redemption reserve	Transfer from revenue reserves ✓ when shares are redeemed. ✓	Acts as creditors buffer.	
	(v) Revaluation reserve	Upward revaluation of non-current asset.	When asset is sold ✓ transferred to Income statement/ retained earnings. ✓	
	One ✓ per box for one example, except where shown otherwise.			

Question Number	Answer	Mark				
3(b)	<u>Ordinary Share Capital Account</u>					
			Apr 1	Balance b/d	250√	
			June 16	Application & Allotment	25√	
			July 31	Application & Allotment	15√	
	Mar31	Balance c/d	<u>300</u>	Oct 1	First & Final Call	<u>10</u> √
			<u>300</u>			<u>300</u>
			Apr 1	Balance b/d	300	
	+ √ if balanced off					5
	correctly					
	<u>Share Premium Account</u>					
			Apr 1	Balance b/d	50√	
	Mar31	Balance c/d	<u>60</u>	Oct 1	First & final call	<u>10</u> √
			<u>60</u>			<u>60</u>
			Apr 1	Balance b/d	60	
	+ √ if balanced off					3
	correctly					
	<u>Application and Allotment Account</u>					
	June 16	Ordinary Share Capital	25√	June 16	Bank	32 √
	June 26	Bank	2√	July 31	Bank	10 √+ √ for fig
	July 31	Ordinary Share Capital	15 √ + √ for fig			—
		<u>42</u>			<u>42</u>	
+ √ if balanced off					8	
correctly						
<u>First and Final Call Account</u>						
Oct 1	Ordinary Share Capital	10√	Oct 31	Bank	20√	
Oct 1	Share Premium	<u>10</u> √			—	
		<u>20</u>			<u>20</u>	
+ √ if balanced off correctly					4	
correctly					(20)	

Question Number	Answer	Mark
3(c)	Gearing ratio = $\frac{\text{Prior charge capital } \checkmark}{\text{Capital employed } \checkmark} \times 100$ $= \frac{75 \checkmark + 150 \checkmark + 175 \checkmark}{568 + 325 \checkmark} \times 100$ $= \frac{400}{893} \times 100 = 44.79\% \checkmark \text{ o/f } \checkmark C$ Other formulas are acceptable	(8)

Question Number	Answer	Mark
<p>3(d)</p>	<p>Answers may include</p> <p><u>Case for Ordinary shares / Case Against Debentures</u></p> <ul style="list-style-type: none"> • Shareholders do not have to be paid dividends, ✓ useful when short of funds / making a loss. ✓ Dividends could be variable ✓ interest on debentures <u>must</u> be paid ✓ • No "outside" parties having any influence on running of company ✓ eg place on Board ✓ • No interest has to be paid, ✓ so profits of company higher. ✓ • No assets offered as security, ✓ so no claims on assets by debenture holders, if debenture not repaid, or company fails. ✓ • Reduces gearing ratio ✓ and therefore risk ✓ • Debenture results in higher gearing ✓ which increases risk to company ✓ • Very important here as if debenture used, gearing goes above 50% ✓ at 51.5% ✓✓ <p><u>Case for Debentures / Case Against Ordinary Shares</u></p> <ul style="list-style-type: none"> • Interest is allowable for tax, ✓ so company may be able to retain more funds than if paying dividends. ✓ • Debenture issuer may bring expertise and experience to company, ✓ and maybe Board. ✓ • No possible dilution of ownership for existing shareholders ✓ which means earnings per a share will fall ✓ • May be quicker to issue than ordinary shares ✓ • Costs of arranging debenture may be lower ✓ eg no prospectus to issue ✓ <p>Maximum of 8 marks for arguing one side</p> <p><u>Conclusion</u> Should relate to above points made. E.g. Ordinary shares are a preferable source of finance. ✓✓</p>	<p>(12)</p>

Question Number	Answer						Mark
4(a)							(16)
	<u>Outflow</u>						
	Salaries	100000	420000		520000	✓	
	Running	800000	260000		540000	✓✓	
					1060000	✓	
	<u>Income</u>						
		Prizes	Sponsors	TV	Total		
	1	600000	400000	250000	1250000	✓	
	2	850000	400000	250000	1500000	✓	
	3	1100000	400000	300000	1800000	✓	
	4	900000	400000	300000	1600000	✓	
					Discount	Discounted	
	Year	Income	Outflow	Net Cash Flow	Factor	NCF	
	0		-1500000	-1500000	1	-1500000 ✓✓	
	1	1250000	1060000	190000	0.917	174230 ✓ o/f	
	2	1500000	1060000	440000	0.842	370480 ✓o/f	
	3	1800000	1060000	740000	0.772	571280 ✓ o/f	
4	1600000	1060000	540000	0.708	382320 ✓ o/f		
				NPV	-1690 ✓ o/f ✓ C		

Question Number	Answer	Mark
4(b)(i)	The Internal rate of return for the project is very close to 9% ✓✓	(2)

Question Number	Answer	Mark
4(b)(ii)	The IRR is 9% because the NPV is very close to zero. ✓✓ If the NPV were a large positive figure, ✓ then the IRR is greater than 9% ✓ If the NPV were a large negative figure, ✓ then the IRR is less than 9% ✓	(6)

Question Number	Answer	Mark
4(c)	<p>Answers may include:</p> <p><u>Case For IRR</u> An accurate return can be calculated. ✓ Takes account of falling value of money over time. ✓ Can be compared to target value of business ✓ to decide whether to invest in project. ✓ Can be calculated fairly easily by computer. ✓</p> <p><u>Case against IRR</u> Calculation of IRR involves use of complicated formula ✓ requiring numerical skill ✓ Or calculation may involve much "trial and error" to arrive at the IRR. ✓ May need a computer ✓ and computing skills to calculate IRR. ✓</p> <p>Maximum of 4 ✓ 's for arguing one side only.</p> <p><u>Conclusion</u> IRR is a good / not a good method of project appraisal. ✓✓</p>	(8)

Question Number	Answer	Mark				
5(a)	<u>Calculation of Goodwill</u>					
	Property	12 800 000	Purchase Price	18 590 000	√	
	Plant	1 000 000	Value of Net Assets	11 528 590	√ o/f	
	Equipment	1 250 000	√ (3)	Goodwill	7 061 410	√ o/f √ C
	Inventories	115 000				
	Trade Receivables	9 900	√ (2)			
	Bank Loan	- 2 500 000				
	Loan repayable in 12 months	-1 000 000				
	Trade Payables	-146 310	√ (3)			
	Value of Net assets acquired	11 528 590	√ o/f			
			(8)			

Question Number	Answer	Mark
5(b)	<p>Amount received per share = $\frac{\pounds 18\,590\,000}{11\,000\,000}$ = £1.69p per share ✓</p> <p>Cash received per share = £1.69 - (£1 + 60p premium) = £0.09 per share ✓</p> <p>$\frac{\pounds 639}{\pounds 0.09}$ = 7 100 shares ✓ o/f ✓ C</p>	(4)

Question Number	Answer	Mark																																																																																																																																		
5(c)	<p>Statement of Financial Position of Panoramic Cinemas Limited as at April 1st 2012</p> <table border="1" data-bbox="320 383 1337 2159"> <thead> <tr> <th data-bbox="320 383 655 427">Assets</th> <th data-bbox="655 383 810 427"></th> <th data-bbox="810 383 895 427"></th> <th data-bbox="895 383 1126 427">£</th> <th data-bbox="1126 383 1337 427"></th> </tr> </thead> <tbody> <tr> <td colspan="5" data-bbox="320 427 1337 501">Non-current Assets</td> </tr> <tr> <td data-bbox="320 501 655 575">Property, plant and equipment</td> <td data-bbox="655 501 810 575">136 050 000</td> <td data-bbox="810 501 895 575">✓</td> <td data-bbox="895 501 1126 575"></td> <td data-bbox="1126 501 1337 575"></td> </tr> <tr> <td data-bbox="320 575 655 685">Intangible assets (2000000 ✓ + 7061410 o/f ✓)</td> <td data-bbox="655 575 810 685">9 061 410</td> <td data-bbox="810 575 895 685">✓✓ o/f</td> <td data-bbox="895 575 1126 685"></td> <td data-bbox="1126 575 1337 685"></td> </tr> <tr> <td data-bbox="320 685 655 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Total Equity and Liabilities			146 756 310	✓																																																																																																																																

Question Number	Answer	Mark
<p>5(d)</p>	<p>Correct treatment of goodwill would be to amortize ✓ over its useful economic life. ✓ Shown as an intangible non-current asset ✓</p> <p><u>Case For this treatment</u> Likely to derive benefits from the expenditure over a number of years, ✓ so spread the cost of this expenditure over a number of years ✓ ie matching concept ✓ gives a True and Fair view of the accounts. ✓ To write off immediately may make profit unrealistically low, ✓ and tax charge would be unfairly low. ✓ In line with recommended practice ✓ ie FRS 10 / IAS 38✓</p> <p><u>Case Against this Treatment</u> If written off immediately against reserves, ✓ the prudence concept is followed. ✓</p> <p>Maximum of 4 ✓ 's for arguing one side only.</p> <p><u>Conclusion</u> Writing off over a number of years is recommended and beneficial as it gives a true and fair view in the accounts. ✓✓</p>	<p>(8)</p>

Question Number	Answer					Mark
6(a)		<u>San Pedro</u>	<u>La Rioja</u>	<u>Copresol</u>	<u>Andacalla</u>	(8)
	Sales Revenue	2080000√	1365000 √	812500 √	520000 √	
	Direct Labour	1664000	1050000	675000	408000	
	Direct Materials	288000	315000	150000	96000	
	Fixed Costs	105600	60900	25000	20000	
	Profit (Loss)	22400√ o/f	(60900)√ o/f	(37500)√ o/f	(4000) √ o/f	

Question Number	Answer					Mark
6(b)(i) 6(b)(ii)	Per tonne	<u>San Pedro</u>	<u>La Rioja</u>	<u>Copresol</u>	<u>Andacalla</u>	(16)
	Sales Revenue	6500	6500	6500	6500	
	Direct Labour	5200	5000	5400	5100	
	Direct Materials	900 √ (2)	1500 √ (2)	1200 √ (2)	1200 √ (2)	
	Fixed Costs	330 √	290 √	200 √	250 √	
	Profit (Loss)	70 √ o/f	(290)√ o/f	(300)√ o/f	(50) √ o/f	
	Contribution	400 √ o/f	0 √ o/f	(100)√ o/f	200 √ o/f	

Question Number	Answer				Mark	
6(c)		<u>San Pedro</u>	<u>La Rioja</u>	<u>Copresol</u>	<u>Andacalla</u>	(8)
	Short Term	Open	Open/close ✓	Close	Open ✓	
		✓ either ST or LT		✓ either ST or LT		
	Long Term	Open	Close ✓	Close	Close ✓	
	<p>La Rioja and Andacalla must make mention to time period for ✓ ✓ if mention made for positive contribution / or negative contribution ✓ if reason given for supporting decision in ST for La Rioja e.g. in future expect price of copper to rise or expect to reduce costs in future.</p>					

Question Number	Answer	Mark
7(a)(i)	£35 768 ✓	(1)

Question Number	Answer	Mark
7(a)(ii)	Increased by 13 745 ✓	(1)

Question Number	Answer	Mark
7(a)(iii)	(£22 654 + £6 320) ✓ = £28 974 ✓	(2)

Question Number	Answer	Mark
7(a)(iv)	$(£16\,162 - £4\,162) \checkmark = £12\,000$ $\frac{£12\,000 \checkmark}{£200\,000 \checkmark} \times 100 = 6\% \checkmark$	(4)

Question Number	Answer	Mark
7(a)(v)	(£135 000 - £45 000) ✓ = £90 000 ✓	(2)

Question Number	Answer	Mark
7(a)(vi)	(£17 000 - £8 000) ✓ = £9 000 ✓	(2)

Question Number	Answer	Mark
7(a)(vii)	(£12 473 + £34 476) ✓ = £46 949 overdraft ✓	(2)

Question Number	Answer	Mark
7(a)(viii)	Bank balance at 31 March 2012 = (£50 141 - £13 685) ✓ = £36 456 ✓ Movement in year = (£46 949 + £36 456 o/f) ✓ = £83 405 increase ✓	(4)

Question Number	Answer	Mark
7(a)(ix)	(£7 360 + £16 799) ✓ = £24 159 ✓	(2)

Question Number	Answer	Mark
7(b)	<p>A statement of cash flow is for the past 12 months ✓ and includes mostly exact figures ✓ prepared for external users ✓</p> <p>A cash budget is for a future period, ✓ and involves figures that are mostly estimates ✓ prepared for mainly internal use. ✓</p> <p>Maximum of 2 ✓'s for each.</p>	(4)

Question Number	Answer	Mark
7(c)	<p>Answers may include the following: Max 4 ✓ available for arguing only one side.</p> <p><u>Profit most important</u> Without profit, 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 profits may result in firm unable to attract finance ✓ or investors/shareholders. ✓ No/low profits may see share price fall, ✓ as investors lose confidence. ✓</p> <p><u>Liquidity most important (or both equally important)</u> 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 ✓</p> <p>2 ✓ for Conclusion eg Profit more important</p>	(8)

6002 01 Assessment Objectives June 2012

Qstn	Spec Ref	AO1 Knowlg + Undestng	AO 2 Applicatn	AO 3 Analysis	AO 4 Evaluatn	Total
		48	60	48	44	
1a	1a	12	16	12		40
1b	1a				12	12
						52
2a	5	6	4	2		12
2b	5	6	8	10		24
2c	5		4			4
2d	5				12	12
						52
3a	1b	6	4	2		12
3b	1b	4	9	7		20
3c	2	2	3	3		8
3d	1b				12	12
						52
Sectn A Total 104	Any 2 Qstns	24	32	24	24	104
4a	6	8	4	4		16
4b	6		4	4		8
4c	6				8	8
						32
5a	1c	4	2	2		8
5b	1c		2	2		4
5c	1c	4	4	4		12
5d	1c				8	8
						32
6a	8	4	2	2		8
6b	8	4	6	6		16
6c	8				8	8
						32
7a	3	6	8	6		20
7b	3	2		2		4
7c	3				8	8
						32
Sectn B Total 96	Any 3 questns	24	24	24	24	96
TOTAL		48	56	48	48	200

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