

# Mark Scheme (Results)

June 2011

GCE Accounting  
(6002) Paper 01

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June 2011

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Question Number	Answer	Mark																																																																																																																		
1(a)	<p><b>Q1 Mark Scheme Profit and Loss Account for Orion plc for Y/e 31st March 2011</b></p> <table> <tr> <td>Turnover</td><td>5723000</td><td>✓</td></tr> <tr> <td>Cost of sales</td><td>3041855</td><td>✓ o/f</td></tr> <tr> <td>Gross profit</td><td>2681145</td><td>✓ o/f</td></tr> <tr> <td>Distribution costs</td><td>1174650</td><td>✓ o/f</td></tr> <tr> <td>Administrative expenses</td><td>336000</td><td>✓ o/f</td></tr> <tr> <td>Other operating income</td><td>216320</td><td>✓ o/f</td></tr> <tr> <td>Other Investment Income</td><td>23450</td><td>✓</td></tr> <tr> <td>Interest Receivable</td><td>7250</td><td>✓</td></tr> <tr> <td>Interest payable</td><td>156250</td><td>✓ o/f</td></tr> <tr> <td>Profit on ordinary activities before tax</td><td>1261265</td><td>✓ o/f</td></tr> <tr> <td>Corporation tax</td><td>275000</td><td>✓</td></tr> <tr> <td>Profit on ordinary activities after tax</td><td>986265</td><td>✓o/f✓C</td></tr> </table> <p><b>W1 Cost of Sales</b></p> <table> <tr> <td>Direct Labour</td><td>985430</td><td>✓</td></tr> <tr> <td>Direct materials</td><td>734250</td><td>✓</td></tr> <tr> <td>Factory Rent</td><td>408000</td><td>✓✓ <b>12 x</b> ✓</td></tr> <tr> <td>Machinery Depreciation</td><td>85625</td><td>✓✓</td></tr> <tr> <td>Production Director</td><td>71000</td><td>✓</td></tr> <tr> <td>Research and Development</td><td>760000</td><td>✓</td></tr> <tr> <td>Stock Adjustment</td><td></td><td></td></tr> <tr> <td>Finished Goods</td><td>4750</td><td>✓✓</td></tr> <tr> <td>Stock adjustment WIP</td><td>-7200</td><td>✓✓</td></tr> <tr> <td></td><td>3041855</td><td></td></tr> </table> <p><b>W2 Distribution Costs</b></p> <table> <tr> <td>Advertising and promotions</td><td>147500</td><td>✓</td></tr> <tr> <td>Discount on sales</td><td>414750</td><td>✓</td></tr> <tr> <td>Motor Lorries expenses</td><td>176400</td><td>✓</td></tr> <tr> <td>Shop Premises Depreciation</td><td>46000</td><td>✓✓</td></tr> <tr> <td>Lorry Drivers Wages</td><td>122000</td><td>✓</td></tr> <tr> <td>Shop staff wages</td><td>187000</td><td>✓ <b>8 x</b> ✓</td></tr> <tr> <td>Sales Director</td><td>81000</td><td>✓</td></tr> <tr> <td></td><td>1174650</td><td></td></tr> </table> <p><b>W3 Administrative Expenses</b></p> <table> <tr> <td>Bad Debts Written Off</td><td>16000</td><td>✓</td></tr> <tr> <td>Office staff wages</td><td>246000</td><td>✓ <b>3 x</b> ✓</td></tr> <tr> <td>Finance Director</td><td>74000</td><td>✓</td></tr> <tr> <td></td><td>336000</td><td></td></tr> </table> <p><b>W4 Other Operating Income</b></p> <table> <tr> <td>Canteen sales</td><td>189320</td><td>✓</td></tr> <tr> <td>Rent Received</td><td>27000</td><td>✓ <b>2 x</b> ✓</td></tr> <tr> <td></td><td>216320</td><td></td></tr> </table> <p><b>W4 Interest Payable</b></p> <table> <tr> <td>Debenture</td><td>156250</td><td>✓✓ <b>2 x</b> ✓</td></tr> </table> <p><b>TOTAL 40 marks</b></p>	Turnover	5723000	✓	Cost of sales	3041855	✓ o/f	Gross profit	2681145	✓ o/f	Distribution costs	1174650	✓ o/f	Administrative expenses	336000	✓ o/f	Other operating income	216320	✓ o/f	Other Investment Income	23450	✓	Interest Receivable	7250	✓	Interest payable	156250	✓ o/f	Profit on ordinary activities before tax	1261265	✓ o/f	Corporation tax	275000	✓	Profit on ordinary activities after tax	986265	✓o/f✓C	Direct Labour	985430	✓	Direct materials	734250	✓	Factory Rent	408000	✓✓ <b>12 x</b> ✓	Machinery Depreciation	85625	✓✓	Production Director	71000	✓	Research and Development	760000	✓	Stock Adjustment			Finished Goods	4750	✓✓	Stock adjustment WIP	-7200	✓✓		3041855		Advertising and promotions	147500	✓	Discount on sales	414750	✓	Motor Lorries expenses	176400	✓	Shop Premises Depreciation	46000	✓✓	Lorry Drivers Wages	122000	✓	Shop staff wages	187000	✓ <b>8 x</b> ✓	Sales Director	81000	✓		1174650		Bad Debts Written Off	16000	✓	Office staff wages	246000	✓ <b>3 x</b> ✓	Finance Director	74000	✓		336000		Canteen sales	189320	✓	Rent Received	27000	✓ <b>2 x</b> ✓		216320		Debenture	156250	✓✓ <b>2 x</b> ✓	(40)
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Income Statement for Orion plc for Y/e 31 March 2011 ✓

Turnover	5723000	✓	
Cost of sales	3041855	✓	o/f
Gross profit	2681145	✓	o/f
Other Income	247020	✓	o/f
Distribution costs	1174650	✓	o/f
Administrative expenses	336000	✓	o/f
Other expenses			
Financial cost	156250	✓	o/f
Profit on ordinary activities before tax	1261265	✓	o/f ✓C
Corporation tax	275000	✓	
Profit on ordinary activities after tax	986265	✓	o/f ✓C

Question Number	Answer	Mark
1(b)	<p><b>FOR Usefulness/ Importance</b></p> <p>Legally the shareholders must receive a copy/or have copy made available of the accounts ✓ and they can see how the funds they have invested are being used/ how company is performing ✓</p> <p>Shareholders may be happy (or unhappy) with the performance of the company ✓ and may decide to buy more (sell) shares. ✓</p> <p>Accounts are prepared in standard format ✓ which allows shareholders to compare the accounts of one company with another. ✓ E.g for investment potential. ✓</p> <p><b>AGAINST Usefulness/Importance</b></p> <p>Preparing the accounts is time consuming, ✓ and time means money. ✓</p> <p>Expenses associated with preparation and sending eg printing costs ✓ and postage. ✓</p> <p>However shareholders could be sent an abridged (smaller) version of the accounts ✓ which are much cheaper. ✓</p> <p>Some figures are estimates ✓ e.g. Depreciation ✓</p> <p>Some shareholders will not understand the accounts ✓ as they have little accounting knowledge ✓</p> <p>The accounts may not be totally reliable ✓ e.g. due to ‘window dressing’, fraud etc ✓</p> <p>Maximum of 8 ✓ marks for argument on one side</p> <p><b>CONCLUSION</b></p> <p>Should relate to points made above.</p> <p>Eg It is important they receive a copy of the accounts. ✓✓</p>	(12)

Question Number	Answer					Mark
2(a)	Option A		£	Interest Rate/ Expected return		need  ✓ both  need  ✓ both  ✓
					Interest	
	Debenture	500 000	15.0%	75 000		
	Bank Loan	200 000	12.5%	25 000		
	Preference Shares	300 000	10.0%	30 000		
	Ordinary Shares	1 500 000	8.0%	120 000		
	Total	2 500 000		250 000		
	WACC = $\frac{£250\,000}{£2\,500\,000} \times 100 = 10\%$ ✓					
	Option B		£	Interest Rate/ Expected return		
					Interest	
	Debenture	1 000 000	14.0%	140 000		
	Bank Loan	500 000	11.0%	55 000		
	Preference Shares	500 000	9.0%	45 000		
Ordinary Shares	500 000	7.0%	35 000			
Total	2 500 000		275 000			
WACC = $\frac{£275\,000}{£2\,500\,000} \times 100 = 11\%$ ✓					(12)	
Question Number	Answer					Mark
2(b)	(i) Lifecare plc should choose Package A ✓✓ o/f (ii) This is because the Cost of Capital is lower than B ✓✓					(4)

Question Number	Answer	Mark
2(c)	<p><b>Answers could include:</b></p> <p><b>Ordinary shares</b>  Usually one vote per ordinary share held. ✓ at AGM /shareholders meetings. ✓  Dividend per year is not fixed, ✓ but varies according to performance. ✓  Last in the queue when dividends paid out of profits. ✓  Last in the queue for payments ✓ if a company is wound up. ✓</p> <p><b>Preference shares</b>  Usually no votes to preference shareholders. ✓  Dividend per year is usually fixed, ✓ despite performance ✓  Before Ordinary shareholders in the queue when dividends paid out of profits. ✓  Before Ordinary shareholders in the queue for payments ✓ if a company is wound up. ✓</p> <p><b>Max 4 marks each</b></p>	(8)

Question Number	Answer						Mark
2(d)	Year 1 Inflow = 40 x 650 x 52 = £1 352 000 ✓						(16)
	Year 2 Inflow = 50 x 675 x 52 = £1 755 000 ✓						
					Discount	Discounted Net	
	Year	Inflow	Outflow	Net Cash Flow	factor	Cash flow	
	0		(2500000)		1	(2500000) ✓	
	1	1352000	810000 ✓✓	542000 ✓o/f	0.909	492678 ✓ /of	
	2	1755000	810000	945000 ✓o/f	0.826	780570 ✓ o/f	
	3	1755000	966000 ✓✓	789000 ✓o/f	0.751	592539 ✓ o/f	
	4	1755000	966000	789000	0.683	538887 ✓ o/f	
						(95326) ✓ o/f ✓ C	

Question Number	Answer	Mark
2(e)	<p><b><u>Apply own figure rule throughout</u></b></p> <p><b><u>Case For Project</u></b>            Figures are estimates ✓ could be greater profits. ✓            Need to apply other Investment Appraisal techniques ✓ eg Payback method ✓            Positive cash flow in every year ✓            NPV will be positive in Year 5 ✓            Could challenge the company policy ✓ of positive NPV after 4 years ✓</p> <p><b><u>Case Against Project</u></b>            NPV is negative after 4 years ✓ so do not invest. ✓ in accordance with company policy. ✓            Figures are only estimates ✓ could be less profits. ✓</p> <p>Maximum of 8 ✓ for arguing one side only</p> <p><b><u>Conclusion</u></b> 2 ✓✓            Should (not) go ahead with project</p>	(12)



Question Number	Answer	Mark																											
3(a)	<p>Reconciliation of operating profit to net cash flow from operating activities</p> <table border="1"> <tr> <td>Net Operating Profit</td><td>22 595</td><td>✓</td></tr> <tr> <td>Add Interest : Bank overdraft</td><td>3 270</td><td>✓</td></tr> <tr> <td>Bank loan</td><td>3 000</td><td>✓✓</td></tr> <tr> <td>Loss on Sale of fixed assets</td><td>50 000</td><td>✓</td></tr> <tr> <td>Depreciation</td><td>30 000</td><td>✓✓</td></tr> <tr> <td>Decrease in Stock</td><td>5 250</td><td>✓</td></tr> <tr> <td>Increase in Debtors</td><td>(1 100)</td><td>✓</td></tr> <tr> <td>Increase in Creditors</td><td>4 620</td><td>✓</td></tr> <tr> <td>Net Cash Inflow from Operating Activities</td><td>117 635</td><td>✓ o/f ✓C</td></tr> </table>	Net Operating Profit	22 595	✓	Add Interest : Bank overdraft	3 270	✓	Bank loan	3 000	✓✓	Loss on Sale of fixed assets	50 000	✓	Depreciation	30 000	✓✓	Decrease in Stock	5 250	✓	Increase in Debtors	(1 100)	✓	Increase in Creditors	4 620	✓	Net Cash Inflow from Operating Activities	117 635	✓ o/f ✓C	(12)
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### Cash Flow Statement for y/e 31 March 2011

#### Cash Flows from operating activities✓

Profit from operations	28865	✓✓✓✓	(W1)
Add Depreciation	30000	✓✓	
Add Loss on Sale of Fixed Asset	50000	✓	
Operating cash flow before working capital changes✓	108865	✓	
Decrease in inventories	5250	✓	
Increase in trade receivables	-1100	✓	
Increase in trade payables	4620	✓	
Cash generated from operations✓	117635	✓	
Less Interest Paid:Bank overdraft	-3270	✓	
Bank Loan	-3000	✓✓	
Less Tax Paid	-6750	✓	
Net Cash from Operating Activities	104615	✓	

#### Cash Flow from Investing Activities✓

Payments to acquire tangible fixed assets	-50000	✓	
Proceeds from sale of tangible fixed assets	150000	✓	
Net Cash Used in Investing Activities	100000	✓	

#### Cash Flow from Financing Activities✓

Redemption of Ordinary shares	-100000	✓	
Repayment of Bank Loan	-100000	✓	
Dividends Paid : Final 2010	-2000	✓	
Interim	-3000	✓✓	
Preference	-6000	✓✓	
Net Cash Used in Financing Activities	-211000	✓	
Net decrease in cash and cash equivalents	-6385	✓ o/f ✓C	
Cash and cash equivalents at the beginning of the year	-7420	✓✓	

Cash and cash equivalents at the end of the year                      -13805    ✓✓

Net decrease in cash and cash equivalents                                      -6385    ✓✓

**Total    40    x    ✓**

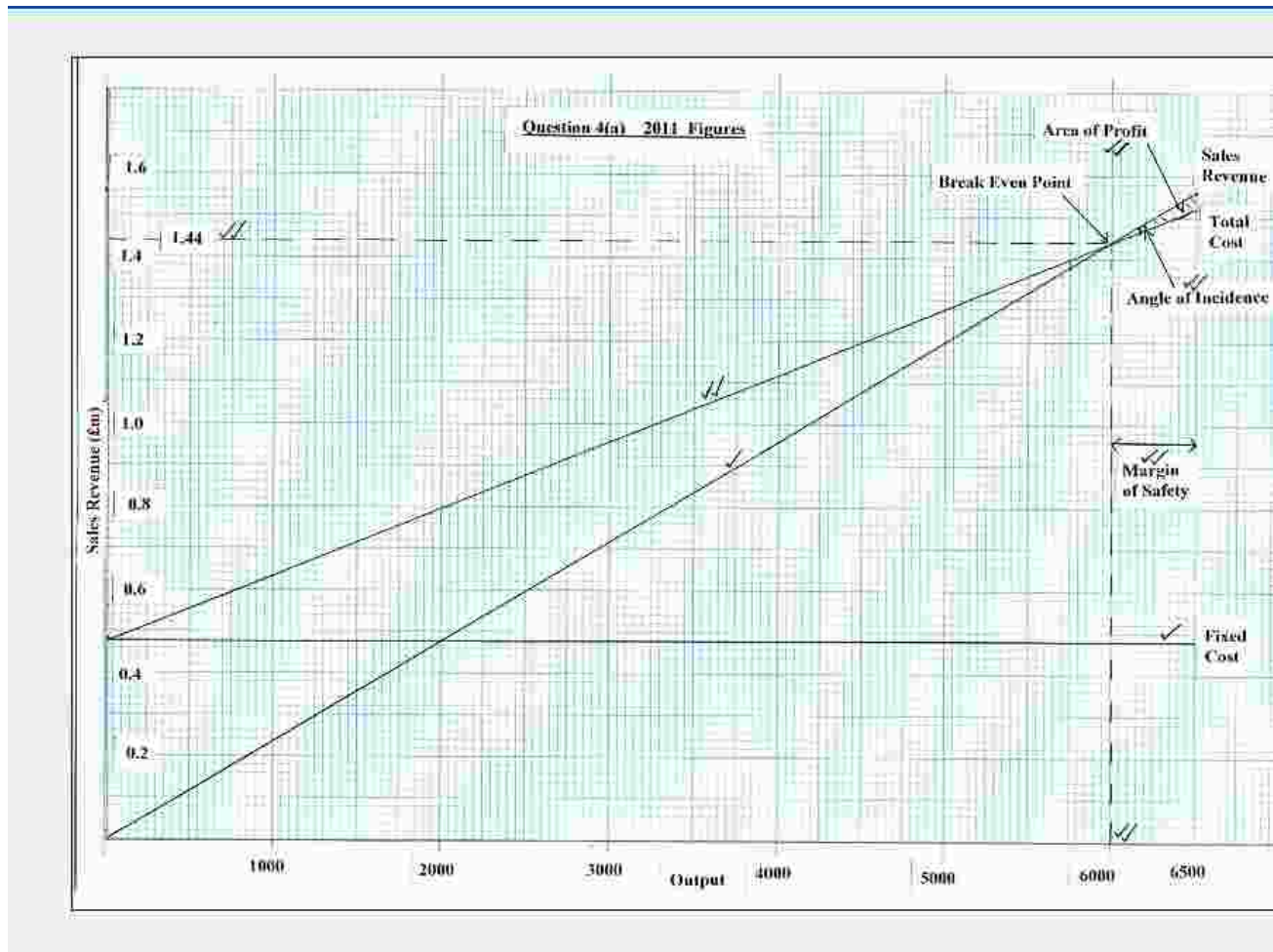
W1    22 595 ✓                      + 3 270 ✓ +                      3 000 ✓✓  
 Operating Profit + Overdraft interest + Loan interest

Question Number	Answer	Mark																																																																		
3(b)	<p>Wording is required to obtain the mark(s). Item also needs to be in correct place.</p> <table border="1"> <tr> <td>Net Cash Inflow from Operating Activities</td><td></td><td>117 635 £ o/f</td></tr> <tr> <td>Returns on Investment and Servicing of Finance £</td><td></td><td></td></tr> <tr> <td>Interest Paid</td><td></td><td>(6 270) £ o/f</td></tr> <tr> <td>Preference Dividend Paid (3 000 + 3 000)</td><td></td><td>(6 000) ££</td></tr> <tr> <td>Taxation</td><td></td><td></td></tr> <tr> <td>Tax Paid</td><td></td><td>(6 750) £</td></tr> <tr> <td>Capital Expenditure + Financial Investment £</td><td></td><td></td></tr> <tr> <td>Payments to acquire tangible fixed assets</td><td>(50 000) £</td><td></td></tr> <tr> <td>Receipts from sales of tangible fixed assets</td><td>150 000 £</td><td></td></tr> <tr> <td>Net Cash Flow from Investing Activities</td><td></td><td>100 000 £</td></tr> <tr> <td>Equity Dividends Paid</td><td></td><td></td></tr> <tr> <td>Final Dividend 2010</td><td>(2 000) £</td><td></td></tr> <tr> <td>Interim Dividend</td><td>(3 000) ££</td><td></td></tr> <tr> <td></td><td></td><td>(5 000)</td></tr> <tr> <td>Net Cash Inflow before Financing £</td><td></td><td>193 615 £ o/f</td></tr> <tr> <td></td><td></td><td></td></tr> <tr> <td>Financing</td><td></td><td></td></tr> <tr> <td>Redemption of Ordinary shares</td><td>(100 000) £</td><td></td></tr> <tr> <td>Repayment of Bank loan</td><td>(100 000) £</td><td></td></tr> <tr> <td>Net Cash Outflow from Financing £</td><td></td><td>(200 000) £</td></tr> <tr> <td></td><td></td><td></td></tr> <tr> <td>Decrease in Cash £ o/f</td><td></td><td>(6 385) £ o/f £ C</td></tr> </table>	Net Cash Inflow from Operating Activities		117 635 £ o/f	Returns on Investment and Servicing of Finance £			Interest Paid		(6 270) £ o/f	Preference Dividend Paid (3 000 + 3 000)		(6 000) ££	Taxation			Tax Paid		(6 750) £	Capital Expenditure + Financial Investment £			Payments to acquire tangible fixed assets	(50 000) £		Receipts from sales of tangible fixed assets	150 000 £		Net Cash Flow from Investing Activities		100 000 £	Equity Dividends Paid			Final Dividend 2010	(2 000) £		Interim Dividend	(3 000) ££				(5 000)	Net Cash Inflow before Financing £		193 615 £ o/f				Financing			Redemption of Ordinary shares	(100 000) £		Repayment of Bank loan	(100 000) £		Net Cash Outflow from Financing £		(200 000) £				Decrease in Cash £ o/f		(6 385) £ o/f £ C	(22)
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Question Number	Answer	Mark																
3(c)	<div>Analysis of Changes in Cash and Bank Balances during year ended 31 March 2011</div> <table><tr><td></td><td>31 March 2010</td><td>31 March 2011</td><td>Change in Year</td></tr><tr><td>Cash</td><td>5 460</td><td>4 975 £</td><td>(485) £</td></tr><tr><td>Bank</td><td>(12 880)</td><td>(18 780) £</td><td>(5 900) £</td></tr><tr><td>Total</td><td>(7 420)</td><td>(13 805) £</td><td>(6 385) £ o/f</td></tr></table> <div>Need first two columns for first £ Other layouts for reconciliation are acceptable.</div>		31 March 2010	31 March 2011	Change in Year	Cash	5 460	4 975 £	(485) £	Bank	(12 880)	(18 780) £	(5 900) £	Total	(7 420)	(13 805) £	(6 385) £ o/f	(6)
	31 March 2010	31 March 2011	Change in Year															
Cash	5 460	4 975 £	(485) £															
Bank	(12 880)	(18 780) £	(5 900) £															
Total	(7 420)	(13 805) £	(6 385) £ o/f															

Question Number	Answer	Mark
3(d)	<p><b>Max 8 marks available for arguing only one side.</b></p> <p><b><u>Handled poorly</u></b>  Working capital has decreased ✓ from £12 210 ✓ to £2 460 ✓ ie by £9 750 ✓  Working capital ratio has worsened ✓ from 1.29:1 ✓ to 1.05 : 1 ✓  Acid ratio has decreased ✓ from 0.26 : 1 ✓ to 0.24 : 1 ✓  Bank + Cash has decreased ✓ by £6 385 ✓ OR overdraft increased ✓ by £5 900 ✓  Creditors have increased. ✓ by £4 620 ✓  A number of vehicles have been sold off and generated funds. ✓ Are these vehicles required for the business ✓ or are they surplus to requirements? ✓ (could be in “handled well”)  Some Ordinary shares have been redeemed which must be a drain on liquid resources. ✓✓ However, this may mean a reduction in future dividends. ✓✓</p> <p><b><u>Handled well</u></b>  Bank loan has been repaid in full ✓ and this should avoid future interest payments which helps future liquidity ✓ but this may be a problem now ✓  Dividends paid have been very modest. ✓✓ Ordinary shareholders based on year end figure have only received 2% dividend. ✓✓</p> <p><b>Conclusion 2 marks</b>  Liquidity has been handled poorly/well by the directors through the year. ✓✓</p>	(12)

Question Number	Answer	Mark
4(A)	Answers shown on graph.	(14)



Question Number	Answer						Mark
4(b)	<b>Calculation of Profit</b>						
				£			
	Sales Revenue	6 500	X 240	1 560 000	✓		
	Variable Costs	6 500	X 160	(1 040 000)	✓		
	Fixed Costs			(480 000)	✓		
	Profit			40 000	✓✓		
	<b>Break Even Point</b>						
		<u>480 0000</u>	✓ =	<u>480 000</u>	6 000	Units ✓ o/f ✓ C	
		(240✓-160✓)		80			

(10)

Question Number	Answer	Mark
4(c)	<p>Answers may include :</p> <p>Maximum of 4 marks per side of argument.</p> <p><b>Better than last year</b></p> <p>Sales units figure is better ✓ 6 500, than last years figures by 500 ✓</p> <p>Sales price per unit is better ✓ £240, than last year by £20 ✓</p> <p>Sales Revenue is better ✓ £1.56 m than last years £1.32 m ✓ by £240 000 ✓</p> <p><b>Worse than last year</b></p> <p>Profit of £40 000 o/f is worse than last year ✓ of £88 000 ✓ (by £48 000 o/f). ✓</p> <p>Variable costs of £160 per unit are higher ✓ than last year of £132 ✓ by £28 o/f ✓</p> <p>Fixed costs of £480 000 are higher ✓ than last year by £40 000 ✓</p> <p>Break even figure for units is higher ✓ 6000 o/f, compared to last years 5 000 ✓</p> <p>Angle of Incidence worse ✓</p> <p>Margin of Safety is worse ✓ (last year 1000, this year 500) ✓ so 500 worse ✓</p> <p>Total costs have risen ✓ from £1 240 000 to £1 520 000 ✓</p> <p><b>Conclusion</b> (does not have to be at end)</p> <p>2 marks available. Should relate to above points.</p> <p>Profit is lower so this year is worse than last year. ✓✓</p>	(8)

Question Number	Answer	Mark
5(a)	Sales	2 240 000 £
	Direct Materials	450 000 £
	Direct Labour	1 170 000 £
	Semi-Variable Costs	534 000 £
	Fixed Factory Overheads	96 000 £
	Less Closing stock	(250 000) £££££
	Cost of Goods Sold	2 000 000
	Profit	240 000 £ o/f £C
	Calculation of Stock ie 5 £££££ shown above	
	Valuation of Closing Stock $\frac{2,250,000 \text{ £ o/f}}{90,000 \text{ £}} = \text{£25 per unit £ o/f}$	
	$\text{£25 o/f} \times 10,000 \text{ £} = \text{£250,000 £ o/f}$	
		(12)

Question Number	Answer	Mark
5(b)	The marginal cost of producing the units is $(\text{£5} + \text{£13} + \text{£3}) \text{ ££} = \text{£21 £ o/f}$  Therefore the 10 000 tyres should be sold. £ as there is a positive contribution £ of £3 per tyre. £	(6)

Question Number	Answer	Mark
5(c)	The marginal cost of producing another 8 000 is $(\text{£5} + \text{£21} + \text{£3}) = \text{£29 £ o/f}$  Therefore the units should not be produced. £ as there is a negative contribution £ of £5 per tyre £  The offer to supply from the other firm (option 2) should be accepted £ as a profit can be made £	(6)

Question Number	Answer	Mark
5(d)	<p><b><u>Answers may include: (Maximum of 6 ✓'s for one side of argument)</u></b></p> <p><b><u>Non-Financial Factors to Consider</u></b>  Contract with FitFast could lead to further business in the future ✓ and this could be at a higher price ✓ with a greater profit margin ✓  Enables their tyres to be sold in a different market ✓ which should 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 Byby plc ✓ who may demand a lower price ✓ or find a different supplier ✓  Quality of the products supplied ✓ may be better/worse than products produced themselves ✓  Workers earn a higher rate if overtime is paid ✓ and this increases motivation ✓</p> <p><b><u>Case Against considering Non-Financial Factors</u></b>  Directors' duty is to the shareholders ✓ who want a return on their investment. ✓  Loss making firms will go out of business ✓ in the long term. ✓</p> <p><b><u>Conclusion (✓✓)</u></b>  SE Asia Rubber plc should/should not consider non-financial factors.</p>	(8)



Question Number	Answer	Mark																																																
6(a)	<div><p style="text-align: center;"><b>Sales Budget for July to December</b></p><table><tr><td></td><td>July</td><td>Aug</td><td>Sept</td><td>Oct</td><td>Nov</td><td>Dec</td><td></td></tr><tr><td>North</td><td>600</td><td>600</td><td>600</td><td>600</td><td>600</td><td>600</td><td>✓</td></tr><tr><td>South</td><td>200</td><td>220</td><td>242</td><td>266</td><td>293</td><td>322</td><td>✓✓✓</td></tr><tr><td>East</td><td>500</td><td>475</td><td>451</td><td>429</td><td>407</td><td>387</td><td>✓✓✓</td></tr><tr><td>West</td><td>240</td><td>225</td><td>210</td><td>195</td><td>205</td><td>215</td><td>✓✓✓</td></tr><tr><td>Total</td><td>1540</td><td>1520</td><td>1503</td><td>1490</td><td>1505</td><td>1524</td><td>✓✓✓ o/f</td></tr></table><p>Apply pro rata for each row eg 2 correct for South = ✓ Need 4 correct for ✓✓ Apply o/f rule to table</p></div>		July	Aug	Sept	Oct	Nov	Dec		North	600	600	600	600	600	600	✓	South	200	220	242	266	293	322	✓✓✓	East	500	475	451	429	407	387	✓✓✓	West	240	225	210	195	205	215	✓✓✓	Total	1540	1520	1503	1490	1505	1524	✓✓✓ o/f	(13)
	July	Aug	Sept	Oct	Nov	Dec																																												
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Question Number	Answer	Mark																																																
6(b)	<table><tr><th colspan="6">Production Budget for July to October</th></tr><tr><th></th><th>July</th><th>Aug</th><th>Sept</th><th>Oct</th><th></th></tr><tr><td>North</td><td>600</td><td>600</td><td>600</td><td>600</td><td>/ o/f</td></tr><tr><td>South</td><td>200</td><td>220</td><td>242</td><td>266</td><td>// o/f</td></tr><tr><td>East</td><td>475</td><td>451</td><td>429</td><td>407</td><td>// o/f</td></tr><tr><td>West</td><td>210</td><td>195</td><td>205</td><td>215</td><td>// o/f</td></tr><tr><td>From Stock</td><td>-50</td><td>-50</td><td></td><td></td><td>//</td></tr><tr><td>Total</td><td>1435</td><td>1416</td><td>1476</td><td>1488</td><td>// o/f</td></tr></table> <p>Apply pro rata for each row eg 2 correct for South = / Need 4 correct for // Apply o/f rule to table</p>	Production Budget for July to October							July	Aug	Sept	Oct		North	600	600	600	600	/ o/f	South	200	220	242	266	// o/f	East	475	451	429	407	// o/f	West	210	195	205	215	// o/f	From Stock	-50	-50			//	Total	1435	1416	1476	1488	// o/f	(11)
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Question Number	Answer	Mark
6(c)	<p><b>For Policy</b> Customers do not have to wait for their orders./ Waiting for orders could mean customers go elsewhere./ Production may fluctuate if only for actual orders, / especially if demand is seasonal / If sudden increase in demand / stock is available / If delays in production this is not a problem / as order can be met promptly /</p> <p><b>Against Policy</b> Producing for expected orders means some stock may be unsold / which is risky / Unsold stock may build up / and this involves a number of costs eg rent, insurance, / and ties up working capital //</p> <p>Maximum of 4 marks for arguing one side only</p> <p><b>Evaluation</b> 2 marks available for overall conclusion, should relate to points made above. i.e. policy is good/bad.</p>	(8)

Question Number	Answer	Mark
7(a)(i)	Dividend per share $\frac{20\text{£}}{200\text{£}} = 10 \text{ pence per share £ o/f}$	(4)

Question Number	Answer	Mark
7(a)(ii)	Dividend yield $\frac{10\text{£ o/f}}{40\text{£}} \times 100 = 25\% \text{ o/f £}$	(3)

Question Number	Answer	Mark
7(b)(i)	Journal Entry i) March 1st £ 2011 DR 16% Bank loans £ 500£ CR Ordinary shares of £1 £ 500£  Being conversion of 16% Bank loans into £1 Ordinary Shares £	(6)

Question Number	Answer						Mark
7(b)(ii)	<u>£1 Ordinary Shares Account</u>						(4)
				1 Jan 2011	Bal b/d    £	200    £	
				1 Mar 2011	16% Bank Loan    £	500    £	

Question Number	Answer	Mark
7(c)	<p>Gearing ratio</p> $\frac{\text{Debt £}}{\text{Capital Employed £}} \times 100 = \frac{100\text{ £}}{900\text{£}} \times 100 = 11.1\% \text{ £o/f £C}$ <p>OR</p> $\frac{\text{Debt £}}{\text{Equity £}} = \frac{100\text{ £}}{800\text{£}} \times 100 = 12.5\% \text{ £o/f £C}$	(7)

Question Number	Answer	Mark
7(d)	<p>Valid points may include :</p> <p><b>Better Position</b>  As less interest to pay £ of £80 million ££ (and less capital repayments to make £) so annual profits will be higher £ so more available for dividends£  Gearing ratio has improved £ falling from 200% to 12.5% (from 66.6% to 11.1%) £ o/f, so less risk £  Net Book Value of business rises £ so share price in theory may rise £</p> <p><b>Worse Position</b>  Ownership diluted £ so smaller share of votes£  More shareholders now to receive dividends£ so dividends per share may be less £  Share price will fall ££ as more shares/on the open market £  Interest on loan meant a lower profit £ so tax bill may now be higher on higher profit £</p> <p>Maximum of 4 marks available for arguing one side.  <b>Conclusion</b>  Two marks for conclusion. Ie Better or worse off ££</p>	(8)

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