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Mark Scheme (Results)

Summer 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.

Question Number	Answer	Mark
1(a)		**(40)**

Q1a Mark Scheme

Statement of Comprehensive Income for
Hong Kong Cameras plc
for Y/e 31st March 2013 √

Revenue	4 183 693	√
Cost of sales	(956 360)	√ o/f
Gross profit	3 227 333	√ o/f
Other Income	3 078	√ o/f
Distribution costs	(940 990)	√ o/f
Administrative expenses	(359 141)	√ o/f
Financial cost	(35 000)	√ o/f
Profit on ordinary activities before tax	1 895 280	√ o/f
Corporation tax	(90 000)	√
Profit on ordinary activities after tax	1 805 280	√o/f√C

12 x √

W5 Financial cost

Interest on debenture	35 000	√√
		2 x √

TOTAL 40 marks

Note: Discount allowed accepted as a Distribution cost

W1 Cost of Sales

Direct Materials	320 855	√	
Less Discount Received	-7 150	√	
Factory Depreciation	76 800	√	
Machinery Depreciation	45 625	√	
Factory Power	44 950	√	**10 x** √
Machinery maintenance	44 780	√	
Production staff	339 100	√	
Production Director	9 5000	√	
Inventory Adjustment Finished Goods	-3 600	√√	
	956 360		

W2 Distribution Costs

Commission on sales	52 750	√	
Sales director	100 000	√	
Fuel	35 460	√	
Motor lorries depreciation	43 000	√	
Promotions and advertising	65 000	√	
Rent on shop premises	298 000	√	**9 x** √
Running cost of lorries	368 80	√	
Shop staff wages	197 500	√	
Transport staff wages	112 400	√	
	940 990		

W3Administrative Expenses

Bad Debts Written Off	1 850	√	
Finance director	95 000	√	
Discount allowed	45 997	√	
Office stationery	3 294	√	
Accountancy staff wages	71 800	√	**6 x** √
Office staff wages	14 1200	√	
	359 141		

W4 Other Income

Interest on bank balance	3 078	√	**1 x** √

Question Number	Answer	Mark
1(b)	**FOR Importance** Auditors are independent ∫ scrutineers of the accounts. ∫ who report that the accounts have been prepared "correctly" ∫ in accordance with International Accounting Standards ∫ or rather, give a True and Fair view. ∫ or do not ∫ . Auditors are reporting on how Directors have used the funds ∫ invested by shareholders. ∫. The auditors duty is to the shareholders. ∫ Auditors may give tax authorities ∫ more confidence that the tax computation is correct. ∫	

	Professional supervisory bodies ✓ exist to give guidelines to auditors ✓ , eg Audit and Assurances Council. ✓ Auditors should be professionally qualified ✓ eg Chartered Accountants.✓ Report is required by the Companies Act/legislation ✓ If Auditors are unhappy with the accounts ✓ the Auditors Report will be qualified ✓ The report may help users make a decision ✓ eg buy or sell shares in the company ✓ **AGAINST Importance** Auditors may not be very independent, ✓ going along with the wishes of clients, ✓ i.e. conflict of interest ✓ in order to keep their custom/earn fee✓ which may include non-audit work. ✓ Auditors could be misled ✓ by the directors ✓ and provide an inaccurate report. ✓ Auditors do not guarantee ✓ that material fraud has not occurred. ✓ Maximum of 8 marks for argument on one side **CONCLUSION** - 2 marks Should relate to points made above. Eg Auditors' Report is important and of value. ✓✓	**(12)**

Question Number	Answer	Mark
2(a)(i)		**(20)**

(a) Statement of Comprehensive Income						
	Opening stock	Production	Closing		Price	Revenue
Calculation of sales	2 100	+ 84 000 √	- 2450√=	83650	x25√	2091250 √
	Marginal	Absorption				
Revenue	2 091 250	2 091 250				
Less						
Direct Materials	579 600	579 600	√ both			
Direct Labour	386 400	√ 386 400	√			
Semi-variable costs	261 600	√ 261 600	√			
Fixed Overheads	150 000	150 000	√ both			
	1 377 600	1 377 600				
Opening Inventory	25 200	√ 33 600	√			
Closing Inventory	29 890	40 180				
Profit	718 340	√ o/f 720 230	√ o/f			
Calculation of closing inventory						
Marginal	(6.90+4.60+0.70)√	x 2450 =	29890	√		
Absorption	1377600 √ o/f	= £16.40	x2450√=	40180	√ o/f	
	84000 √					

Question Number	Answer	Mark
2(b)	Answers could include Marginal costing says the order should be accepted ✓ on the grounds that £15 is greater ✓ than the marginal cost ✓ of £12.20 o/f ✓ ie a positive contribution ✓ of £2.80 o/f ✓ (Maximum of 4 ticks) New customer may result in more orders in the future, ✓ perhaps at a higher price. ✓ However in the long term, ✓ selling at £15 would result in a Net Loss / not all costs are covered. ✓ (loss of £1.40 ✓o/f) Absorption costing says do not accept offer ✓ Existing customers would be unhappy ✓ to hear of this low price on offer / will ask for lower prices. ✓	**(8)**

Question Number	Answer	Mark
2(c)(i)	Option (i) - £23 000 x 12 = £276 000 ✓ Option (ii) - £202 800 x 1.05 = £212 940 ✓ + (£0.70 x 84 000) = £212 940 + £58 800 ✓ = £271 740 ✓ Option (iii) - £16 200 x 12 = £194 400 + (£0.90 x 84 000) = £194 400 + £75 600 ✓ = £270 000 ✓ Option (iii) is the best, ✓ if output remains at 84 000 units per year.	**(7)**

Question Number	Answer	Mark
2(c)(ii)	Development of answers could include : If output increases, other options may be the best. ✓ For example, if output rises by 6667, ✓ option (iii) is more expensive than option (i) ✓ If output rises by 6086 units, ✓ option (ii) is more expensive than option (i) ✓ If output is less than 84 000, option (iii) remains the best. ✓✓	**(5)**

Question Number	Answer	Mark
2(d)	Answers could include: Maximum of 8 marks for argument of one side. Case for Marginal Costing Could be said to help decision making ✓ in the short term ✓ when deciding whether to accept an offer price ✓ or make or buy ✓ or discontinue a product/profit centre. ✓ or a limiting factor problem ✓ Sees costs allocated to a time period, ✓ so it may be argued that profit for that time period is more accurate.✓ External accounts ✓ are drawn up on the basis of a time period. ✓ Follows prudence concept ✓ as closing stock and profit figures are lower.	

	Case for Absorption Costing Sees costs allocated to products. ✓ Could be useful for management ✓ when fixing prices ✓ or reviewing if a product/project has been profitable.✓ in the long term ✓ Recommended ✓ by SSAP 9. ✓ Gives a realistic figure for profit ✓ Follows matching concept ✓ as revenues for the product are matched against costs. ✓ Other Points If figures in the future are similar, choice of stock valuation will not have very much effect on the profit. ✓✓ Conclusion Max 2 marks available. Should use absorption costing as per accounting standards.	**(12)**

Question Number	Answer				Mark
3(a)	**Statement of Cash Flow for Larnaca plc for y/e 31 March 2013✓**			1	
	Cash Flows from operating activities✓				
	Profit from operations (8000✓ + 6400✓)	14400	✓✓		
	Add Depreciation (66000✓✓✓✓ + 20000✓✓)	86000	✓✓✓✓✓✓		
	Add Loss on Sale of Fixed Asset	6000	✓		
	Operating cash flow before working capital changes✓	106400	✓		
	Increase in inventories	-23000	✓		
	Increase in trade receivables	-15000	✓	19	
	Increase in trade payables	51000	✓		
	Cash generated from operations	119400	✓ o/f		
	Less Interest Paid: Debenture	-6400	✓		
	Less Tax Paid	-18000	✓		
	Net Cash from Operating Activities	95000	✓ o/f		
	Cash Flow from Investing Activities✓				
	Payments to acquire tangible fixed assets	-60000	✓		
	Proceeds from sale of tangible fixed assets	36000	✓	5	
	Net Cash Used in Investing Activities✓	-24000	✓ o/f		
	Cash Flow from Financing Activities✓				
	Issue of Ordinary shares	50000	✓		
	Repayment of Debenture	-80000	✓		
	Dividends Paid : Final 2012	-25000	✓✓	9	
	Interim 2013	-22000	✓✓		
	Net Cash Used in Financing Activities✓	-77000	✓ o/f		
	Net decrease in cash and cash equivalents✓	-6000	✓o/f✓C	3	

	Cash and cash equivalents at the beginning of the year	77000	✓		
	Cash and cash equivalents at the end of the year	71000	✓	3	
	Net decrease in cash and cash equivalents	-6000	✓		
		TOTAL	✓ x 40	**40 Marks**	
					(40)

Question Number	Answer	Mark
3(b)	**<u>Answers could include:</u>** **<u>Liquidity position good</u>** Firm has healthy level of cash and cash equivalents ✓ Current Ratio now stands at 2.31: 1 ✓✓ which is good. ✓ Acid ratio now stands at 1.04 :1 ✓✓ which is ideal ✓ Liquidity has been improved by issue of ordinary shares✓ Working capital is £629 000 - £272 000 = £357 000 ✓ which is healthy/ means current liabilities can be paid. ✓ **<u>Liquidity position worsening/problems</u>** Net cash outflow of £6 000 ✓ Inventories are a large figure and rising ✓ is there a problem with unsold inventories/ is it perishable? ✓ Trade Receivables rose by 15 000 ✓ Credit control/ chasing up debtors needs to be carried out immediately as figure is very high. ✓ Big increase in Trade Payables to very large sum ✓ Is firm paying on time and obtaining cash discounts etc ✓ Cash and Cash Equivalents of £71 000 are unable to pay ✓ Current Liabilities of £272 000 ✓ Dividend policy needs to be reviewed. ✓ Ordinary shareholders have been paid an interim dividend for 2013 of £22 000 on a profit before tax of £8000 ✓ which is very high. ✓ Debenture has been redeemed which uses liquid funds ✓ but helps future liquidity as no more interest has to be paid. ✓ Maximum 8 marks for arguing one side. **Conclusion** on current liquidity position max 2 marks ie Liquidity position is good ✓✓	**(12)**

Question Number	Answer	Mark
4(a)	Fixed Costs Rent £520 per month Water £250 per month ✓ both Depreciation £135 per month ✓✓ Insurance £90 per month Loan £270 per month ✓ both Total FC £1 265 per month ✓ Variable costs per unit (1.05 + 0.06 + 0.27) ✓ Total £ 1.38 per unit ✓ Contribution per unit (£ 4.15 - £ 1.38) ✓ = £2.77 ✓ Break Even Point = $\frac{\text{£1 265 o/f}}{\text{£2.77 o/f}}$ ✓ ✓ = 456.67 / 457 trays o/f ✓	**(12)**

Question Number	Answer	Mark
4(b)	Profit for month Contribution (2.77 x 1132) = £3 135.64 o/f ✓ Less FC = £1 265 ✓ o/f Profit = £1 870.64 ✓o/f ✓C	**(4)**

Question Number	Answer	Mark
4(c)	Contribution for month = (£2 000 + £1 265 o/f) ✓ = £3 265 ✓ o/f If 1132 trays produced, contribution for one tray = $\frac{\text{£3 265 o/f}}{1132}$ ✓ = £2.88✓ o/f So variable costs for one tray must be (£4.15 - £2.88 o/f) ✓ = £1.27 ✓ o/f So labour costs must be = £1.27 o/f - (£0.06 + 0.27) ✓ = £0.94 ✓ o/f	**(8)**

Question Number	Answer	Mark
4(d)	**Case for lower labour rate.** Business has profit target ✓ and has to take action to achieve these targets. ✓ May not possible to decrease other costs, ✓ especially if fixed eg loan repayment, rent etc ✓ May not be possible to increase selling price to increase profit, ✓ as will result in reduced sales ✓ **Case against lower labour rate.** Workers will be demotivated ✓ and workforce morale will be low. ✓ It may not be possible for workers to pick extra fruit, ✓ to maintain overall wage level. ✓ Could try to reduce other costs instead ✓ eg shop around for lower insurance. ✓ Maximum of 4 ticks for arguing one side Conclusion - Two ✓✓ It is a good/bad idea to lower labour rate.	**(8)**

Question Number	Answer	Mark
5(a)(i)	Dividend paid per share = Total ordinary dividend ✓ / Issued ordinary shares = £960 000 ✓ / 24 000 000 ✓ = 4 pence per share ✓	**(4)**

Question Number	Answer	Mark
5(a)(ii)	Dividend yield = Dividend per share x100 ✓ / Market price of share = 4 p o/f ✓ / 200p ✓ x 100 = 2 % o/f ✓	**(4)**

Question Number	Answer	Mark
5(a)(iii)	Dividend cover = Net profit after interest and tax and preference dividend ✓ / Total ordinary dividend = £2 304 000 ✓ / £960 000 ✓ = 2.4 times ✓	**(4)**

Question Number	Answer	Mark
5(a)(iv)	Earnings per ordinary share = Net profit after interest and tax and preference dividend ✓ / Issued ordinary shares = £2 304 000 ✓ / 24 000 000 ✓ = 9.6 pence per share ✓	**(4)**

Question Number	Answer	Mark
5(a)(v)	Price/earnings ratio = Market price of share ✓ / Earnings per share = 200 p ✓ / 9.6p o/f ✓ = 20.83 times o/f ✓	**(4)**

Question Number	Answer	Mark
5(b)	Answers could include: A higher share price does not mean a "better" share. ✓ The nominal or face value of the share needs to be considered. ✓ Also the total number of shares in the company. ✓ Also important is the movement in the value of the share ✓ – is it moving up or down? ✓ Very important is the demand and/or future/confidence of the market in the share ✓ – if Imran buys now, will he make a profit or a loss on the share. ✓ Many factors both inside the company ✓ and outside the company can affect the price of a share. ✓	**(4)**

Question Number	Answer	Mark
5(c)	Answers could include For the statement Investors are usually interested only in the return on their investment, ✓ which is shown in the dividend per share, which is used to calculate how much the investor receives. ✓ Investors are more concerned with what they actually receive, ✓ than how easily the company can afford to pay the dividend, ✓ as shown by the dividend cover. ✓ Against the statement Investors also have a capital gain when the share price rises, ✓ which is partly shown in the Price/Earnings ratio. ✓ Dividend yield shows the return for every pound invested, ✓ which is more important than dividend per share. ✓ Earnings per share is an important ratio, as it shows how much profit is being generated for each share invested. ✓ These profits are then used to pay dividends. ✓ Other ratios concerning profitability and liquidity etc are important, ✓ as they show how well the firm is doing. ✓ Maximum of 4 marks for arguing one side Conclusion 2 marks Dividend per share is not the only important ratio worth knowing about. ✓✓	**(8)**

Question Number	Answer	Mark
6(a)(i)	Sales Budget - Units MONTH 1: 10 ✓ | MONTH 2: 32 ✓ | MONTH 3: 48 ✓	**(3)**

Question Number	Answer	Mark
6(a)(ii)	Production Budget - Units MONTH 1: 21 ✓ | MONTH 2: 40 ✓ | MONTH 3: 48 ✓	**(3)**

Question Number	Answer	Mark
6(a)(iii)	Inventory Budget - Units To Inventory each month: MONTH 1: 11 ✓ | MONTH 2: 8✓ | MONTH 3: 0 ✓ Total in Inventory: MONTH 1: 11 ✓ | MONTH 2: 19 ✓ | MONTH 3: 19 ✓	**(6)**

Question Number	Answer	Mark
6(a)(iv)	Purchases Budget – Units MONTH 1: 31 ✓ | MONTH 2: 42 ✓ | MONTH 3: 48 ✓	**(3)**

Question Number	Answer	Mark
6(a)(v)	Purchases Budget (£) MONTH 1: £20 925✓ | MONTH 2: £28 350 ✓ | MONTH 3: £32 400✓	**(3)**

Question Number	Answer	Mark
6(a)(vi)	Creditors Budget (£) MONTH 1: £11 475 ✓ | MONTH 2: £14 850✓ | MONTH 3: £16 200 ✓	**(3)**

Question Number	Answer	Mark
6(a)(vii)	Debtors Budget MONTH 1: £24 500✓ | MONTH 2: £58 800 ✓ | MONTH 3: £88 200 ✓	**(3)**

Question Number	Answer	Mark
6(b)	**For Decision to draw up new budgets.** Existing budgets are not likely to be accurate ✓ so there is little point in sticking with them. ✓ Good budgeting should be flexible, ✓ so changes should be made to this ongoing process✓ with regular reviews taking place. ✓ A new business should not draw up a three month budget, ✓ as it is likely to be unsure of the predicted figures, ✓ not having any past figures to rely on ✓ A new budget would help planning / changes ✓ eg reduce the purchases for each month ✓ New budgets may have targets staff can reach ✓ which will increase motivation ✓ **Against Decision to draw up new budgets** Will take time ✓ and money to draw up new budgets. ✓ Variance analysis could be carried out ✓ and actions taken to meet original budgeted figures.✓ The new budget will only be estimates anyway, so may not be accurate ✓ The only budget directly affected by a lower sales level is trade receivables✓ so there maybe a need just to draw up trade receivables ✓ This is a new business, and sales may pick up ✓ to meet month 2 an3 figures in the original budget, making it accurate. ✓	**(8)**

	Maximum of 4 marks for arguing one side only **Evaluation** 2 marks available for overall conclusion, should relate to points made above.	

Question Number	Answer	Mark
7(a)		**(6)**

Actual Direct Materials	1265 x 8.14 ✓ x 0.51 ✓	=	£5 251.52 ✓
	1st tick any two		
Actual Direct Labour	11 x 43.5✓ x 4 x £4.80✓	=	£9 187.20 ✓
	1st tick any two		

Question Number	Answer	Mark
7(b)		**(10)**

Material Usage Variance			
	(8.14 – 8.00) ✓ x	(0.45 ✓ x 1265 ✓)	= £79.70 Adv✓
Material Price Variance			
	(0.51 – 0.45) ✓ x	(8.14 ✓ x 1265 ✓)	= £617.83 Adv ✓
			or add downwards
Total Material Cost Variance	£5 251.52	- £4 554 ✓	= £697.52 Adv ✓ o/f

Question Number	Answer	Mark
7(c)	**One** mark for reason given, up to **three** marks maximum for actions taken. Material Usage variance Could be caused by poor quality materials resulting in a lot of wastage. ✓ Action to solve the problem could be to change supplier ✓ or insist on a certain level of quality. ✓ Perhaps insert penalty clauses ✓ into supplier's contracts for quality. ✓ Or wastage caused by poor quality labour. ✓ So train labour better, ✓ or hire better quality labour, ✓ or raise wage rates to attract better quality labour✓ or improve quality control✓ Material Price variance Could be caused by suppliers charging a high price. ✓ Action could be Purchasing department must negotiate a lower price. ✓ Or change to supplier with lower price.✓ or buy lower quality materials ✓ Or achieve discount by bulk buying ✓ or prompt payment.✓	**(8)**

Question Number	Answer	Mark
7(d)	For the decision Material variance is larger / labour variance is smaller ✓ Labour variance is £317.20 adverse, ✓ which is £380.32 less than the adverse material variance ✓ of £697. Maybe the policy is to investigate variances over a particular limit ✓ eg £500. ✓ The labour variance is only 3.56%, ✓ whereas the materials variance is 15.3%✓ which is much bigger. ✓ Management by exception tries to make the management time cost effective, ✓ so no time is wasted investigating small variances. ✓ Against the decision It is possible that all costs, including labour could be reduced ✓ so the adverse variance should be investigated. ✓ If you ignore an adverse variance below a certain limit, ✓ the cost could "creep up" each year without any action being taken. ✓ It is possible that any reduction in costs after investigation is cost effective✓ ie could be greater than management time spent investigating. ✓ Maximum of 4 marks for argument of one side. Conclusion Should relate to above points eg decision was correct/incorrect ✓ ✓	**(8)**

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