

# Mark Scheme January 2009

GCE

GCE Accounting (8011-9011)

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January 2009

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## 6001 Mark Scheme

### Section A

Question Number	Answer	Mark
1(a)		(28)

Kehly - Trading and profit and loss account for the year ended 31 December 2008			
	£	£	
Sales		300 000	/
Opening Stock	7 850		
Purchases	<u>62 500</u>		
	70 350		
Closing Stock	<u>10 350</u>		
Cost of Sales		<u>60 000</u>	//
Gross Profit		240 000	
Wages	84 000		/
Management Salaries	31 500		/
Vehicle Expenses	11 250		/
Vehicle - Prov for depreciation	3 500		/
Office rent and expenses	41 000		/
Office equipment- Prov for depreciation	2 400		//
Loan interest	3 000		//
Increase in PDD	<u>2 110</u>		///
		178 760	
Net profit		<u>61 240</u>	
		<u>240 000</u>	

Balance Sheet as at 31 December 2008			
	£	£	
<u>Fixed assets</u>			
Vehicles	35 000 - 17 500=	17 500	/OF
Office equipment	18 000 - 8 400=	<u>9 600</u>	/OF
		27 100	
<u>Current assets</u>			
Stock	10 350		/
Debtors less PDD	90 000 - 4 610=	85 390	//
Prepaid	<u>2 400</u>		/
	98 140		
<u>Current Liabilities</u>			
Creditors	(47 950)		/
Accrual	(1 500)		//
Bank overdraft	( 9 150)		/
	58 600		
Net current assets		<u>39 540</u>	
		66 640	
10% Bank loan		<u>(30 000)</u>	/
		<u>36 640</u>	
Financed by:			
Capital		25 000	

Net profit		<u>61 240</u>	
		86 240	✓
Drawings		<u>(49 600)</u>	✓
		<u>36 640</u>	

Question Number	Answer	Mark
1(b)	Valid points may include: <ul style="list-style-type: none"> <li>• Difficulty in setting the piecework rate as all jobs will be different.</li> <li>• Higher labour turnover.</li> <li>• Potential impact on quality of work.</li> <li>• More accidents.</li> <li>• Loss of reputation of business.</li> </ul> ✓✓ For identification of a point and ✓✓ for development x 2	(8)

Question Number	Answer	Mark
1(c)		(8)

Debtors collection period  $\frac{£90\,000}{£300\,000 \text{ divided by } 365 \text{ days}} = 109.5 \text{ days}$  ✓✓✓✓

Liquid (acid test) ratio  $\frac{£98\,140 - £10\,350}{£58\,600} = 1.5:1$  ✓✓✓✓

Question Number	Answer	Mark
1(d)	Valid points may include: <p>In favour of the policy</p> <ul style="list-style-type: none"> <li>• Debtors are not pressed for payment and therefore consider Kehly a good supplier.</li> <li>• As Kehly only has two customers it is difficult for him to threaten court action or ceasing to supply.</li> <li>• Invoices issued quickly</li> </ul> <p>Against the policy</p> <ul style="list-style-type: none"> <li>• 3 months is too long before debtors are 'chased' for the debt.</li> <li>• No recovery letters.</li> <li>• No threat of court action</li> <li>• Failure to collect debts results in the requirement for loans and an overdraft which costs Kehly money in interest payments.</li> </ul> ✓✓ For a reasoned conclusion + ✓✓ for each point for or against x 3. (MAX 2 points for or against)	(8)

(Total 52)

Question Number	Answer	Mark
2(a)	<ul style="list-style-type: none"> <li>Depreciation is the diminution in the value of a fixed asset √√ due to use and/or the lapse of time√√.</li> <li>Valid points may include: <ul style="list-style-type: none"> <li>The going concern concept assumes that, unless the opposite is known, the business will operate for an indefinite period of time.</li> <li>Proportion of cost allocated to P/L each year.</li> <li>Fixed assets have a life of many years and require the estimated diminution in value to be charged to each year.</li> <li>The assumption of going concern therefore allows depreciation to be charged over the life of the asset irrespective of length.</li> </ul> </li> </ul> <p>√√ per point x 2</p>	(8)

Question Number	Answer	Mark
2(b)		(12)

#### Machinery account

	£		£
1 Jan 2008 Balance b/d	110 000 √	30 Nov 2008 Disposal	30 000 √
31 Dec 2008 Bank/Creditor	<u>64 000 √</u>	31 Dec 2008 balance c/d	<u>144 000 √</u>
	174 000		<u>174 000</u>
1 Jan 2009 Balance b/d	144 000		

#### Machinery - provision for depreciation account

	£		£
30 Nov 2008 Disposal	7 500 √	1 Jan 2008 Balance b/d	42 000 √
31 Dec 2008 Balance c/d	<u>55 000 √</u>	30 Nov 2008 Profit & Loss	<u>20 500 √</u>
	<u>62 500</u>	Depreciation	<u>62 500</u>
		1 Jan 2009 Balance b/d	55 000

#### Disposal account

	£		£
30 Nov 2008 Machinery	30 000 √	30 Nov 2008 Prov for dep	7 500 √
		30 Nov 2008 Cash/creditor	13 000 √
	<u>30 000</u>	31 Dec 2008 Loss on sale	<u>9 500 √</u> OF
			<u>30 000</u>

Question Number	Answer	Mark
2(c)		(12)

(i) Calculation:

	Straight line £	Reducing balance £
Cost	64 000	64 000
Year 1 Depreciation	<u>7 000</u> ✓	<u>16 000</u> ✓
Net book value	57 000	48 000
Year 2 Depreciation	<u>7 000</u> ✓✓OF	<u>12 000</u> ✓✓OF
Net book value	50 000	36 000
Year 3 Depreciation	<u>7 000</u> ✓✓OF	<u>9 000</u> ✓✓OF
Net book value	43 000	27 000

(ii) Advantages of reducing balance:

- Greater depreciation written off in early years, which may reflect the fact that the fixed asset loses more value in the early years.
- May provide a more realistic net book value if asset loses more value in early years.
- Total cost of operating the fixed asset would be even over the life of the asset. High depreciation and low maintenance in early years. This will reverse in later years.

✓✓ per advantage x 2

Question Number	Answer	Mark
2(d)	<p>(i) Valid points may include:</p> <ul style="list-style-type: none"> <li>• Capital expenditure is the purchase of fixed assets which will give use to the business for more than one accounting year. ✓✓</li> <li>• Revenue expenditure is an expense which will give benefit for up to one accounting year in operating the business on a day to day basis. ✓✓</li> </ul> <p>(ii) Valid points may include:</p> <ul style="list-style-type: none"> <li>• Installation costs are capital expenditure ✓✓ These costs are required to bring the fixed asset into a state in which it can generate long term profits for the business. ✓✓</li> <li>• Staff training is usually revenue expenditure. ✓✓ The skill of staff is not normally recorded as an asset in the accounts (money measurement concept). Staff can leave the business at any time and the training would be lost. ✓✓</li> </ul>	(12)



Question Number	Answer	Mark
2(e)	<p>Valid points may include:</p> <p>Supporting the statement</p> <ul style="list-style-type: none"> <li>• Depreciation accrues previous year's capital expenditure over the life of the asset.</li> <li>• Profit will be reduced by depreciation which should result in retention of profit.</li> <li>• Profit will increase cash flow.</li> </ul> <p>Against the statement</p> <ul style="list-style-type: none"> <li>• Although the accrual convention applies, this relates to the expenditure and cash flow in previous year.</li> <li>• The retention in profit may not be in cash.</li> </ul> <p>// For a reasoned conclusion + // for each point for or against x 3. (MAX 2 points for or against)</p>	(8)

(Total 52 marks)

Question Number	Answer	Mark
3(a)		(8)

**Drinks - stock valuation**

Balance b/fwd			80x£6.50	
January - March	480@£7	460@£7	80x£6.5 20x£7	//
April-June	560x£7.5	480x£7.5	80x£6.5 20x£7 80x£7.5	//
July- September	700x£8	700x£8 50x£7.5	80x£6.5 20x£7 30x£7.5	//
October-December	600x£8.5	600x£8.5 14x£7.5	80x£6.5 20x£7 16x£7.5	//
		Value at 31 December	£780	

Question Number	Answer	Mark
3(b)		(32)

Subscriptions account

	£		£
Balance b/d	660 ✓	Balance b/d	5 320 ✓
Income and Expenditure	25 000 ✓✓	Bank/R & P	23 800 ✓
		Bad debts	180 ✓
Balance c/d	<u>4 120 ✓</u>	Balance c/d	<u>480 ✓</u>
	<u>29 780</u>		<u>29 780</u>

Trading account for the year ended 31 December 2008

	Food £	Drink £	Food £	Drink £
Sales			47 500 ✓	27 000 ✓
less				
Opening stock	-	520 ✓		
Purchases	<u>19 000 ✓✓</u>	<u>18 260 ✓✓</u>		
	19 000	18 780		
Closing stock	<u>-</u>	<u>780 ✓OF</u>		
Cost of sales			19 000	18 000
Wages			17 950 ✓	10 650 ✓
Profit			<u>10 550</u>	<u>(1 650)</u>
			<u>47 500</u>	<u>27 000</u>

Income and expenditure account for the year ended 31 December 2008

	£	£	
Subscriptions		25 000 ✓OF	
Profit on trading	Food 10 550 ✓OF		
	Drink (1 650) ✓OF		
		<u>8 900</u>	
		33 900	
Less			
Wages-club manager	15 000		✓
Newspapers and journals	1 600		✓
General running expenses	9 250		✓
Depreciation - fixtures and fittings	4 500		✓✓
Repairs to fixtures and fittings	1 500		✓
Loan interest	2 800		✓✓
Bad debts	<u>180</u>		✓
		34 830	
Deficit		<u>(930)</u>	✓✓(✓OF)
		<u>33 900</u>	

Question Number	Answer	Mark
3(c)	<p>Valid points may include:</p> <p>Treatment in income and expenditure account</p> <ul style="list-style-type: none"> <li>• Only one fifth of the receipt (£30) can be recorded under income in the account in each of the five years. //</li> <li>• This is the application of the accrual/matching concept. //</li> </ul> <p>Treatment in the balance sheet</p> <ul style="list-style-type: none"> <li>• In the first year after payment four fifths of the receipt (£120) will be recorded in the current liabilities of the club. This will be reduced to three fifths in year two until fully released. //</li> <li>• This represents the liability value of the undelivered service. //</li> </ul> <p>// x 2 points</p>	(4)

Question Number	Answer	Mark
3(d)	<p>Valid points may include:</p> <p>Supporting the statement</p> <ul style="list-style-type: none"> <li>• Cash flow aided as cash is received early</li> <li>• May result in repayment of some of the loan and savings in interest</li> <li>• Members retained for 5 years</li> <li>• Attract additional members</li> <li>• No administrative collection costs for five years</li> </ul> <p>Against the statement</p> <ul style="list-style-type: none"> <li>• Overall cash received lower than sum of annual subscriptions</li> <li>• Liability to provide services after cash has been spent</li> </ul> <p>// For a reasoned conclusion + // for each point for or against x 3. (MAX 2 points for or against)</p>	(8)

(Total 52 marks)

## Section B

Question Number	Answer	Mark
4(a)	<p>The provisions are:</p> <ul style="list-style-type: none"> <li>• Profits and losses shared equally ✓</li> <li>• No interest on capital ✓</li> <li>• No salaries ✓</li> <li>• No interest on drawings ✓</li> <li>• Loans above capital at 5% interest ✓✓</li> </ul>	(6)

Question Number	Answer	Mark
4(b)		(22)

### Realisation account

	£		£
Fixed assets	75 700 ✓	Current liabilities	28 300 ✓
Current assets	24 400 ✓	Maisha - vehicle	6 500 ✓
Creditors	27 000 ✓	Bank	100 000 ✓
Dissolution expenses	700 ✓	Bank	25 000 ✓
Profit on realisation:			
Maisha	16 000 ✓OF (If equal split)		
Shiban	<u>16 000</u> ✓OF		
	<u>159 800</u>		<u>159 800</u>

### Capital accounts

	Maisha Shiban			Maisha Shiban	
	£	£		£	£
Vehicle		6 500 ✓	Balance b/d	40 000	30 000
Bank	<u>49 500</u>	<u>46 000</u> ✓✓OF	Realisation	<u>16 000</u>	<u>16 000</u> ✓OF
	<u>56 000</u>	<u>46 000</u>		<u>56 000</u>	<u>46 000</u>

### Bank account

	£		£
City Developments	100 000 ✓	Balance b/d	1 800 ✓
Assets	25 000 ✓	Creditors	27 000 ✓
		Expenses	700 ✓✓
		Capital:	
		Maisha	49 500 ✓OF
		Shiban	<u>46 000</u> ✓OF
	<u>125 000</u>		<u>125 000</u>

Question Number	Answer	Mark
4(c)	<p>Valid points may include:</p> <p>Supporting the statement</p> <ul style="list-style-type: none"> <li>• May define the business relationship and responsibilities.</li> <li>• Defines the distribution of profit.</li> <li>• Formalises the relationship.</li> </ul> <p>Against the statement</p> <ul style="list-style-type: none"> <li>• Cost of preparation of agreement.</li> <li>• Not flexible to take account of changing circumstances.</li> </ul> <p><i>// For a reason for + // for a reason against.</i></p>	(4)

(Total 32 marks)

Question Number	Answer	Mark
5(a)	<ul style="list-style-type: none"> <li>Allocation - The allotment of whole items of cost to a specific cost centre. <i>✓✓</i></li> <li>Apportionment- The allotment of proportions of items of cost to cost centres based upon the most reasonable basis for apportionment. <i>✓✓</i></li> <li>Reasons: <ul style="list-style-type: none"> <li>Generally indirect costs.</li> <li>Often relate to a single payment for a period of time e.g rent, insurance.</li> <li>Not related to output or activity. <i>✓✓</i> per reason x 2</li> </ul> </li> </ul>	(8)

Question Number	Answer	Mark
5(b)		(20)

Overhead cost:

	Standard £	Classic £	Administration £
Premises rent	2 000 <i>✓✓</i>	1 000	1 000
Supervision	450 <i>✓✓</i>	900	450
Electricity	200 <i>✓✓</i>	300	300
Depreciation	<u>200 <i>✓✓</i></u>	<u>400</u>	<u>1 000</u>
	2 850	2 600	2 750
Re-apportionment	<u>1 650 <i>✓✓OF</i></u>	<u>1 100</u>	
	4 500	3 700	

Total cost of one Standard unit:

	£
Raw materials	3 360 <i>✓✓</i>
Labour	2 490 <i>✓✓</i>
Overheads	<u>4 500 <i>✓✓OF</i></u>
Total cost	10 350
Divide by	1 150 <i>✓</i>
Cost per unit	£9 <i>✓OF</i>

Sales margin:  $\frac{\text{Profit} \times 100}{\text{Selling price}} = \frac{\text{£3 OF} \times 100}{\text{£12}} = 25\% \text{ ✓✓OF}$

Question Number	Answer	Mark
5(c)	<p>Valid points may include:</p> <p>Supporting the statement</p> <ul style="list-style-type: none"> <li>• Enables calculation of cost per units.</li> <li>• A reasonable basis of assuming the usage of costs.</li> <li>• Enables prices to be fixed on a reasonable basis.</li> </ul> <p>Against the statement</p> <ul style="list-style-type: none"> <li>• Is only an estimate of the overheads used and therefore lacks precision.</li> <li>• Establishing the 'reasonable basis' basis for apportionment may not be simple.</li> </ul> <p>// For a reason for + // for a reason against.</p>	(4)

(Total 32 marks)



Question Number	Answer	Mark
6(a)	<p>A business will use cash discount to:</p> <ul style="list-style-type: none"> <li>• Encourage prompt payment.</li> <li>• Reduce bad debts.</li> <li>• Improve liquidity.</li> <li>• Increase sales.</li> <li>• Build up customer loyalty/repeat customers.</li> </ul> <p>✓✓ per point x 3 points</p>	(6)

Question Number	Answer	Mark
6(b)		(6)

Purchases:

	£		
Cheques paid to creditors		64 500	✓
Creditors 31 December		11 900	✓
Discount received		<u>1 100</u>	✓
		77 500	
Creditors 1 December		<u>10 450</u>	✓
Purchases		67 050	✓✓

Question Number	Answer	Mark
6(c)		(16)

- Sales ledger control account

	£		£		
Balance b/d	9 240	✓	Sales returns	1 400	✓✓
Sales	89 710	✓✓	Bank	78 580	✓
			Discount allowed	2 450	✓✓
			Bad debts	3 200	✓✓
			Balance c/d	<u>13 320</u>	✓✓(✓OF)
	<u>98 950</u>			<u>98 950</u>	

- Trading account for the month of December 2008.

	£		£	
Sales (£89 710 + £15 390)			105 100	✓✓
Less Sales returns			<u>1 400</u>	
			103 700	
Opening stock	22 600			
Purchases	<u>67 050</u>			✓OF
	89 650			
Closing stock	<u>20 850</u>			
Cost of sales			68 800	✓OF
Gross profit			<u>34 900</u>	
			<u>105 100</u>	

Question Number	Answer	Mark
6(d)	<p>Valid answers may include:</p> <p>Supporting the statement</p> <ul style="list-style-type: none"> <li>• Control accounts identify whether there is an error in a group of accounts.</li> <li>• They offer some protection against fraud.</li> <li>• Identify arithmetical errors.</li> </ul> <p>Against the statement</p> <ul style="list-style-type: none"> <li>• Control accounts help to isolate errors but they do not stop them occurring.</li> <li>• Control accounts will only isolate errors to a group of accounts.</li> </ul> <p><i>// For a reason for + // for a reason against.</i></p>	(4)

Question Number	Answer	Mark
7(a)	<p>Error of commission- entry made within the correct ledger but normally in the wrong person's account//. E.g the account of J.Smith debited instead of J.Smyth. //</p> <p>Error of principle-entry made in wrong account which is in a different category of account//. E.g motor expenses recorded in the motor vehicles account. //</p>	(8)

Question Number	Answer	Mark
7(b)		(20)

#### Electricity account

Bank	£ 462 /	Balance b/d	£ 164 /
Bank	365	Bank	38 //
Balance c/d	<u>175</u> /	Profit and loss	<u>800</u> //
	<u>1 002</u>	Balance b/d	<u>1002</u> /OF

#### Buildings insurance account

Balance b/d	£ 160 /	Profit and loss	£ 430 //
Bank	<u>360</u> /	Balance c/d	<u>90</u> //
	<u>520</u>		<u>520</u>
Balance b/d	90 /OF		

#### Rent receivable account

Profit and loss	£ 2 400 /	Balance b/d	£ 200 /
		Bank	2 000 /
	<u>2 400</u>	Balance c/d	<u>200</u> /
Balance b/d	200 /OF		<u>2 400</u>

Question Number	Answer	Mark
7(c)	<p>Valid answers may include:</p> <p>Supporting the statement</p> <ul style="list-style-type: none"> <li>• Accruals adjusts income and expenditure to income and expenditure incurred.</li> <li>• Accurate calculation of profit generated in a period.</li> <li>• Profit calculation consistent with other organisations.</li> </ul> <p>Against the statement</p> <ul style="list-style-type: none"> <li>• The profit calculated still requires a 'yardstick' of comparison.</li> <li>• Businesses in different sectors will have different levels of profitability.</li> </ul> <p>// For a reason for + // for a reason against.</p>	(4)

(Total 32 marks)

**6002 Mark Scheme**

Question Number	Answer	Mark
(a)		(40)

**Q1 (a)  
Profit and Loss Account for Standard Bicycles plc for Y/e 31st Dec 2008**

Turnover	4255000	√	
Cost of sales	(1912000)	√	o/f
Gross profit	2343000	√	o/f
Distribution costs	(1163800)	√	o/f
Administrative expenses	(289250)	√	o/f
Other operating income	99840	√	o/f
Interest Receivable	3850	√	
Interest payable	(55000)	√	o/f
Profit on ordinary activities before tax	938640	√	o/f
Corporation tax	(210000)	√	
Profit on ordinary activities after tax	728640	√√C	o/f

**13 x √**

**W1 Cost of Sales**

Direct Labour	724000	√	
Direct materials	520000	√	
Factory DepRCTn	214000	√√	<b>9 x √</b>
Factory Overheads	375000	√	
Production Director	63000	√	
Stock Adjust	16000	√√	
	1912000	√	o/f

**W2 Distribution Costs**

Promotions and Advertising	58000	√	
Warehouse Expenses	188000	√	
Motor Lorries Depctn	95000	√√	
Shop Rent	290800	√√	
Transport Staff Wages	176000	√	
Shop staff wages	288000	√	
Sales Director	68000	√	<b>10 x √</b>
	1163800	√	o/f

**W3 Administrative Expenses**

Bad Debts Written Off	2250	√	
Office staff	222000	√	
Finance Director	65000	√	<b>3 x √</b>
	289250		

**Other Operating Income**

Factory Canteen Sales	75000	√	
Rent received	24840	√√	<b>3 x √</b>
	99840		

**W4 Interest Payable**

Debenture	55000	√√	<b>2 x √</b>
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## Section A

Question Number	Answer	Mark
1(b)	<p><b>Answers could include</b></p> <p><b>Benefits</b>            This will benefit users of accounts because they can see that the expense of the Exceptional Item will not be expected to be repeated regularly in the future. ✓✓            Although in the normal line of business ✓ the Exceptional Item should be disclosed because of its size. ✓            This allows reader to predict more accurately future expected performance. ✓✓</p> <p>This may help future potential investors ✓ / shareholders ✓ / creditors ✓ etc with decision making. ✓</p> <p>Should be beneficial if required to be shown ✓ by FRS3. ✓            Could be said to give a True and Fair View ✓</p> <p><b>Disadvantages</b>            Adds more figures and details to the accounts ✓ so makes them more difficult to understand. ✓            Extra cost ✓ in spending extra time preparing accounts. ✓            ✓</p> <p>Maximum for arguing only one side 8 x ✓ = 4 marks</p> <p><b>Evaluation</b>            Should conclude that it is beneficial to disclose Exceptional Items. ✓✓</p>	(12)

(Total 52 marks)

Question Number	Answer	Mark																											
<b>2(a)</b>	<p>Reconciliation of operating profit to net cash flow from operating activities</p> <table border="1"> <tr> <td>Net Operating Loss</td> <td>(178 000)</td> <td>√</td> </tr> <tr> <td>Add Interest : Bank overdraft</td> <td>1 000</td> <td>√</td> </tr> <tr> <td>Bank Loan 112 500 + 7 500</td> <td>120 000</td> <td>√√</td> </tr> <tr> <td>Less Dividends Received</td> <td>(20 000)</td> <td>√</td> </tr> <tr> <td>Depreciation 140 √+ 10 √+ 60 √√</td> <td>210 000</td> <td>= √√ √√</td> </tr> <tr> <td>Increase in Stock</td> <td>(12 000)</td> <td>√</td> </tr> <tr> <td>Increase in Debtors</td> <td>(15 000)</td> <td>√</td> </tr> <tr> <td>Decrease in Creditors</td> <td>(20 000)</td> <td>√</td> </tr> <tr> <td>Net Cash Inflow from Operating Activities</td> <td>86 000</td> <td>√ o/f √C</td> </tr> </table>	Net Operating Loss	(178 000)	√	Add Interest : Bank overdraft	1 000	√	Bank Loan 112 500 + 7 500	120 000	√√	Less Dividends Received	(20 000)	√	Depreciation 140 √+ 10 √+ 60 √√	210 000	= √√ √√	Increase in Stock	(12 000)	√	Increase in Debtors	(15 000)	√	Decrease in Creditors	(20 000)	√	Net Cash Inflow from Operating Activities	86 000	√ o/f √C	<b>(14)</b>
Net Operating Loss	(178 000)	√																											
Add Interest : Bank overdraft	1 000	√																											
Bank Loan 112 500 + 7 500	120 000	√√																											
Less Dividends Received	(20 000)	√																											
Depreciation 140 √+ 10 √+ 60 √√	210 000	= √√ √√																											
Increase in Stock	(12 000)	√																											
Increase in Debtors	(15 000)	√																											
Decrease in Creditors	(20 000)	√																											
Net Cash Inflow from Operating Activities	86 000	√ o/f √C																											

Question Number	Answer	Mark
<b>2(b)</b>		<b>(20)</b>

#### Cash Flow Statement for the Year ended 31 December 2008

Wording is required to obtain the mark(s). Item also needs to be in correct place.

Net Cash Inflow from Operating Activities		86 000√ o/f
Returns on Investment and Servicing of Finance√		
Dividends Received		20 000 √
Interest Paid		(121 000) √ o/f
Preference Dividend Paid		(25 000) √
Taxation		
Tax Paid		(26 000) √
Capital Expenditure + Financial Investment√		
Payments to acquire tangible fixed assets		(40 000) √
Equity Dividends Paid√		
Final Dividend 2007	35 000 √	
Interim Dividend 2008	15 000 √√	(50 000)
Net Cash Outflow before Financing		(156 000) √ o/f
Financing √		
Issue of Ordinary Shares	100 000 √	
Increase in bank loan	100 000 √	
Net Cash Inflow from Financing		200 000 √
Increase in Cash √		44 000√ o/f √C

Question Number	Answer	Mark
2(c)		(6)

Analysis of Changes in Cash and Bank Balances during year ended 31 200

	1 January 2008	31 December 2008	Change in Year
Cash	12 000	18 000√	6 000 √
Bank	(11 000)	27 000 √	38 000 √
Total	1 000	45 000 √ o/f	44 000 √ o/f

Need first two columns for first √  
Other layouts for reconciliation are acceptable.

Question Number	Answer	Mark
2(d)	<p><b>Answers may include the following :</b> <b>Max 6 marks available for arguing only one side.</b></p> <p><b>Not worried - Liquidity most important for short term survival</b> 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 √ If depreciation (a non-cash expense√) is not included, Sunset plc makes a “profit”√ The Net Cash figure shows an inflow/increase √ ( But this has been due to a loan √ and new share issue √)</p> <p><b>Worried - Profitability important.</b> If not profitable, 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 profitability may result in firm unable to attract finance √ or investors/shareholders √ No/low profitability may see share price fall, √ as investors lose confidence √ Sunset only has no liquidity problem at present √ because it has increased the bank loan √ and asked shareholders for more funds √ The extra loan now means interest payments of £127 500 √ to be made a year which will reduce profit √</p> <p><b>4 marks for Conclusion (does not have to be at end)</b> Liquidity more important for short term survival, √ so statement is basically true √ However, Sunset plc should be worried (about long term) √ as company is not profitable/not making a profit √</p>	(12)

(Total 52 marks)



Question Number	Answer	Mark
<b>3(a)</b>		<b>(6)</b>

Machine	Mixer	Oven	Decorator	Wrapper		
Production capacity	60	90	30	120		
Ratio	2	3	1	4	√√	
Common Numerator	12	12	12	12	√√	
Number of Machines	6	4	12	3	√√	

Question Number	Answer	Mark
<b>3(b)</b>		<b>(10)</b>

(i) Price per machine	£2,450	£1,880	£1,630	£2,740		
Number of machines	6	4	12	3		
Total per machine	£14,700	£7,520	£19,560	£8,220	£50,000	√
x2	12	8	24	6	√√√√	
(ii) Total cost per machine	£29,400	£15,040	£39,120	£16,440	£100,000	√√√√√

Question Number	Answer	Mark
<b>3(c)</b>		<b>(10)</b>

Production	hours	days	cakes pr hr	Total cakes	In a pack	Packs
	24	5	360 x 2	86 400	6	14 400
	√	√	√ √	√	√	√
Production Budget for Month 1	Week 1	Week 2	Week 3	Week 4	Total	
Production in Cakes	14 400	14 400	14 400	14 400	57 600	√/f √C
				√/f		

Question Number	Answer	Mark
<b>3(d)</b>		<b>(6)</b>

Sales Budget	Week 1	Week 2	Week 3	Week 4	Total	
Sales Budget for Month 1	£12,960	£12,960	£12,960	£12,960	£51,8400	√/f √C
	√/f	√/f	√/f	√/f		

Question Number	Answer	Mark
<b>3(e)</b>		<b>(8)</b>

75% of weekly sales	£9,720√	£9,720	£9,720	£9,720		
Debtors Budget for Month 1	Week 1	Week 2	Week 3	Week 4		
Debtors	£9,720	£19,440	£29,160	£38,880		
	√/f	√√/f	√√/f	√√/f		

Question Number	Answer	Mark
3(f)	<p><b>Answers may include the following:</b></p> <p><b>Max 8 marks available for arguing only one side.</b></p> <p><b>For a Cash Budget</b>  Allows firm to see inflows and outflows of cash in the period, ✓ and to see whether overall there is an inflow or outflow of cash for the period. ✓  This will help the firm with planning and decision-making ✓ e.g. arrange an overdraft ✓ or arrange a loan, ✓ or chase up debtors, ✓ or negotiate with suppliers, ✓ or adjust prices ✓ prevent overtrading ✓  Can compare Budget to Actual ✓ and variance analysis can take place. ✓</p> <p><b>Against a Cash Budget</b>  Takes staff time to draw up budget ✓ and this means money. ✓  Budget is only an estimate ✓ so could be inaccurate ✓ and this could lead to inaccurate decision-making ✓</p> <p><b><u>2 marks</u> for Conclusion (does not have to be at end)</b>  Should conclude that drawing up a cash budget is worthwhile for the firm.</p>	(12)

(Total 52 marks)

## Section B

Question Number	Answer	Mark
4(a)		(8)

(i) Actual Material Used	$\frac{85800 \checkmark}{(2400 \checkmark \times 2.75 \checkmark)}$	=	13 metres $\checkmark$
(ii) Actual time taken	$\frac{59160 \checkmark}{(2400 \checkmark \times 5.80 \checkmark)}$	=	4.25 hours $\checkmark$

Question Number	Answer	Mark
4(b)		(16)

(i) Material Usage variance	$(13 \text{ o/f } -12) \checkmark \times 2.75 \checkmark$	$\times 2400 \checkmark$	= £6 600 o/f Adv $\checkmark$
(ii) Total Material Cost Variance	£85 800	- £79 200 $\checkmark$	= £6 600 Adv $\checkmark$
(iii) Labour Rate Variance	$(£5.80 - £6.50) \checkmark \times$	$4.25 \text{ o/f} \checkmark \times 2400 \checkmark$	= £7 140 o/f Fav $\checkmark$
(iv) Labour Efficiency Variance	$(4.25 \text{ o/f} - 3.5) \checkmark \times$	$£6.50 \checkmark \times 2400 \checkmark$	= £11 700 o/f Adv $\checkmark$
(v) Total Labour Cost Variance	£59 160	- £54 600 $\checkmark$	= £4 560 Adv $\checkmark$

Question Number	Answer	Mark
4(c)	<p><b>Maximum 4 x ✓ for one side of argument</b></p> <p><b>For statement ie. Against Paying Low Wage Rate:</b>  Labour Rate variance is favourable, so probably less skilled workers than expected employed. ✓ This could result in the adverse Labour Efficiency variance, ✓ as they will take more time to complete the job than higher skilled workers. ✓ This also explains the adverse Total Labour Cost Variance. ✓  Also, the lower skilled workers (favourable Labour Rate variance) ✓ would waste more material, ✓ explaining the Material Usage variance, ✓ and the Total Material Cost Variance. ✓  Workers are less motivated ✓ so productivity may suffer ✓</p> <p><b>Against Statement ie. For Paying Low Wage Rate :</b>  Labour Rate variance is favourable ✓ which may reduce labour costs ✓</p> <p><b>Conclusion 2 x ✓✓ must relate to points made above.</b></p>	(8)

(Total 32 marks)

Question Number	Answer	Mark
5(a)		(20)

Profit and Loss Statement						
Calculation of sales	(1900 + 70000) ✓	- 2150 ✓	= ( 69750	x 45) ✓	=3138750	✓
	Marginal	Absorption				
Sales	3138750	3138750				
Less						
Direct Materials	(910000)	(910000)	✓			
Direct Labour	(665000)	(665000)	✓			
Semi-variable costs	(430000)	(430000)	✓			
Fixed Overheads	(336000)	(336000)	✓			
Opening Stock	(41800) ✓	(60800)	✓			
Closing Stock	51600	71902				
Profit	807550 ✓ o/f ✓ C	808852	✓ o/f ✓ C			
Calculation of closing stock						
Marginal	(13 + 9.50 + 1.50) ✓	x 2150 =	51600	✓		
Absorption	<u>2341000</u> o/f ✓	= £33.44 o/f x 2150 ✓	= 71902	✓ o/f		
	70000 ✓					

Question Number	Answer	Mark
5(b)	<p>Answers could include</p> <p>The order could be accepted ✓ on the grounds that £30 is greater than the marginal cost of £24.00 ✓ £30 gives a (positive) contribution. ✓ of £6 per unit ✓  New customer may result in more orders in the future, ✓ perhaps at a higher price. ✓  However in the long term, ✓ selling at £30 would result in a Net Loss / not all costs are covered. ✓  Existing customers would be unhappy ✓ to hear of this low price on offer and could go elsewhere ✓</p>	(4)

Question Number	Answer	Mark
5(c)	<p>Answers could include:</p> <p><b>Maximum of 4 marks for argument of one side.</b></p> <p><b>Case for Marginal Costing</b>  Could be said to help decision making ✓ when deciding whether to accept an offer price ✓ or make or buy ✓ or discontinue a product/profit centre. ✓  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. ✓  May be argued it is prudent ✓ to write off costs in time period incurred. ✓</p> <p><b>Case for Absorption Costing</b>  Sees costs allocated to products. ✓ Could be useful for management ✓ when fixing prices ✓ or reviewing if a product/project has been profitable ✓ Recommended ✓ by SSAP 9. ✓ Could be said to give a True and Fair view ✓.</p> <p><b>Other Points</b>  If figures in the future are similar, choice of stock valuation will not have very much effect on the profit. ✓✓</p> <p><b>Conclusion</b>  <b>Max 2 marks</b> available. Should relate to points made above.</p>	(8)

(Total 32 marks)

Question Number	Answer	Mark
6(a)		(6)

(i) Jan 5	Realisation a/c	500 000		√
	Machinery a/c		500 000	√
(ii) Jan 5	Creditors a/c	64 000		√
	Realisation a/c		64 000	√
(iii) Jan 5	Ordinary Shares of £2 a/c	10 000 000		√
	Sundry Shareholders a/c		10 000 000	√

Question Number	Answer	Mark
6(b)		(8)

Purchase Price			
Number of Ordinary shares in Whistle Stopz plc	10000000 √	5000000√√	
	2		
	<b>Method 1</b>	<b>OR 2</b>	
Shareholders receive/ Purchase Price	£1.00	5 000 000 J	
	£0.45	2 250 000 J	
	£0.65 √ (3 items)	3 250 000 J	
	5000000 √	£2.10√	£10 500 000 √ o/f √ C

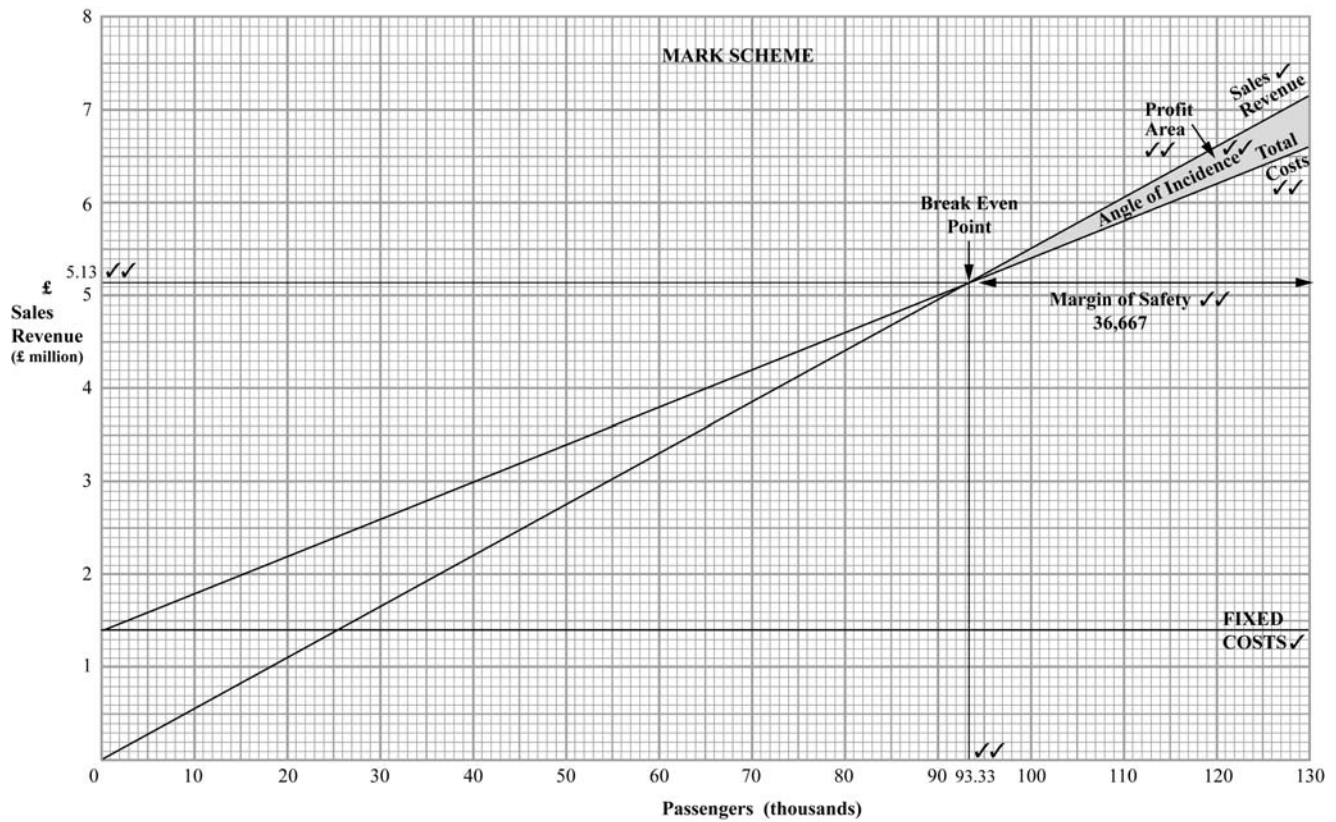
Question Number	Answer	Mark
6(c)		(10)

Calculation of Goodwill			
Purchase Price		10500000	√ o/f
Buildings	8500000	√	
Machinery	500000	√	
Fixtures & Fittings	1600000	√	
Furniture	300000	√	
Stock	75000	√	
		(10975000)	
Creditors	64000	√	
Long Term Loan	1000000	√	
		1064000	
Goodwill		589000	√ o/f √ C

Question Number	Answer	Mark
6(d)	<p><b>Answers may include:</b>  <b>Maximum of 4 marks per side of argument.</b></p> <p><b>Case for takeover:</b>  KC has received some goodwill, ✓ as purchase price is greater than net value of assets sold. ✓ Goodwill is actually 589 000 / 5 000 000 ✓ = 11.78p per share. ✓ Whistle Stopz plc appear to having problems. ✓ Liquidity / working capital is very low. ✓ Profit and loss reserve balance is very low. ✓ May be good to sell shares at decent price ✓ before it gets worse. ✓ Selling share for £2.10 which is above market value ✓ of £2.03 by £0.07 per share ✓</p> <p><b>Case Against takeover:</b>  KC bought the shares for £2.50 but is only receiving £2.10 per share now. ✓ He is making a loss of £0.40 per share. ✓ Goodwill paid is low ✓ - only about 5% above asset values. ✓ Whistle Stopz plc may improve in the future ✓ and the share price could rise above £2.10. ✓</p> <p><b>Conclusion</b>  <b>2 marks available</b>  Should relate to points made above.</p>	(8)

(Total 32 marks)

Question Number	Answer	Mark
7(a)		(14)



Question Number	Answer	Mark
7(b)		(10)

Calculation of Profit					
Actual Profit					
Sales Revenue	130000	55	7150000	✓	
Variable Costs	130000	40	5200000	✓	
Fixed Costs			1400000	✓	
Profit			550000	✓ o/f ✓ C	
Actual Break Even Point					
	$\frac{1400000}{(55 - 40)}$	✓ =	$\frac{1400000}{15}$	93333.33	passengers
					✓ o/f ✓ C



Question Number	Answer	Mark
7(c)	<p>Answers may include :</p> <p><b>Maximum of 4 marks per side of argument.</b></p> <p><b>Better than budget</b>            Passenger figures of 130 000 are better ✓ than budget figures by 10 000 ✓            Sales price per passenger of £55 is better ✓ than the budget figure of £50 ✓            Actual sales of £7 150 000 ✓ is better than the budget sales of £6 000 000 ✓</p> <p><b>Worse than budget</b>            Profit of £550 000 is worse than the budget profit ✓ of £600 000 ✓ (by £50 000).            Variable costs of £40 per passenger are higher ✓ than budget figures of £35 ✓            Fixed costs of £1 400 000 are higher ✓ than budget figure of £1 200 000 ✓            Actual Total Costs of £6 600 000 ✓ is worse than Budget Total Costs of £5 400 000 ✓ although this is partly due to more passengers. ✓            Break even figure for passengers of 93 334 is higher ✓ than budget figure of 80 000. ✓</p> <p><b>Conclusion (does not have to be at end)</b>  <b>2 marks available.</b> Should relate to above points.            Profit is higher so actual figures are better than budget. ✓✓</p>	<b>(8)</b>

(Total 32 marks)

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