

Mark Scheme (Results)

June 2011

GCE Accounting
(6002) Paper 01

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Publications Code UA027258

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

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>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)

Question Number	Answer	Mark																																																												
2(a)	<table border="1"> <thead> <tr> <th>Option A</th> <th>£</th> <th>Interest Rate/ Expected return</th> <th>Interest</th> <th></th> </tr> </thead> <tbody> <tr> <td>Debenture</td> <td>500 000</td> <td>15.0%</td> <td>75 000</td> <td>need</td> </tr> <tr> <td>Bank Loan</td> <td>200 000</td> <td>12.5%</td> <td>25 000</td> <td>✓ both</td> </tr> <tr> <td>Preference Shares</td> <td>300 000</td> <td>10.0%</td> <td>30 000</td> <td>need</td> </tr> <tr> <td>Ordinary Shares</td> <td>1 500 000</td> <td>8.0%</td> <td>120 000</td> <td>✓ both</td> </tr> <tr> <td>Total</td> <td>2 500 000</td> <td></td> <td>250 000</td> <td>✓</td> </tr> </tbody> </table> <p>WACC = $\frac{£250\,000}{£2\,500\,000} \times 100 = 10\%$</p> <table border="1"> <thead> <tr> <th>Option B</th> <th>£</th> <th>Interest Rate/ Expected return</th> <th>Interest</th> <th></th> </tr> </thead> <tbody> <tr> <td>Debenture</td> <td>1 000 000</td> <td>14.0%</td> <td>140 000</td> <td>need</td> </tr> <tr> <td>Bank Loan</td> <td>500 000</td> <td>11.0%</td> <td>55 000</td> <td>✓ both</td> </tr> <tr> <td>Preference Shares</td> <td>500 000</td> <td>9.0%</td> <td>45 000</td> <td>need</td> </tr> <tr> <td>Ordinary Shares</td> <td>500 000</td> <td>7.0%</td> <td>35 000</td> <td>✓ both</td> </tr> <tr> <td>Total</td> <td>2 500 000</td> <td></td> <td>275 000</td> <td>✓</td> </tr> </tbody> </table> <p>WACC = $\frac{£275\,000}{£2\,500\,000} \times 100 = 11\%$</p>	Option A	£	Interest Rate/ Expected return	Interest		Debenture	500 000	15.0%	75 000	need	Bank Loan	200 000	12.5%	25 000	✓ both	Preference Shares	300 000	10.0%	30 000	need	Ordinary Shares	1 500 000	8.0%	120 000	✓ both	Total	2 500 000		250 000	✓	Option B	£	Interest Rate/ Expected return	Interest		Debenture	1 000 000	14.0%	140 000	need	Bank Loan	500 000	11.0%	55 000	✓ both	Preference Shares	500 000	9.0%	45 000	need	Ordinary Shares	500 000	7.0%	35 000	✓ both	Total	2 500 000		275 000	✓	(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)

Question Number	Answer	Mark																																																								
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✓

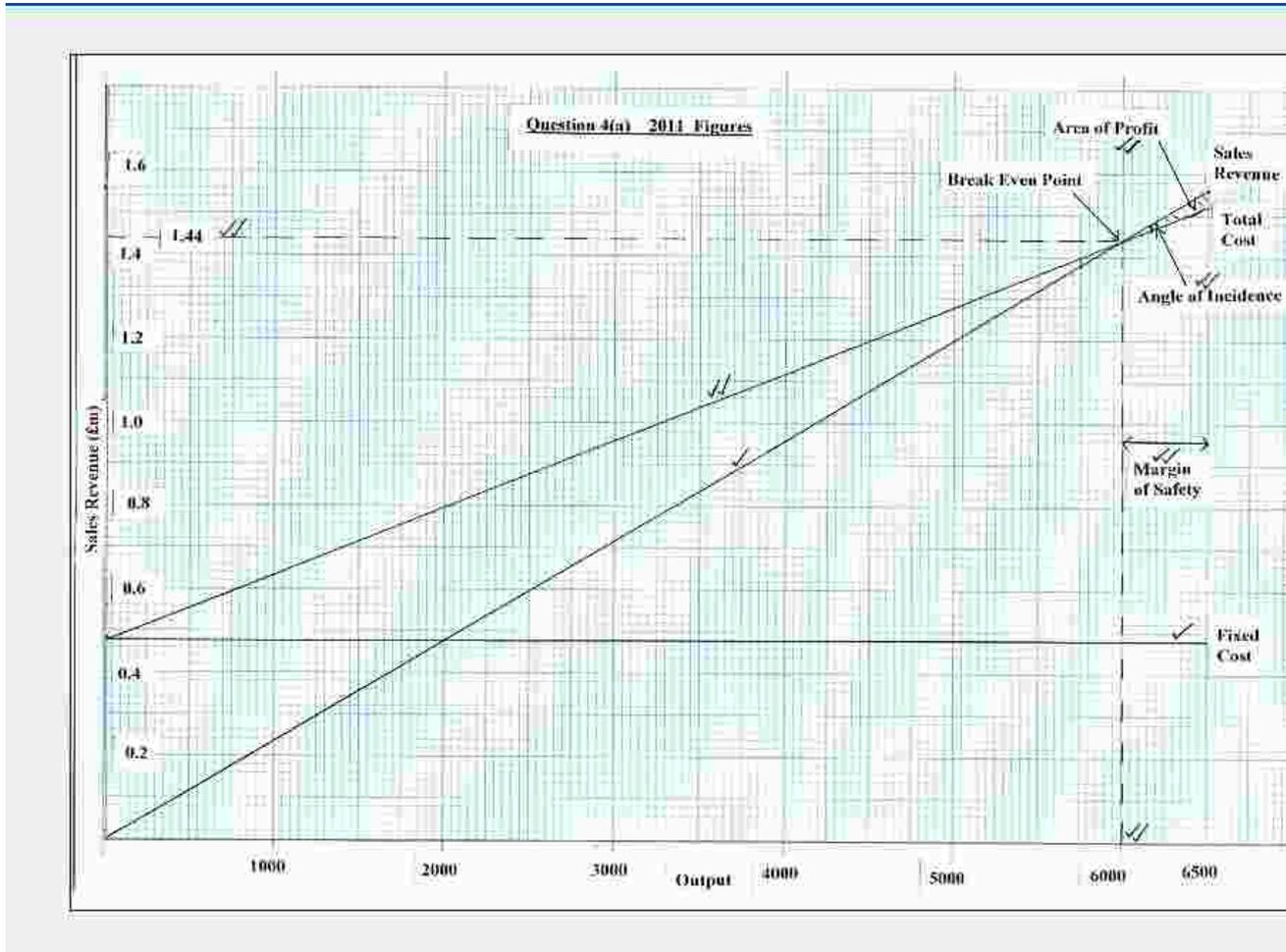
Redemption of Ordinary shares	-100000	✓
Repayment of Bank Loan	-100000	✓
Dividends Paid : Final 2010	-2000	✓
Interim	-3000	✓✓
Preference	-6000	✓✓
Net Cash Used in Financing Activities	-211000	✓
Net decrease in cash and cash equivalents	-6385	✓ o/f ✓C
Cash and cash equivalents at the beginning of the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

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3(b)	Wording is required to obtain the mark(s). Item also needs to be in correct place.																																																																
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3(c)	Analysis of Changes in Cash and Bank Balances during year ended 31 March 2011																	
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Total	(7 420)	(13 805) <i>£</i>	(6 385) <i>£</i> o/f															
	Need first two columns for first <i>£</i>																	
	Other layouts for reconciliation are acceptable.																	
	(6)																	

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)



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4(b)	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="6">Calculation of Profit</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: center;">£</td> <td></td> <td></td> </tr> <tr> <td>Sales Revenue</td> <td style="text-align: right;">6 500</td> <td>X 240</td> <td style="text-align: right;">1 560 000</td> <td>/</td> <td></td> </tr> <tr> <td>Variable Costs</td> <td style="text-align: right;">6 500</td> <td>X 160</td> <td style="text-align: right;">(1 040 000)</td> <td>/</td> <td></td> </tr> <tr> <td>Fixed Costs</td> <td></td> <td></td> <td style="text-align: right;">(480 000)</td> <td>/</td> <td></td> </tr> <tr> <td>Profit</td> <td></td> <td></td> <td style="text-align: right;">40 000</td> <td>//</td> <td></td> </tr> <tr> <td colspan="6">Break Even Point</td> </tr> <tr> <td></td> <td style="text-align: right;">480 0000</td> <td>/ =</td> <td style="text-align: right;">480 000</td> <td>6 000</td> <td>Units / o/f / C</td> </tr> <tr> <td></td> <td style="text-align: right;">(240/-160/)</td> <td></td> <td style="text-align: right;">80</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </table>	Calculation of Profit															£			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							480 0000	/ =	480 000	6 000	Units / o/f / C		(240/-160/)		80									(10)
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4(c)	<p>Answers may include :</p> <p>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 $\frac{2,250,000 \text{ £ o/f}}{90,000 \text{ £}} = \text{£}25 \text{ per unit } \text{£ o/f}$ $\text{£}25 \text{ o/f} \times 10,000 \text{ £} = \text{£}250,000 \text{ £ o/f}$		

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" style="width: 100%; border-collapse: collapse;"> <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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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)

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Welsh Assembly Government

