

Mark Scheme (Results)

June 2011

GCE Accounting
(6002) Paper 01

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June 2011

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1(a)	Q1 Mark Scheme Profit and Loss Account for Orion plc for Y/e 31st March 2011																																																																																																																																		
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Income Statement for Orion plc for Y/e 31 March 2011 ✓

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Cost of sales	3041855	✓ o/f
Gross profit	2681145	✓ o/f
Other Income	247020	✓ o/f
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Profit on ordinary activities before tax	1261265	✓o/f ✓C
Corporation tax	275000	✓
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Question Number	Answer	Mark
1(b)	<p>FOR Usefulness/ Importance 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 ✓ Shareholders may be happy (or unhappy) with the performance of the company ✓ and may decide to buy more (sell) shares. ✓ 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>AGAINST Usefulness/Importance Preparing the accounts is time consuming, ✓ and time means money. ✓ Expenses associated with preparation and sending eg printing costs ✓ and postage. ✓ However shareholders could be sent an abridged (smaller) version of the accounts ✓ which are much cheaper. ✓ Some figures are estimates ✓ e.g. Depreciation ✓ Some shareholders will not understand the accounts ✓ as they have little accounting knowledge ✓ 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>CONCLUSION Should relate to points made above. Eg It is important they receive a copy of the accounts. ✓✓</p>	(12)

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2(b)	(i) Lifecare plc should choose Package A ✓✓ o/f (ii) This is because the Cost of Capital is lower than B ✓✓	(4)																																																												

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2(c)	<p>Answers could include:</p> <p>Ordinary shares 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>Preference shares 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>Max 4 marks each</p>	(8)

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2(d)	<p>Year 1 Inflow = $40 \times 650 \times 52 = \text{£}1\,352\,000$ ✓</p> <p>Year 2 Inflow = $50 \times 675 \times 52 = \text{£}1\,755\,000$ ✓</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th></th> <th></th> <th></th> <th>Discount</th> <th>Discounted</th> <th></th> </tr> <tr> <th>Year</th> <th>Inflow</th> <th>Outflow</th> <th>Net Cash Flow</th> <th>factor</th> <th>Cash flow</th> <th></th> </tr> </thead> <tbody> <tr> <td>0</td> <td></td> <td>(2500000)</td> <td></td> <td>1</td> <td>(2500000)</td> <td>✓</td> </tr> <tr> <td>1</td> <td>1352000</td> <td>810000 ✓✓</td> <td>542000 ✓o/f</td> <td>0.909</td> <td>492678</td> <td>✓ /of</td> </tr> <tr> <td>2</td> <td>1755000</td> <td>810000</td> <td>945000 ✓o/f</td> <td>0.826</td> <td>780570</td> <td>✓ o/f</td> </tr> <tr> <td>3</td> <td>1755000</td> <td>966000 ✓✓</td> <td>789000 ✓o/f</td> <td>0.751</td> <td>592539</td> <td>✓ o/f</td> </tr> <tr> <td>4</td> <td>1755000</td> <td>966000</td> <td>789000</td> <td>0.683</td> <td>538887</td> <td>✓ o/f</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td>(95326)</td> <td>✓ o/f ✓ C</td> </tr> </tbody> </table>					Discount	Discounted		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	(16)
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2(e)	<p><u>Apply own figure rule throughout</u></p> <p><u>Case For Project</u> 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><u>Case Against Project</u> 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><u>Conclusion</u> 2 ✓✓ Should (not) go ahead with project</p>	(12)

Question Number	Answer	Mark
3(a)	Reconciliation of operating profit to net cash flow from operating activities	
	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)

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 ✓

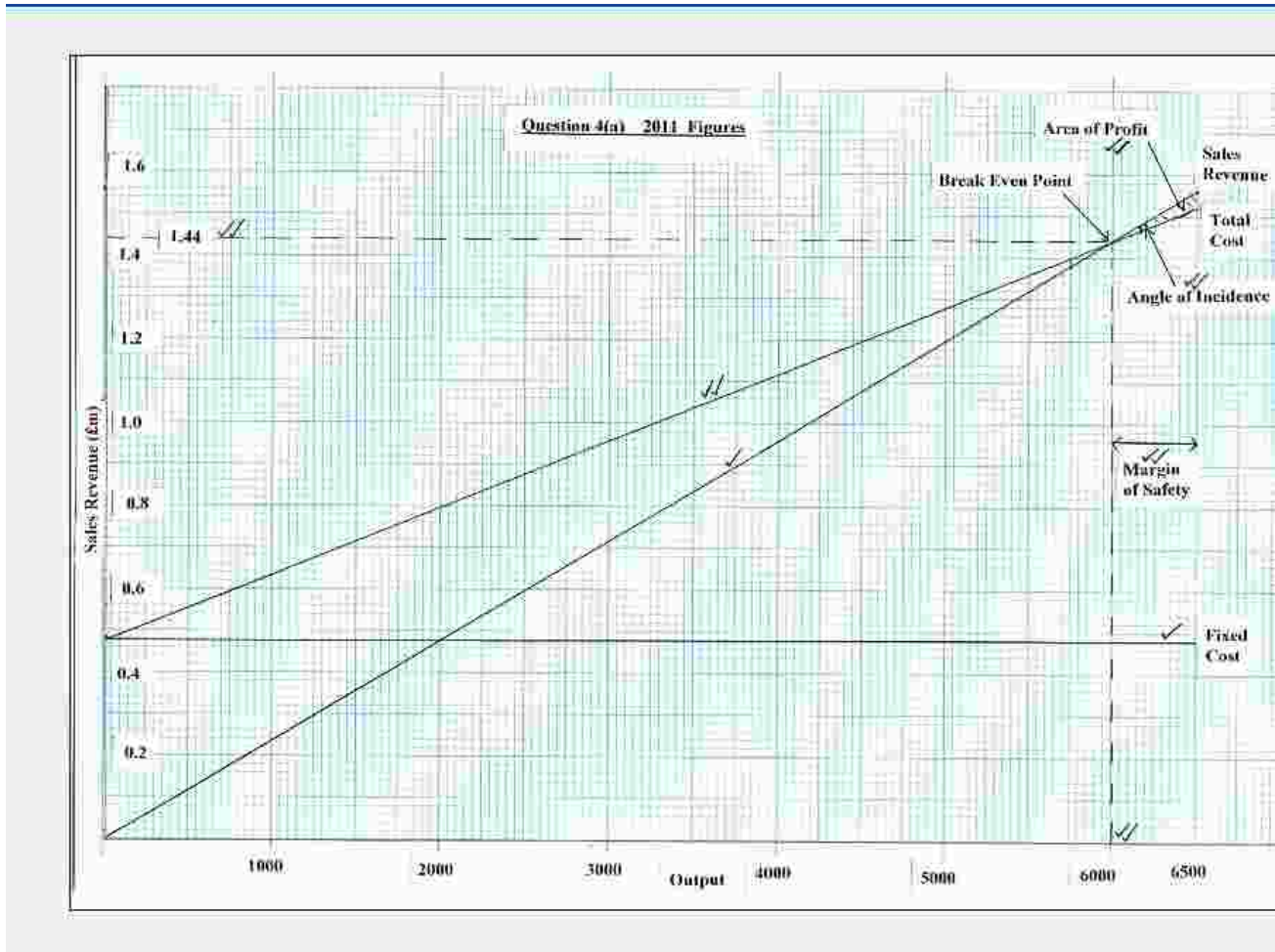
W1 22 595 ✓ + 3 270 ✓ + 3 000 ✓✓
 Operating Profit + Overdraft interest + Loan interest

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3(c)	<p>Analysis of Changes in Cash and Bank Balances during year ended 31 March 2011</p> <table border="1"> <thead> <tr> <th></th> <th>31 March 2010</th> <th>31 March 2011</th> <th>Change in Year</th> </tr> </thead> <tbody> <tr> <td>Cash</td> <td>5 460</td> <td>4 975 <i>£</i></td> <td>(485) <i>£</i></td> </tr> <tr> <td>Bank</td> <td>(12 880)</td> <td>(18 780) <i>£</i></td> <td>(5 900) <i>£</i></td> </tr> <tr> <td>Total</td> <td>(7 420)</td> <td>(13 805) <i>£</i></td> <td>(6 385) <i>£</i> o/f</td> </tr> </tbody> </table> <p>Need first two columns for first <i>£</i> Other layouts for reconciliation are acceptable.</p>		31 March 2010	31 March 2011	Change in Year	Cash	5 460	4 975 <i>£</i>	(485) <i>£</i>	Bank	(12 880)	(18 780) <i>£</i>	(5 900) <i>£</i>	Total	(7 420)	(13 805) <i>£</i>	(6 385) <i>£</i> o/f	(6)
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Question Number	Answer	Mark
3(d)	<p>Max 8 marks available for arguing only one side.</p> <p><u>Handled poorly</u> 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><u>Handled well</u> 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>Conclusion 2 marks 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)	Calculation of Profit	(10)			
	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	✓✓
Break Even Point					
	<u>480 0000</u> ✓ =	<u>480 000</u>	6 000 Units ✓ o/f ✓ C		
	(240✓-160✓)	80			

Question Number	Answer	Mark
4(c)	<p>Answers may include : Maximum of 4 marks per side of argument.</p> <p>Better than last year Sales units figure is better ✓ 6 500, than last years figures by 500 ✓ Sales price per unit is better ✓ £240, than last year by £20 ✓ Sales Revenue is better ✓ £1.56 m than last years £1.32 m ✓ by £240 000 ✓</p> <p>Worse than last year Profit of £40 000 o/f is worse than last year ✓ of £88 000 ✓ (by £48 000 o/f). ✓ Variable costs of £160 per unit are higher ✓ than last year of £132 ✓ by £28 o/f ✓ Fixed costs of £480 000 are higher ✓ than last year by £40 000 ✓ Break even figure for units is higher ✓ 6000 o/f, compared to last years 5 000 ✓ Angle of Incidence worse ✓ Margin of Safety is worse ✓ (last year 1000, this year 500) ✓ so 500 worse ✓ Total costs have risen ✓ from £1 240 000 to £1 520 000 ✓</p> <p>Conclusion (does not have to be at end) 2 marks available. Should relate to above points. 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		(12)
	Valuation of Closing Stock $\frac{2,250,000 \text{ ✓ o/f}}{90,000 \text{ ✓}} = \text{£25 per unit } \text{✓ o/f}$ $\text{£25 o/f} \times 10,000 \text{ ✓} = \text{£250,000 } \text{✓ o/f}$		

Question Number	Answer	Mark
5(b)	The marginal cost of producing the units is $(\text{£5} + \text{£13} + \text{£3}) \text{ ✓✓} = \text{£21 } \text{✓ o/f}$ 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 $(\text{£5} + \text{£21} + \text{£3}) = \text{£29 } \text{✓ o/f}$ 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><u>Answers may include: (Maximum of 6 ✓'s for one side of argument)</u></p> <p><u>Non-Financial Factors to Consider</u> 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><u>Case Against considering Non-Financial Factors</u> 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><u>Conclusion (✓✓)</u> SE Asia Rubber plc should/should not consider non-financial factors.</p>	(8)

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6(a)	<p style="text-align: center;">Sales Budget for July to December</p> <table border="1"> <thead> <tr> <th></th> <th>July</th> <th>Aug</th> <th>Sept</th> <th>Oct</th> <th>Nov</th> <th>Dec</th> <th></th> </tr> </thead> <tbody> <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> </tbody> </table> <p>Apply pro rata for each row eg 2 correct for South = / Need 4 correct for / / Apply o/f rule to table</p>		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)
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Question Number	Answer	Mark
6(c)	<p>For Policy 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>Against Policy 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>Evaluation 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 $\frac{20\text{£}}{200\text{£}} = 10 \text{ pence per share } \text{£ o/f}$	(4)

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

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

Question Number	Answer	Mark												
7(b)(ii)	<u>£1 Ordinary Shares Account</u>	(4)												
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Question Number	Answer	Mark
7(c)	Gearing ratio $\frac{\text{Debt } \text{£}}{\text{Capital Employed } \text{£}} \times 100 = \frac{100 \text{ £}}{900\text{£}} \times 100 = 11.1\% \text{ £o/f } \text{£C}$ OR $\frac{\text{Debt } \text{£}}{\text{Equity } \text{£}} = \frac{100 \text{ £}}{800 \text{ £}} \times 100 = 12.5\% \text{ £o/f } \text{£C}$	(7)

Question Number	Answer	Mark
7(d)	Valid points may include : Better Position 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 £ Worse Position 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 £ Maximum of 4 marks available for arguing one side. Conclusion Two marks for conclusion. Ie Better or worse off ££	(8)

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Llywodraeth Cynulliad Cymru
Welsh Assembly Government

