

# Mark Scheme Summer 2009

GCE

GCE Accounting (8011-9011)

Edexcel is one of the leading examining and awarding bodies in the UK and throughout the world. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers.

Through a network of UK and overseas offices, Edexcel's centres receive the support they need to help them deliver their education and training programmes to learners.

For further information, please call our GCE line on 0844 576 0025, our GCSE team on 0844 576 0027, or visit our website at [www.edexcel.com](http://www.edexcel.com).

If you have any subject specific questions about the content of this Mark Scheme that require the help of a subject specialist, you may find our **Ask The Expert** email service helpful.

Ask The Expert can be accessed online at the following link:

<http://www.edexcel.com/Aboutus/contact-us/>

Summer 2009

All the material in this publication is copyright  
© Edexcel Ltd 2009

## Contents

1.	General Marking Guidance	4
2.	6001 Mark Scheme	5
3.	6002 Mark Scheme	23

## 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.

### Section A

Question Number	Answer	Mark																																																
1(a)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%; text-align: left;">Sales</th> <th style="width: 10%; text-align: center;">£</th> <th style="width: 50%; text-align: left;">Purchases</th> <th style="width: 10%; text-align: center;">£</th> </tr> </thead> <tbody> <tr> <td>Cash -Wages</td> <td style="text-align: right;">7 800 ✓</td> <td>Supplier payments</td> <td style="text-align: right;">48 000 ✓</td> </tr> <tr> <td>Operating Ex</td> <td style="text-align: right;">5 400 ✓</td> <td>Discount received</td> <td style="text-align: right;"><u>2 500 ✓</u></td> </tr> <tr> <td>Sales banked</td> <td style="text-align: right;">19 850 ✓</td> <td></td> <td style="text-align: right;">50 500</td> </tr> <tr> <td>Credit sales</td> <td style="text-align: right;"><u>77 600 ✓</u></td> <td>Creditors 1 May</td> <td style="text-align: right;"><u>4 300 ✓</u></td> </tr> <tr> <td></td> <td style="text-align: right;">110 650</td> <td></td> <td style="text-align: right;">46 200</td> </tr> <tr> <td>Discount allowed</td> <td style="text-align: right;"><u>3 200 ✓</u></td> <td>Creditors 30 April</td> <td style="text-align: right;"><u>4 800 ✓</u></td> </tr> <tr> <td></td> <td style="text-align: right;">113 850</td> <td>PURCHASES</td> <td style="text-align: right;">51 000 ✓</td> </tr> <tr> <td>Debtors 1 May</td> <td style="text-align: right;"><u>9 800 ✓</u></td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">104 050</td> <td></td> <td></td> </tr> <tr> <td>Debtors 30 April</td> <td style="text-align: right;"><u>7 950 ✓</u></td> <td></td> <td></td> </tr> <tr> <td>SALES</td> <td style="text-align: right;">112 000 ✓</td> <td></td> <td></td> </tr> </tbody> </table> <p>Note: Control Account format is accepted as an alternative layout.</p>	Sales	£	Purchases	£	Cash -Wages	7 800 ✓	Supplier payments	48 000 ✓	Operating Ex	5 400 ✓	Discount received	<u>2 500 ✓</u>	Sales banked	19 850 ✓		50 500	Credit sales	<u>77 600 ✓</u>	Creditors 1 May	<u>4 300 ✓</u>		110 650		46 200	Discount allowed	<u>3 200 ✓</u>	Creditors 30 April	<u>4 800 ✓</u>		113 850	PURCHASES	51 000 ✓	Debtors 1 May	<u>9 800 ✓</u>				104 050			Debtors 30 April	<u>7 950 ✓</u>			SALES	112 000 ✓			<b>(13)</b>
Sales	£	Purchases	£																																															
Cash -Wages	7 800 ✓	Supplier payments	48 000 ✓																																															
Operating Ex	5 400 ✓	Discount received	<u>2 500 ✓</u>																																															
Sales banked	19 850 ✓		50 500																																															
Credit sales	<u>77 600 ✓</u>	Creditors 1 May	<u>4 300 ✓</u>																																															
	110 650		46 200																																															
Discount allowed	<u>3 200 ✓</u>	Creditors 30 April	<u>4 800 ✓</u>																																															
	113 850	PURCHASES	51 000 ✓																																															
Debtors 1 May	<u>9 800 ✓</u>																																																	
	104 050																																																	
Debtors 30 April	<u>7 950 ✓</u>																																																	
SALES	112 000 ✓																																																	

Question Number	Answer	Mark																																																																																																								
1(b)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;"></th> <th style="width: 10%; text-align: center;">£</th> <th style="width: 10%; text-align: center;">£</th> <th style="width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>Sales</td> <td></td> <td style="text-align: right;">112 000</td> <td style="text-align: center;">✓OF</td> </tr> <tr> <td>Opening stock</td> <td style="text-align: right;">8 250</td> <td></td> <td style="text-align: center;">✓</td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">51 000</td> <td></td> <td style="text-align: center;">✓OF</td> </tr> <tr> <td>Carriage</td> <td style="text-align: right;"><u>5 900</u></td> <td></td> <td style="text-align: center;">✓</td> </tr> <tr> <td></td> <td style="text-align: right;">65 150</td> <td></td> <td></td> </tr> <tr> <td>Closing stock</td> <td style="text-align: right;"><u>5 150</u></td> <td></td> <td style="text-align: center;">✓</td> </tr> <tr> <td>Cost of sales</td> <td></td> <td style="text-align: right;"><u>60 000</u></td> <td style="text-align: center;">✓</td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right;">52 000</td> <td></td> </tr> <tr> <td>Plus</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Discount received</td> <td style="text-align: right;">2 500</td> <td></td> <td style="text-align: center;">✓</td> </tr> <tr> <td>Profit on sale of equipment</td> <td style="text-align: right;">150</td> <td></td> <td style="text-align: center;">✓</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>2 650</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">54 650</td> <td></td> </tr> <tr> <td>Less</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Discount allowed</td> <td style="text-align: right;">3 200</td> <td></td> <td style="text-align: center;">✓</td> </tr> <tr> <td>Depreciation on equipment</td> <td style="text-align: right;">1 800</td> <td></td> <td style="text-align: center;">✓</td> </tr> <tr> <td>Operating expenses</td> <td style="text-align: right;">12 650</td> <td></td> <td style="text-align: center;">✓</td> </tr> <tr> <td>5 400 + 7 250</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Rent 5 500 + 500</td> <td style="text-align: right;">6 000</td> <td></td> <td style="text-align: center;">✓</td> </tr> <tr> <td>Staff wages</td> <td style="text-align: right;">7 800</td> <td></td> <td style="text-align: center;">✓</td> </tr> <tr> <td>Delivery expenses</td> <td style="text-align: right;">11 800</td> <td></td> <td style="text-align: center;">✓</td> </tr> <tr> <td>Loan interest</td> <td style="text-align: right;"><u>800</u></td> <td></td> <td style="text-align: center;">✓</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">44 050</td> <td></td> </tr> <tr> <td>Net profit</td> <td></td> <td style="text-align: right;"><u>10 600</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>54 650</u></td> <td></td> </tr> </tbody> </table>		£	£		Sales		112 000	✓OF	Opening stock	8 250		✓	Purchases	51 000		✓OF	Carriage	<u>5 900</u>		✓		65 150			Closing stock	<u>5 150</u>		✓	Cost of sales		<u>60 000</u>	✓	Gross profit		52 000		Plus				Discount received	2 500		✓	Profit on sale of equipment	150		✓			<u>2 650</u>				54 650		Less				Discount allowed	3 200		✓	Depreciation on equipment	1 800		✓	Operating expenses	12 650		✓	5 400 + 7 250				Rent 5 500 + 500	6 000		✓	Staff wages	7 800		✓	Delivery expenses	11 800		✓	Loan interest	<u>800</u>		✓			44 050		Net profit		<u>10 600</u>				<u>54 650</u>		
	£	£																																																																																																								
Sales		112 000	✓OF																																																																																																							
Opening stock	8 250		✓																																																																																																							
Purchases	51 000		✓OF																																																																																																							
Carriage	<u>5 900</u>		✓																																																																																																							
	65 150																																																																																																									
Closing stock	<u>5 150</u>		✓																																																																																																							
Cost of sales		<u>60 000</u>	✓																																																																																																							
Gross profit		52 000																																																																																																								
Plus																																																																																																										
Discount received	2 500		✓																																																																																																							
Profit on sale of equipment	150		✓																																																																																																							
		<u>2 650</u>																																																																																																								
		54 650																																																																																																								
Less																																																																																																										
Discount allowed	3 200		✓																																																																																																							
Depreciation on equipment	1 800		✓																																																																																																							
Operating expenses	12 650		✓																																																																																																							
5 400 + 7 250																																																																																																										
Rent 5 500 + 500	6 000		✓																																																																																																							
Staff wages	7 800		✓																																																																																																							
Delivery expenses	11 800		✓																																																																																																							
Loan interest	<u>800</u>		✓																																																																																																							
		44 050																																																																																																								
Net profit		<u>10 600</u>																																																																																																								
		<u>54 650</u>																																																																																																								

<u>Balance sheet as at 30 April 2009</u>			
	£	£	
<u>Fixed assets</u>			
Equipment		12 000	/
<u>Current assets</u>			
Stock	5 150		/
Debtors	<u>7 950</u>		/
	13 100		
<u>Current liabilities</u>			
Creditors	4 800		/
Accrued	1 300		//
500 + 800			
Bank overdraft	<u>2 400</u>		/
	(8 500)		
Net current assets		<u>4 600</u>	
		16 600	
<u>Long term liabilities</u>			
8% Bank loan		<u>(10 000)</u>	//
		<u>6 600</u>	
Financed by:			
Capital	21 000		/
Net profit	<u>10 600</u>		/OF
	31 600		
Drawings	<u>25 000</u>		/
		<u>6 600</u>	
Note: 8% Bank loan can alternatively be recorded under Financed by:			<b>(27)</b>

Question Number	Answer	Mark
1(c)	<p>Day-work - this is an hourly rate irrespective of the output of the employee. Calculation is hours attended <math>\checkmark</math> x hourly rate. <math>\checkmark</math></p> <p>Piecework- this is a rate per piece of work completed irrespective of how long that 'piece' takes to complete. Calculation is rate per piece <math>\checkmark</math> x number of pieces completed. <math>\checkmark</math></p>	(4)

Question Number	Answer	Mark
1(d)	<p>Valid answers may include:</p> <p>In favour of the decision:</p> <ul style="list-style-type: none"> <li>• less supervisory control will be needed</li> <li>• more work may be completed by the employee in the same time</li> <li>• opportunity to increase earnings for employee.</li> </ul> <p>Against the decision:</p> <ul style="list-style-type: none"> <li>• difficulty of measuring this type of work</li> <li>• difficulty in setting the piecework rate</li> <li>• quality of work may diminish.</li> </ul> <p><math>\checkmark\checkmark</math> per point. MAX two points in favour and two points against.</p>	(8)

(Total 52 marks)

Question Number	Answer	Mark																																																												
2(a)	<p><u>Sayeda trading and profit and loss account for the year ending 30 April 2009</u></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: right;">£</th> <th style="width: 20%; text-align: right;">£</th> <th style="width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>Sales - credit</td> <td></td> <td style="text-align: right;">205 000</td> <td></td> </tr> <tr> <td>cash</td> <td></td> <td style="text-align: right;"><u>19 000</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">224 000</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Opening stock</td> <td style="text-align: right;">21 000</td> <td></td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;"><u>195 000</u></td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">216 000</td> <td></td> <td></td> </tr> <tr> <td>Closing stock</td> <td style="text-align: right;"><u>56 000</u></td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Cost of sales</td> <td></td> <td style="text-align: right;"><u>160 000</u></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right;">64 000</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Expenses</td> <td style="text-align: right;">37 000</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;"><u>15 000</u></td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>52 000</u></td> <td></td> </tr> <tr> <td>Net profit</td> <td></td> <td style="text-align: right;"><u>12 000</u></td> <td style="text-align: right;">✓</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>64 000</u></td> <td></td> </tr> </tbody> </table>		£	£		Sales - credit		205 000		cash		<u>19 000</u>				224 000	✓	Opening stock	21 000			Purchases	<u>195 000</u>				216 000			Closing stock	<u>56 000</u>		✓	Cost of sales		<u>160 000</u>	✓	Gross profit		64 000	✓	Expenses	37 000		✓	Depreciation	<u>15 000</u>		✓			<u>52 000</u>		Net profit		<u>12 000</u>	✓			<u>64 000</u>		<b>(7)</b>
	£	£																																																												
Sales - credit		205 000																																																												
cash		<u>19 000</u>																																																												
		224 000	✓																																																											
Opening stock	21 000																																																													
Purchases	<u>195 000</u>																																																													
	216 000																																																													
Closing stock	<u>56 000</u>		✓																																																											
Cost of sales		<u>160 000</u>	✓																																																											
Gross profit		64 000	✓																																																											
Expenses	37 000		✓																																																											
Depreciation	<u>15 000</u>		✓																																																											
		<u>52 000</u>																																																												
Net profit		<u>12 000</u>	✓																																																											
		<u>64 000</u>																																																												

Question Number	Answer	Mark
2(b)	<p>Mark up <math>\frac{64\,000}{160\,000} \times 100 = 40\%</math> ✓✓✓</p> <p>Stock turnover <math>\frac{160\,000}{(21\,000 + 56\,000)/2} = 4.16</math> times ✓✓✓</p> <p>ROCE <math>\frac{12\,000 \times 100}{15\,000 + 40\,000} = 21.8\%</math> ✓✓✓ OR <math>\frac{12\,000 + 4\,000 \times 100}{15\,000 + 40\,000} = 29.18</math> ✓✓✓</p> <p>Debtors collection period (days) <math>\frac{14\,000 \times 365}{205\,000} = 25</math> days ✓✓✓</p> <p>Creditors payment period (days) <math>\frac{35\,000 \times 365}{195\,000} = 65.5</math> days ✓✓✓</p> <p>Note: all reasonable rounding accepted.</p>	<b>(15)</b>



Question Number	Answer	Mark
2(c)(i)	<p>The term profitability refers to the ability to generate sufficient excess of income over expenditure <i>✓✓</i> compared to a common ‘yardstick’ such as capital employed to generate that profit or sales. <i>✓✓</i></p> <p>Note: if a ratio such as GP to sales or ROCE is used to explain profitability <i>✓✓</i> for ‘yardstick’.</p>	(4)

Question Number	Answer	Mark
2(c)(ii)	<p>The mark up is well above the sector average which is good and means that the business is profitable. <i>✓✓OF</i></p> <p>The return on capital employed is above the sector average, which is good and means that the return on the owners’ investment is greater than the average in the sector. <i>✓✓OF</i></p> <p>The debtors’ collection period is lower than the sector meaning that the sector collects debts more quickly. The business should pay attention to this to improve liquidity. <i>✓✓OF</i></p>	(6)

Question Number	Answer	Mark
2(d)	<p>Valid answers may include:</p> <p>In favour of the decision:</p> <ul style="list-style-type: none"> <li>• if prices are reduced by 20%, sales may increase significantly</li> <li>• cheaper goods may give a greater mark up</li> <li>• it could lead to expansion of business and of spreading fixed costs further.</li> </ul> <p>Against the decision:</p> <ul style="list-style-type: none"> <li>• poorer quality goods may lose the reputation of the business</li> <li>• reduced prices may lower the mark up</li> <li>• the business may be selling more goods for less profit.</li> </ul> <p><i>✓✓</i> per point. MAX two points in favour and two points against.</p>	(8)

Question Number	Answer	Mark
2(e)	<p>1. Money measurement. <i>✓✓</i>            People are not considered assets which are recorded in the accounts. People can also leave with limited notice and the skill is lost without monetary compensation. <i>✓</i></p> <p>2. Historic cost. <i>✓✓</i>            Market prices may fluctuate but no profit on premises may be assumed until the profit is realised through a sale.</p> <p>3. Accruals or matching. <i>✓✓</i>            Adjust has to be made between the amount actually spent and that which is used up, or incurred in the period, to enable matching of the income for the period with the expenditure to generate that income. <i>✓</i></p> <p>4. Consistency. <i>✓✓</i>            When a depreciation policy has been selected it should be used consistently to enable comparison of periods to be undertaken. A change of policy would distort profits. <i>✓</i></p>	(12)

(Total 52 marks)

Question Number	Answer	Mark
3(a)(i)	<p>Valid answers may include:</p> <ul style="list-style-type: none"> <li>• bad debts relate to the current accounting period</li> <li>• bad debts can be measured with certainty because they relate to past events</li> <li>• PDD relate to existing debtors, but they are an estimation of the percentage of debts that will become 'bad', probably in the next accounting period</li> <li>• the provision is only an estimation based upon empirical information and cannot be ascertained with certainty.</li> </ul> <p>✓✓ for one point x 3.  <b>MAXIMUM</b> two points relating to bad debts and two points relating to provisions for doubtful debts.</p>	(6)

Question Number	Answer	Mark
3(a)(ii)	Conservatism or prudence. ✓✓	(7)

Question Number	Answer	Mark																																																																	
3(b)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2"></th> <th colspan="2" style="text-align: center;">Journal</th> <th></th> </tr> <tr> <th colspan="2"></th> <th style="text-align: center;">Dr</th> <th style="text-align: center;">Cr</th> <th></th> </tr> <tr> <th colspan="2"></th> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> <th></th> </tr> </thead> <tbody> <tr> <td>Fixed assets</td> <td style="text-align: right;">2 000</td> <td></td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>General expenses</td> <td></td> <td></td> <td style="text-align: right;">2 000</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Bank/Cash</td> <td style="text-align: right;">300</td> <td></td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Bad debts</td> <td style="text-align: right;">700</td> <td></td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>A.Malan</td> <td></td> <td></td> <td style="text-align: right;">1 000</td> <td style="text-align: right;">✓</td> </tr> <tr> <td><b>OR</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Bad debts</td> <td style="text-align: right;">700</td> <td></td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>A.Malan</td> <td></td> <td></td> <td style="text-align: right;">700</td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td>Wages and salaries</td> <td style="text-align: right;">243</td> <td></td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Suspense</td> <td></td> <td></td> <td style="text-align: right;">243</td> <td style="text-align: right;">✓</td> </tr> </tbody> </table>			Journal					Dr	Cr				£	£		Fixed assets	2 000			✓	General expenses			2 000	✓	Bank/Cash	300			✓	Bad debts	700			✓	A.Malan			1 000	✓	<b>OR</b>					Bad debts	700			✓	A.Malan			700	✓✓	Wages and salaries	243			✓	Suspense			243	✓	(7)
		Journal																																																																	
		Dr	Cr																																																																
		£	£																																																																
Fixed assets	2 000			✓																																																															
General expenses			2 000	✓																																																															
Bank/Cash	300			✓																																																															
Bad debts	700			✓																																																															
A.Malan			1 000	✓																																																															
<b>OR</b>																																																																			
Bad debts	700			✓																																																															
A.Malan			700	✓✓																																																															
Wages and salaries	243			✓																																																															
Suspense			243	✓																																																															

Question Number	Answer	Mark																																			
3(c)	<p>Provision for doubtful debts account</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: right;">£</td> <td style="width: 50%; text-align: left;">£</td> <td></td> </tr> <tr> <td></td> <td>Balance b/d</td> <td style="text-align: right;">565 ✓</td> </tr> <tr> <td>Balance c/d</td> <td><u>580</u> ✓</td> <td>Profit and loss <u>15</u> ✓</td> </tr> <tr> <td></td> <td><u>580</u></td> <td><u>580</u></td> </tr> <tr> <td></td> <td>Balance b/d</td> <td style="text-align: right;">580 ✓/OF</td> </tr> </table> <p>Note: OF if balance b/d on credit side.</p> <p>Electricity account</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%; text-align: right;">£</td> <td style="width: 33%;"></td> <td style="width: 33%; text-align: left;">£</td> <td></td> </tr> <tr> <td>Balance b/d</td> <td style="text-align: right;">340 ✓</td> <td>Profit and loss</td> <td style="text-align: right;">2 605 ✓</td> </tr> <tr> <td>Bank/cash</td> <td style="text-align: right;"><u>3 000</u></td> <td>Balance c/d</td> <td style="text-align: right;"><u>735</u> ✓</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>3 340</u></td> <td></td> <td style="text-align: right;"><u>3 340</u></td> </tr> <tr> <td>Balance b/d</td> <td style="text-align: right;">735 ✓/OF</td> <td></td> <td></td> </tr> </table> <p>Note: OF if balance b/d on debit side.</p>	£	£			Balance b/d	565 ✓	Balance c/d	<u>580</u> ✓	Profit and loss <u>15</u> ✓		<u>580</u>	<u>580</u>		Balance b/d	580 ✓/OF	£		£		Balance b/d	340 ✓	Profit and loss	2 605 ✓	Bank/cash	<u>3 000</u>	Balance c/d	<u>735</u> ✓		<u>3 340</u>		<u>3 340</u>	Balance b/d	735 ✓/OF			<b>(9)</b>
£	£																																				
	Balance b/d	565 ✓																																			
Balance c/d	<u>580</u> ✓	Profit and loss <u>15</u> ✓																																			
	<u>580</u>	<u>580</u>																																			
	Balance b/d	580 ✓/OF																																			
£		£																																			
Balance b/d	340 ✓	Profit and loss	2 605 ✓																																		
Bank/cash	<u>3 000</u>	Balance c/d	<u>735</u> ✓																																		
	<u>3 340</u>		<u>3 340</u>																																		
Balance b/d	735 ✓/OF																																				

Question Number	Answer	Mark																																																																												
3(d)	<p>Trading and profit and loss account for the year ended 30 April 2009.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="width: 25%; text-align: right;">£</td> <td style="width: 25%; text-align: right;">£</td> <td></td> </tr> <tr> <td>Sales</td> <td></td> <td style="text-align: right;">132 000</td> <td></td> </tr> <tr> <td>✓</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Opening stock</td> <td style="text-align: right;">5 600</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;"><u>66 600</u></td> <td></td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td></td> <td style="text-align: right;">72 200</td> <td></td> <td></td> </tr> <tr> <td>Closing stock</td> <td style="text-align: right;"><u>5 700</u></td> <td></td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td>Cost of sales</td> <td></td> <td style="text-align: right;"><u>66 500</u></td> <td></td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right;">65 500</td> <td></td> </tr> <tr> <td>Less</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Rent (9 100-2 400)</td> <td style="text-align: right;">6 700</td> <td></td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td>Electricity (3 000+340-735)</td> <td style="text-align: right;">2 605</td> <td></td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td>General expenses (9 450-2 000)</td> <td style="text-align: right;">7 450</td> <td></td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td>Bad debts</td> <td style="text-align: right;">700</td> <td></td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td>Wages and salaries (28 100+243)</td> <td style="text-align: right;">28 343</td> <td></td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">7 500</td> <td></td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td>Increase in PDD</td> <td style="text-align: right;"><u>15</u></td> <td></td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>53 313</u></td> <td></td> </tr> <tr> <td>Net profit</td> <td></td> <td style="text-align: right;"><u>12 187</u></td> <td style="text-align: right;"><b>(20)</b></td> </tr> </table>		£	£		Sales		132 000		✓				Opening stock	5 600		✓	Purchases	<u>66 600</u>		✓✓		72 200			Closing stock	<u>5 700</u>		✓✓	Cost of sales		<u>66 500</u>		Gross profit		65 500		Less				Rent (9 100-2 400)	6 700		✓✓	Electricity (3 000+340-735)	2 605		✓✓	General expenses (9 450-2 000)	7 450		✓✓	Bad debts	700		✓✓	Wages and salaries (28 100+243)	28 343		✓✓	Depreciation	7 500		✓✓	Increase in PDD	<u>15</u>		✓✓			<u>53 313</u>		Net profit		<u>12 187</u>	<b>(20)</b>	
	£	£																																																																												
Sales		132 000																																																																												
✓																																																																														
Opening stock	5 600		✓																																																																											
Purchases	<u>66 600</u>		✓✓																																																																											
	72 200																																																																													
Closing stock	<u>5 700</u>		✓✓																																																																											
Cost of sales		<u>66 500</u>																																																																												
Gross profit		65 500																																																																												
Less																																																																														
Rent (9 100-2 400)	6 700		✓✓																																																																											
Electricity (3 000+340-735)	2 605		✓✓																																																																											
General expenses (9 450-2 000)	7 450		✓✓																																																																											
Bad debts	700		✓✓																																																																											
Wages and salaries (28 100+243)	28 343		✓✓																																																																											
Depreciation	7 500		✓✓																																																																											
Increase in PDD	<u>15</u>		✓✓																																																																											
		<u>53 313</u>																																																																												
Net profit		<u>12 187</u>	<b>(20)</b>																																																																											

Question Number	Answer	Mark
3(e)	<p>Valid answers may include:</p> <p><b>In favour of the decision:</b></p> <ul style="list-style-type: none"> <li>• perpetual inventory will enable the issuing of stock to be more closely related to prices paid</li> <li>• accurate and up to date valuation of stock is available at all times</li> <li>• LIFO will issue stock at close to the replacement cost in inflationary times.</li> </ul> <p><b>Against the decision:</b></p> <ul style="list-style-type: none"> <li>• perpetual inventory is more complex to operate than periodic inventory</li> <li>• LIFO provides a lower closing stock value and therefore lowers gross profit in the final accounts</li> <li>• LIFO is not accepted by SSAP or the Revenue</li> <li>• breaches consistency concept</li> <li>• time consuming using perpetual basis.</li> </ul> <p><i>√√</i> per point. MAX two points in favour and two points against.  Note: Comments on difficult to calculate, prudent, physical deterioration reduced, no marks.</p>	(8)

(Total 52 Marks)

### Section B

Question Number	Answer	Mark																																																
4(a)	<p><b>Profit and Loss Appropriation Account for the year ended 31 December 2008</b></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="text-align: right; width: 20%;">£</th> <th style="text-align: right; width: 20%;">£</th> </tr> </thead> <tbody> <tr> <td>Net profit</td> <td></td> <td style="text-align: right;">38 000</td> </tr> <tr> <td><u>Interest on capital</u></td> <td></td> <td></td> </tr> <tr> <td>Eleni</td> <td style="text-align: right;">1 500</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Gianna</td> <td style="text-align: right;"><u>1 000</u></td> <td style="text-align: right;">✓</td> </tr> <tr> <td></td> <td style="text-align: right;">2 500</td> <td></td> </tr> <tr> <td><u>Salaries</u></td> <td></td> <td></td> </tr> <tr> <td>Eleni</td> <td style="text-align: right;">7 500</td> <td></td> </tr> <tr> <td>Gianna</td> <td style="text-align: right;"><u>10 000</u></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">17 500</td> <td style="text-align: right;">✓</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>(20 000)</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">18 000</td> </tr> <tr> <td><u>Share of profit</u></td> <td></td> <td></td> </tr> <tr> <td>Eleni</td> <td style="text-align: right;">12 000</td> <td style="text-align: right;">✓OF</td> </tr> <tr> <td>Gianna</td> <td style="text-align: right;"><u>6 000</u></td> <td style="text-align: right;">✓OF</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>18 000</u></td> </tr> </tbody> </table> <p>OF If no alien items such as drawings included.</p>		£	£	Net profit		38 000	<u>Interest on capital</u>			Eleni	1 500	✓	Gianna	<u>1 000</u>	✓		2 500		<u>Salaries</u>			Eleni	7 500		Gianna	<u>10 000</u>			17 500	✓			<u>(20 000)</u>			18 000	<u>Share of profit</u>			Eleni	12 000	✓OF	Gianna	<u>6 000</u>	✓OF			<u>18 000</u>	<b>(5)</b>
	£	£																																																
Net profit		38 000																																																
<u>Interest on capital</u>																																																		
Eleni	1 500	✓																																																
Gianna	<u>1 000</u>	✓																																																
	2 500																																																	
<u>Salaries</u>																																																		
Eleni	7 500																																																	
Gianna	<u>10 000</u>																																																	
	17 500	✓																																																
		<u>(20 000)</u>																																																
		18 000																																																
<u>Share of profit</u>																																																		
Eleni	12 000	✓OF																																																
Gianna	<u>6 000</u>	✓OF																																																
		<u>18 000</u>																																																

Question Number	Answer	Mark																																																
4(b)	<p style="text-align: center;"><b>Current accounts</b></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;"></th> <th style="text-align: center; width: 15%;">Eleni</th> <th style="text-align: center; width: 15%;">Gianna</th> <th style="width: 15%;"></th> <th style="text-align: center; width: 15%;">Eleni</th> <th style="text-align: center; width: 15%;">Gianna</th> </tr> <tr> <td></td> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> <td></td> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> </tr> </thead> <tbody> <tr> <td>Balance b/d</td> <td style="text-align: right;">3 000</td> <td></td> <td>Balance b/d</td> <td></td> <td style="text-align: right;">500 ✓</td> </tr> <tr> <td>Drawings</td> <td style="text-align: right;">17 500</td> <td style="text-align: right;">16 600 ✓</td> <td>Interest on capital</td> <td style="text-align: right;">1 500</td> <td style="text-align: right;">1 000 ✓OF</td> </tr> <tr> <td></td> <td></td> <td></td> <td>Salaries</td> <td style="text-align: right;">7 500</td> <td style="text-align: right;">10 000 ✓</td> </tr> <tr> <td>Balance c/d</td> <td style="text-align: right;"><u>500</u></td> <td style="text-align: right;"><u>900</u> ✓OF</td> <td>Share of profit</td> <td style="text-align: right;"><u>12 000</u></td> <td style="text-align: right;"><u>6 000</u> ✓OF</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>21 000</u></td> <td style="text-align: right;"><u>17 500</u></td> <td></td> <td style="text-align: right;"><u>21 000</u></td> <td style="text-align: right;"><u>17 500</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td>Balance b/d</td> <td style="text-align: right;">500</td> <td style="text-align: right;">900</td> </tr> </tbody> </table>		Eleni	Gianna		Eleni	Gianna		£	£		£	£	Balance b/d	3 000		Balance b/d		500 ✓	Drawings	17 500	16 600 ✓	Interest on capital	1 500	1 000 ✓OF				Salaries	7 500	10 000 ✓	Balance c/d	<u>500</u>	<u>900</u> ✓OF	Share of profit	<u>12 000</u>	<u>6 000</u> ✓OF		<u>21 000</u>	<u>17 500</u>		<u>21 000</u>	<u>17 500</u>				Balance b/d	500	900	<b>(6)</b>
	Eleni	Gianna		Eleni	Gianna																																													
	£	£		£	£																																													
Balance b/d	3 000		Balance b/d		500 ✓																																													
Drawings	17 500	16 600 ✓	Interest on capital	1 500	1 000 ✓OF																																													
			Salaries	7 500	10 000 ✓																																													
Balance c/d	<u>500</u>	<u>900</u> ✓OF	Share of profit	<u>12 000</u>	<u>6 000</u> ✓OF																																													
	<u>21 000</u>	<u>17 500</u>		<u>21 000</u>	<u>17 500</u>																																													
			Balance b/d	500	900																																													

Question Number	Answer	Mark																																
4(c)	<p style="text-align: center;"><b>Journal</b></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="text-align: center; width: 15%;">Dr</th> <th style="text-align: center; width: 15%;">Cr</th> <th style="width: 30%;"></th> </tr> <tr> <td></td> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> <td></td> </tr> </thead> <tbody> <tr> <td>Delivery vehicle</td> <td style="text-align: right;">8 000</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Stock</td> <td style="text-align: right;">7 500</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Bank</td> <td style="text-align: right;">9 500</td> <td></td> <td></td> </tr> <tr> <td>Capital</td> <td style="text-align: right;">Gianna</td> <td style="text-align: right;">4 000</td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td>Capital</td> <td style="text-align: right;">Eleni</td> <td style="text-align: right;">16 000</td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td>Capital</td> <td style="text-align: right;">Michalis</td> <td style="text-align: right;">13 000</td> <td style="text-align: right;">✓✓</td> </tr> </tbody> </table> <p>Note: Goodwill may have several entries. Marks awarded for net figure.</p>		Dr	Cr			£	£		Delivery vehicle	8 000		✓	Stock	7 500		✓	Bank	9 500			Capital	Gianna	4 000	✓✓	Capital	Eleni	16 000	✓✓	Capital	Michalis	13 000	✓✓	<b>(8)</b>
	Dr	Cr																																
	£	£																																
Delivery vehicle	8 000		✓																															
Stock	7 500		✓																															
Bank	9 500																																	
Capital	Gianna	4 000	✓✓																															
Capital	Eleni	16 000	✓✓																															
Capital	Michalis	13 000	✓✓																															

Question Number	Answer	Mark																																																																																
4(d)	<p style="text-align: center;">Balance sheet as at 31 December 2008</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 15%; text-align: right;">£</th> <th style="width: 15%; text-align: right;">£</th> <th style="width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>Fixed assets</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Lease</td> <td></td> <td style="text-align: right;">40 000</td> <td></td> </tr> <tr> <td>Delivery vehicle</td> <td></td> <td style="text-align: right;">8 000</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Fixtures</td> <td></td> <td style="text-align: right;"><u>14 000</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">62 000</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Current assets</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Stock</td> <td style="text-align: right;">36 000</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Debtors less PDD</td> <td style="text-align: right;">32 300</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Bank</td> <td style="text-align: right;"><u>4 500</u></td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td></td> <td style="text-align: right;">72 800</td> <td></td> <td></td> </tr> <tr> <td>Current liabilities</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Creditors</td> <td style="text-align: right;">58 400</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Net current assets/Working capital</td> <td></td> <td style="text-align: right;"><u>14 400</u></td> <td style="text-align: right;">✓</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>76 400</u></td> <td></td> </tr> <tr> <td>Financed by:</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: center;">Eleni    Gianna    Michalis</td> <td></td> <td></td> </tr> <tr> <td>Capital a/c</td> <td style="text-align: right;">46 000    16 000    13 000</td> <td style="text-align: right;">75 000</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Current a/c</td> <td style="text-align: right;">500CR    900CR</td> <td style="text-align: right;"><u>1 400</u></td> <td style="text-align: right;">✓OF</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>76 400</u></td> <td></td> </tr> </tbody> </table> <p>Note: To gain capital mark all three partners capitals must be correct.</p>		£	£		Fixed assets				Lease		40 000		Delivery vehicle		8 000	✓	Fixtures		<u>14 000</u>				62 000	✓	Current assets				Stock	36 000		✓	Debtors less PDD	32 300		✓	Bank	<u>4 500</u>		✓		72 800			Current liabilities				Creditors	58 400		✓	Net current assets/Working capital		<u>14 400</u>	✓			<u>76 400</u>		Financed by:					Eleni    Gianna    Michalis			Capital a/c	46 000    16 000    13 000	75 000	✓	Current a/c	500CR    900CR	<u>1 400</u>	✓OF			<u>76 400</u>		(9)
	£	£																																																																																
Fixed assets																																																																																		
Lease		40 000																																																																																
Delivery vehicle		8 000	✓																																																																															
Fixtures		<u>14 000</u>																																																																																
		62 000	✓																																																																															
Current assets																																																																																		
Stock	36 000		✓																																																																															
Debtors less PDD	32 300		✓																																																																															
Bank	<u>4 500</u>		✓																																																																															
	72 800																																																																																	
Current liabilities																																																																																		
Creditors	58 400		✓																																																																															
Net current assets/Working capital		<u>14 400</u>	✓																																																																															
		<u>76 400</u>																																																																																
Financed by:																																																																																		
	Eleni    Gianna    Michalis																																																																																	
Capital a/c	46 000    16 000    13 000	75 000	✓																																																																															
Current a/c	500CR    900CR	<u>1 400</u>	✓OF																																																																															
		<u>76 400</u>																																																																																

Question Number	Answer	Mark
4(e)	<p>Valid answers may include:</p> <p><b>Non-financial factors:</b></p> <ul style="list-style-type: none"> <li>• job security</li> <li>• has a stake in the business</li> <li>• improves the prestige/standing of Michalis</li> <li>• 'tied' to this business, cannot easily leave for other employment.</li> </ul> <p><b>Financial factors:</b></p> <ul style="list-style-type: none"> <li>• investment required from personal assets</li> <li>• unlimited liability for losses</li> <li>• loss of security of regular salary</li> <li>• will generate £10 000 income from the partnership, but £14 000 as office manager</li> <li>• Michalis will have a stake in the business and its profits</li> <li>• extra work put into the business would result in extra income.</li> </ul> <p>✓✓ for a financial factor plus ✓✓ for a non financial factor.</p> <p>Note: Points must be from the perspective of Michalis, <u>NOT</u> the business.</p>	(4)

(Total 32 marks)

Question Number	Answer	Mark
5(a)	<p>Fixed cost - A cost that is fixed, in the short term, for a range of production output or sales and does not vary with the units produced or sold. ✓✓  Example- Rent ✓ also accept General Expenses and Marketing.</p> <p>Variable cost - A cost which rises directly in proportion to the production output or sales of a unit. ✓✓  Example - Raw Material ✓ also accept Hanif's labour.</p>	(6)

Question Number	Answer	Mark																																																																												
5(b)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="text-align: right; width: 10%;">£</td> <td style="text-align: right; width: 10%;">£</td> <td style="width: 30%;"></td> </tr> <tr> <td>• Sales- Garden centre 80 x 70</td> <td></td> <td style="text-align: right;">5 600</td> <td>✓</td> </tr> <tr> <td>General sales 80 x 100</td> <td></td> <td style="text-align: right;">8 000</td> <td>✓</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">13 600</td> <td></td> </tr> <tr> <td>Less</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Raw materials 4 500 - 900</td> <td style="text-align: right;">3 600</td> <td></td> <td>✓✓</td> </tr> <tr> <td>Rent</td> <td style="text-align: right;">600</td> <td></td> <td>✓✓</td> </tr> <tr> <td>General expenses 1 600 - 75</td> <td style="text-align: right;">1 525</td> <td></td> <td>✓✓</td> </tr> <tr> <td>Marketing expenses 2 000 + 375</td> <td style="text-align: right;">2 375</td> <td></td> <td>✓✓</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right; border-bottom: 1px solid black;">300</td> <td></td> <td>✓✓</td> </tr> <tr> <td>Profit</td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">8 400</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-bottom: 3px double black;">5 200</td> <td></td> </tr> </table> <p style="text-align: right; margin-top: 10px;">(12)</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td>• Cost per picnic bench:</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">£</td> <td></td> <td></td> </tr> <tr> <td>Costs</td> <td style="text-align: right;">8 400</td> <td></td> <td>✓OF from (b)</td> </tr> <tr> <td>Divided by production</td> <td style="text-align: right; border-bottom: 1px solid black;">160</td> <td></td> <td>✓</td> </tr> <tr> <td>Cost per picnic bench</td> <td style="text-align: right;">52.50</td> <td></td> <td></td> </tr> <tr> <td>Hanif labour 7.5 hours x £5</td> <td style="text-align: right; border-bottom: 1px solid black;">37.50</td> <td></td> <td>✓</td> </tr> <tr> <td>Total cost</td> <td style="text-align: right;">90.00</td> <td></td> <td>✓OF</td> </tr> </table> <p style="text-align: right; margin-top: 10px;">(4)</p>		£	£		• Sales- Garden centre 80 x 70		5 600	✓	General sales 80 x 100		8 000	✓			13 600		Less				Raw materials 4 500 - 900	3 600		✓✓	Rent	600		✓✓	General expenses 1 600 - 75	1 525		✓✓	Marketing expenses 2 000 + 375	2 375		✓✓	Depreciation	300		✓✓	Profit		8 400				5 200		• Cost per picnic bench:					£			Costs	8 400		✓OF from (b)	Divided by production	160		✓	Cost per picnic bench	52.50			Hanif labour 7.5 hours x £5	37.50		✓	Total cost	90.00		✓OF	
	£	£																																																																												
• Sales- Garden centre 80 x 70		5 600	✓																																																																											
General sales 80 x 100		8 000	✓																																																																											
		13 600																																																																												
Less																																																																														
Raw materials 4 500 - 900	3 600		✓✓																																																																											
Rent	600		✓✓																																																																											
General expenses 1 600 - 75	1 525		✓✓																																																																											
Marketing expenses 2 000 + 375	2 375		✓✓																																																																											
Depreciation	300		✓✓																																																																											
Profit		8 400																																																																												
		5 200																																																																												
• Cost per picnic bench:																																																																														
	£																																																																													
Costs	8 400		✓OF from (b)																																																																											
Divided by production	160		✓																																																																											
Cost per picnic bench	52.50																																																																													
Hanif labour 7.5 hours x £5	37.50		✓																																																																											
Total cost	90.00		✓OF																																																																											



Question Number	Answer	Mark
5(c)	Liquid (acid test) ratio $\frac{\overset{✓}{700} + \overset{✓}{200} + \overset{✓}{75} + \overset{✓}{375}}{6\ 000\ ✓} = \frac{1\ 350}{6\ 000} = 0.225:1\ ✓$	(6)

Question Number	Answer	Mark
5(d)	<p>Valid answers may include:</p> <p><b>In favour:</b></p> <ul style="list-style-type: none"> <li>• a profit is being made</li> <li>• can make own decisions</li> <li>• benefits from own entrepreneurship.</li> </ul> <p><b>Against:</b></p> <ul style="list-style-type: none"> <li>• drawings are greater than the profit made</li> <li>• costs of production high when selling some units at £70</li> <li>• low liquidity</li> <li>• loss of security of a guaranteed income</li> <li>• considerable administrative burden of keeping accounts, making tax returns etc.</li> </ul> <p>✓✓ for one advantage x ✓✓ for one point against.</p>	(4)

(Total 32 marks)

Question Number	Answer	Mark
6(a)	<p>Allocation - Costs only relate to a specific department, product or activity and can therefore be allocated to that cost centre. //</p> <p>Apportionment - Costs relate to the whole business or more than one department, product or activity and therefore require apportionment on the most reasonable basis available. //</p>	(4)

Question Number	Answer	Mark																																																				
6(b)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Machining</th> <th style="text-align: left;">Assembly</th> <th style="text-align: left;">Administration</th> <th></th> </tr> <tr> <th></th> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> </tr> </thead> <tbody> <tr> <td>Allocated</td> <td style="text-align: right;">14 400</td> <td style="text-align: right;">15 300</td> <td style="text-align: right;">13 300 //</td> </tr> <tr> <td>Supervision</td> <td style="text-align: right;">12 000</td> <td style="text-align: right;">24 000</td> <td style="text-align: right;">9 000 //</td> </tr> <tr> <td>Electricity</td> <td style="text-align: right;">12 000</td> <td style="text-align: right;">4 000</td> <td style="text-align: right;">2 000 //</td> </tr> <tr> <td>Rent</td> <td style="text-align: right;">3 600</td> <td style="text-align: right;">4 200</td> <td style="text-align: right;">1 200 //</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">18 000</td> <td style="text-align: right;">4 500</td> <td style="text-align: right;">4 500 //</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">60 000</td> <td style="text-align: right; border-top: 1px solid black;">52 000</td> <td style="text-align: right; border-top: 1px solid black;">30 000</td> </tr> <tr> <td>Re-allocation</td> <td style="text-align: right;">12 000</td> <td style="text-align: right;">18 000</td> <td style="text-align: right;">//OF</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">72 000</td> <td style="text-align: right; border-top: 1px solid black;">70 000</td> <td></td> </tr> <tr> <td>Recovery rate:</td> <td style="text-align: right;"><u>72 000</u></td> <td style="text-align: right;"><u>70 000</u></td> <td style="text-align: right;">//OF</td> </tr> <tr> <td></td> <td style="text-align: right;">8 000</td> <td style="text-align: right;">14 000</td> <td style="text-align: right;">//</td> </tr> <tr> <td>Recovery rate</td> <td style="text-align: right;">£9 per hour</td> <td style="text-align: right;">£5 per hour</td> <td style="text-align: right;">//OF</td> </tr> </tbody> </table>	Machining	Assembly	Administration			£	£	£	Allocated	14 400	15 300	13 300 //	Supervision	12 000	24 000	9 000 //	Electricity	12 000	4 000	2 000 //	Rent	3 600	4 200	1 200 //	Depreciation	18 000	4 500	4 500 //		60 000	52 000	30 000	Re-allocation	12 000	18 000	//OF		72 000	70 000		Recovery rate:	<u>72 000</u>	<u>70 000</u>	//OF		8 000	14 000	//	Recovery rate	£9 per hour	£5 per hour	//OF	(18)
Machining	Assembly	Administration																																																				
	£	£	£																																																			
Allocated	14 400	15 300	13 300 //																																																			
Supervision	12 000	24 000	9 000 //																																																			
Electricity	12 000	4 000	2 000 //																																																			
Rent	3 600	4 200	1 200 //																																																			
Depreciation	18 000	4 500	4 500 //																																																			
	60 000	52 000	30 000																																																			
Re-allocation	12 000	18 000	//OF																																																			
	72 000	70 000																																																				
Recovery rate:	<u>72 000</u>	<u>70 000</u>	//OF																																																			
	8 000	14 000	//																																																			
Recovery rate	£9 per hour	£5 per hour	//OF																																																			

Question Number	Answer	Mark															
6(c)	<p>Under/over recovery:</p> <table style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td>Budgeted</td> <td style="text-align: right;">14 800 x £5</td> <td style="text-align: center;">=</td> <td style="text-align: right;">£74 000</td> <td style="text-align: right;">//OF</td> </tr> <tr> <td>Actual overhead</td> <td></td> <td></td> <td style="text-align: right;"><u>£77 500</u></td> <td style="text-align: right;">//</td> </tr> <tr> <td>Under recovery</td> <td></td> <td></td> <td style="text-align: right;">£3 500</td> <td style="text-align: right;">//OF</td> </tr> </tbody> </table>	Budgeted	14 800 x £5	=	£74 000	//OF	Actual overhead			<u>£77 500</u>	//	Under recovery			£3 500	//OF	(6)
Budgeted	14 800 x £5	=	£74 000	//OF													
Actual overhead			<u>£77 500</u>	//													
Under recovery			£3 500	//OF													

Question Number	Answer	Mark
6(d)	<p>Valid answers may include:</p> <p><b>In favour:</b></p> <ul style="list-style-type: none"> <li>• provides a basis for recovering overhead costs</li> <li>• reasonable pre-estimate of how costs are actually incurred.</li> </ul> <p><b>Against:</b></p> <ul style="list-style-type: none"> <li>• complicated calculation</li> <li>• only an estimate of the costs incurred by each department</li> <li>• reasonable basis not always available.</li> </ul> <p>// for one advantage x // for one point against.</p>	(4)

**(Total 32 marks)**

Question Number	Answer	Mark																								
7(a)	<p style="text-align: center;">Purchase ledger control account</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 10%; text-align: center;">£</td> <td style="width: 50%;"></td> <td style="width: 10%; text-align: center;">£</td> </tr> <tr> <td>Purchase returns</td> <td style="text-align: right;">1 500 //</td> <td>Balance b/d</td> <td style="text-align: right;">4 000 /</td> </tr> <tr> <td>Payments</td> <td style="text-align: right;">57 000 //</td> <td>Credit purchases</td> <td style="text-align: right;">64 000 //</td> </tr> <tr> <td>Discount received</td> <td style="text-align: right;">2 000 //</td> <td></td> <td></td> </tr> <tr> <td>Balance c/d</td> <td style="text-align: right;"><u>7 500 /</u></td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>68 000</u></td> <td></td> <td style="text-align: right;"><u>68 000</u></td> </tr> </table>		£		£	Purchase returns	1 500 //	Balance b/d	4 000 /	Payments	57 000 //	Credit purchases	64 000 //	Discount received	2 000 //			Balance c/d	<u>7 500 /</u>				<u>68 000</u>		<u>68 000</u>	<b>(10)</b>
	£		£																							
Purchase returns	1 500 //	Balance b/d	4 000 /																							
Payments	57 000 //	Credit purchases	64 000 //																							
Discount received	2 000 //																									
Balance c/d	<u>7 500 /</u>																									
	<u>68 000</u>		<u>68 000</u>																							

Question Number	Answer	Mark
7(b)	<p>Valid points:</p> <ul style="list-style-type: none"> <li>• The purchases ledger control account balances.</li> <li>• Therefore it is reasonable to assume that no fraud has been taking place.</li> </ul> <p>// for identifying that the control account balances plus // for identifying that no fraud has been committed. MAX // if account in (a) does not balance.</p>	<b>(4)</b>

Question Number	Answer	Mark
7(c)	<p>Valid answers may include:</p> <p><b>In favour:</b></p> <ul style="list-style-type: none"> <li>• control accounts are an independent checking mechanism, checking arithmetical accuracy</li> <li>• control accounts allow for separation of duties and will be prepared by an independent person.</li> </ul> <p><b>Against:</b></p> <ul style="list-style-type: none"> <li>• the control account may not balance for a number of reasons only one of which is fraud</li> <li>• most commonly, a control account will not balance because of errors in double entry not because of fraud.</li> </ul> <p>// for one advantage and // for one point against.</p>	<b>(4)</b>

Question Number	Answer	Mark																																												
7(d)	<p style="text-align: center;">Trading account for the year ended 30 April 2009</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 40%;"></th> <th style="width: 20%; text-align: right;">£</th> <th style="width: 20%; text-align: right;">£</th> <th style="width: 20%; text-align: right;">£</th> </tr> </thead> <tbody> <tr> <td>Sales</td> <td></td> <td></td> <td style="text-align: right;">90 000 /</td> </tr> <tr> <td>Opening stock</td> <td></td> <td style="text-align: right;">26 500 /</td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">64 000 /</td> <td></td> <td></td> </tr> <tr> <td>Purchase returns</td> <td style="text-align: right;"><u>1 500 /</u></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>62 500</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">89 000</td> <td></td> </tr> <tr> <td>Closing stock</td> <td></td> <td style="text-align: right;"><u>11 000 /</u></td> <td></td> </tr> <tr> <td>Cost of sales</td> <td></td> <td></td> <td style="text-align: right;">78 000</td> </tr> <tr> <td>Gross profit</td> <td></td> <td></td> <td style="text-align: right;"><u>12 000 /</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>90 000</u></td> </tr> </tbody> </table>		£	£	£	Sales			90 000 /	Opening stock		26 500 /		Purchases	64 000 /			Purchase returns	<u>1 500 /</u>					<u>62 500</u>				89 000		Closing stock		<u>11 000 /</u>		Cost of sales			78 000	Gross profit			<u>12 000 /</u>				<u>90 000</u>	<b>(6)</b>
	£	£	£																																											
Sales			90 000 /																																											
Opening stock		26 500 /																																												
Purchases	64 000 /																																													
Purchase returns	<u>1 500 /</u>																																													
		<u>62 500</u>																																												
		89 000																																												
Closing stock		<u>11 000 /</u>																																												
Cost of sales			78 000																																											
Gross profit			<u>12 000 /</u>																																											
			<u>90 000</u>																																											

Question Number	Answer	Mark																
7(e)	<p>Calculation:</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 15%; text-align: right;">Closing stock £</th> <th style="width: 15%; text-align: right;">COGS £</th> <th style="width: 15%; text-align: right;">Gross profit £</th> </tr> </thead> <tbody> <tr> <td>Actual</td> <td style="text-align: right;">11 000</td> <td style="text-align: right;">78 000</td> <td style="text-align: right;">12 000</td> </tr> <tr> <td>With 25% mark up</td> <td style="text-align: right;"><u>17 000 //</u></td> <td style="text-align: right;">72 000 //</td> <td style="text-align: right;">18 000 //</td> </tr> <tr> <td>Stock destroyed</td> <td style="text-align: right;">6 000 // (JOF)</td> <td></td> <td></td> </tr> </tbody> </table>		Closing stock £	COGS £	Gross profit £	Actual	11 000	78 000	12 000	With 25% mark up	<u>17 000 //</u>	72 000 //	18 000 //	Stock destroyed	6 000 // (JOF)			<b>(8)</b>
	Closing stock £	COGS £	Gross profit £															
Actual	11 000	78 000	12 000															
With 25% mark up	<u>17 000 //</u>	72 000 //	18 000 //															
Stock destroyed	6 000 // (JOF)																	

**(Total 32 marks)**

Section A

Question Number	Answer	Mark																																																																																																																																																																																																																							
1(a)	<table border="1"> <tr> <td colspan="5"><b>Oceanic Fruit Trading plc</b></td> </tr> <tr> <td colspan="5"><b>Balance sheet as at 31 March 2009 ✓</b></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td><b>A: Called up share capital not paid</b></td> <td></td> <td></td> <td>1200</td> <td>✓</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td><b>B: Fixed assets</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td><i>I Intangible assets ✓</i></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Goodwill</td> <td>120000</td> <td></td> <td></td> <td>✓</td> </tr> <tr> <td>Licence</td> <td>150000</td> <td></td> <td></td> <td>✓</td> </tr> <tr> <td></td> <td></td> <td>270000</td> <td></td> <td></td> </tr> <tr> <td><i>II Tangible Assets ✓</i></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Buildings</td> <td>775000</td> <td></td> <td></td> <td>✓ ✓</td> </tr> <tr> <td>Machinery</td> <td>115000</td> <td></td> <td></td> <td>✓</td> </tr> <tr> <td>Ships and Vehicles</td> <td>890000</td> <td></td> <td></td> <td>✓</td> </tr> <tr> <td></td> <td></td> <td>1780000</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td>2050000</td> <td>✓ O/F</td> </tr> <tr> <td><b>C: Current Assets</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td><i>I Stocks</i></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Stocks of Consumables</td> <td>8400</td> <td></td> <td></td> <td>✓</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td><i>II Debtors</i></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Trade debtors</td> <td>6000</td> <td></td> <td></td> <td>✓</td> </tr> <tr> <td>Prepayments</td> <td>3300</td> <td></td> <td></td> <td>✓</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td><i>IV Cash at bank and in hand</i></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Cash at Bank</td> <td>24500</td> <td></td> <td></td> <td>✓</td> </tr> <tr> <td>Cash In Hand</td> <td>8600</td> <td></td> <td></td> <td>✓</td> </tr> <tr> <td></td> <td></td> <td>50800</td> <td></td> <td>✓ O/F</td> </tr> <tr> <td><b>D: Prepayments and Accrued Income</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td><b>E: Creditors: Amounts falling due within one year ✓</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Interest on Bank Loan</td> <td>800</td> <td></td> <td></td> <td>✓</td> </tr> <tr> <td>Debenture interest</td> <td>16000</td> <td></td> <td></td> <td>✓</td> </tr> <tr> <td>Bank Loan</td> <td>50000</td> <td></td> <td></td> <td>✓</td> </tr> <tr> <td>Rent Received</td> <td>1100</td> <td></td> <td></td> <td>✓</td> </tr> <tr> <td>Trade Creditors</td> <td>57000</td> <td></td> <td></td> <td>✓</td> </tr> <tr> <td></td> <td></td> <td>124900</td> <td></td> <td>✓ O/F</td> </tr> <tr> <td><b>F: Net current assets (liabilities) ✓</b></td> <td></td> <td></td> <td>-74100</td> <td>✓ O/F</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td><b>G: Total assets less current liabilities ✓</b></td> <td></td> <td></td> <td>1977100</td> <td>✓ O/F</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td><b>H: Creditors: amounts falling due after more than one year ✓</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Debentures</td> <td></td> <td></td> <td>200000</td> <td>✓</td> </tr> </table>	<b>Oceanic Fruit Trading plc</b>					<b>Balance sheet as at 31 March 2009 ✓</b>										<b>A: Called up share capital not paid</b>			1200	✓						<b>B: Fixed assets</b>					<i>I Intangible assets ✓</i>					Goodwill	120000			✓	Licence	150000			✓			270000			<i>II Tangible Assets ✓</i>					Buildings	775000			✓ ✓	Machinery	115000			✓	Ships and Vehicles	890000			✓			1780000						2050000	✓ O/F	<b>C: Current Assets</b>					<i>I Stocks</i>					Stocks of Consumables	8400			✓						<i>II Debtors</i>					Trade debtors	6000			✓	Prepayments	3300			✓						<i>IV Cash at bank and in hand</i>					Cash at Bank	24500			✓	Cash In Hand	8600			✓			50800		✓ O/F	<b>D: Prepayments and Accrued Income</b>										<b>E: Creditors: Amounts falling due within one year ✓</b>					Interest on Bank Loan	800			✓	Debenture interest	16000			✓	Bank Loan	50000			✓	Rent Received	1100			✓	Trade Creditors	57000			✓			124900		✓ O/F	<b>F: Net current assets (liabilities) ✓</b>			-74100	✓ O/F						<b>G: Total assets less current liabilities ✓</b>			1977100	✓ O/F						<b>H: Creditors: amounts falling due after more than one year ✓</b>					Debentures			200000	✓	
<b>Oceanic Fruit Trading plc</b>																																																																																																																																																																																																																									
<b>Balance sheet as at 31 March 2009 ✓</b>																																																																																																																																																																																																																									
<b>A: Called up share capital not paid</b>			1200	✓																																																																																																																																																																																																																					
<b>B: Fixed assets</b>																																																																																																																																																																																																																									
<i>I Intangible assets ✓</i>																																																																																																																																																																																																																									
Goodwill	120000			✓																																																																																																																																																																																																																					
Licence	150000			✓																																																																																																																																																																																																																					
		270000																																																																																																																																																																																																																							
<i>II Tangible Assets ✓</i>																																																																																																																																																																																																																									
Buildings	775000			✓ ✓																																																																																																																																																																																																																					
Machinery	115000			✓																																																																																																																																																																																																																					
Ships and Vehicles	890000			✓																																																																																																																																																																																																																					
		1780000																																																																																																																																																																																																																							
			2050000	✓ O/F																																																																																																																																																																																																																					
<b>C: Current Assets</b>																																																																																																																																																																																																																									
<i>I Stocks</i>																																																																																																																																																																																																																									
Stocks of Consumables	8400			✓																																																																																																																																																																																																																					
<i>II Debtors</i>																																																																																																																																																																																																																									
Trade debtors	6000			✓																																																																																																																																																																																																																					
Prepayments	3300			✓																																																																																																																																																																																																																					
<i>IV Cash at bank and in hand</i>																																																																																																																																																																																																																									
Cash at Bank	24500			✓																																																																																																																																																																																																																					
Cash In Hand	8600			✓																																																																																																																																																																																																																					
		50800		✓ O/F																																																																																																																																																																																																																					
<b>D: Prepayments and Accrued Income</b>																																																																																																																																																																																																																									
<b>E: Creditors: Amounts falling due within one year ✓</b>																																																																																																																																																																																																																									
Interest on Bank Loan	800			✓																																																																																																																																																																																																																					
Debenture interest	16000			✓																																																																																																																																																																																																																					
Bank Loan	50000			✓																																																																																																																																																																																																																					
Rent Received	1100			✓																																																																																																																																																																																																																					
Trade Creditors	57000			✓																																																																																																																																																																																																																					
		124900		✓ O/F																																																																																																																																																																																																																					
<b>F: Net current assets (liabilities) ✓</b>			-74100	✓ O/F																																																																																																																																																																																																																					
<b>G: Total assets less current liabilities ✓</b>			1977100	✓ O/F																																																																																																																																																																																																																					
<b>H: Creditors: amounts falling due after more than one year ✓</b>																																																																																																																																																																																																																									
Debentures			200000	✓																																																																																																																																																																																																																					

<b>I : Provisions for liabilities and charges</b>				
Taxation Provision			71000	✓
<b>J : Accruals and deferred income</b>				
			<b>1706100</b>	✓ O/F
<b>K :Capital and reserves ✓</b>				
<i>I Ordinary share capital called up</i>	598800			✓
<i>II Share premium account</i>	240000			✓
<i>III Revaluation reserve ✓</i>	50000			✓
<i>IV Other Reserves - Foreign Exchange Reserve</i>	87000			✓
<i>V Profit and loss account</i>	730300			✓
			<b>1706100</b>	✓ O/F
<b>9 x ✓</b>				<b>31 x ✓</b>
		<b>Total</b>	<b>40 x ✓</b> <b>=</b>	<b>40</b> <b>marks</b>

**Notes to Mark Scheme**

Called up share capital not paid 1200 may appear under C II Current assets (Debtors).  
 Prepayments 3300 may appear under D Prepayments and Accrued Income.  
 Taxation Provision 71000 may appear under E Creditors due within one year.  
 Headings should appear on the face of the balance sheet to get the tick.

**(40)**

Question Number	Answer	Mark
1(b)	<p>FOR Importance of Balance Sheet:</p> <ul style="list-style-type: none"> <li>• shows items of value firm possesses and may use for running firm over long term ✓ (fixed assets), ie shows financial strength of firm. ✓</li> <li>• shows liquidity position of firm ✓ by Net Current Assets (Current Assets - Current Liabilities) ✓</li> <li>• shows financial weaknesses of firm ✓ (long term liabilities - debt that must be serviced) ✓</li> <li>• shows a book value of the firm, ie Capital and Reserves ✓</li> <li>• Shareholders can see the book value of their investment ✓</li> <li>• some figures in the Profit &amp; Loss account may be estimates ✓ for example depreciation and stock values. ✓</li> </ul> <p>FOR importance of Profit &amp; Loss Account:</p> <ul style="list-style-type: none"> <li>• shows how well the firm has performed over the last trading period. ✓ This is very important as for example balance sheet may look healthy, but trading at a loss ✓</li> <li>• enables firm to see the relationship between sales and purchasing/production ✓ ie Gross Profit ✓</li> <li>• enables the firm to see the relationship between Gross Profit and Expenses ✓ ie Net profit ✓</li> <li>• some figures in the Balance Sheet may be estimates ✓ for example depreciation and stock values. ✓</li> </ul> <p>Maximum of 8 x ✓'s for argument on one side.</p> <p><b>CONCLUSION</b> Should relate to points made above. For example balance Sheet is more important. ✓✓2 ✓'s for conclusion.</p>	(12)

(Total 52 Marks)

Question Number	Answer	Mark																																																												
2(a)	<table border="1"> <thead> <tr> <th></th> <th>Budget £</th> <th>Actual £</th> <th>Variance £</th> <th></th> <th></th> </tr> </thead> <tbody> <tr> <td>Sales</td> <td>168 000</td> <td>159 750</td> <td>8250</td> <td>ADV</td> <td>✓</td> </tr> <tr> <td>Less</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>    Material Costs</td> <td>27 000</td> <td>30 160</td> <td>3160</td> <td>ADV</td> <td>✓</td> </tr> <tr> <td>    Labour Costs</td> <td>29 440</td> <td>29 016</td> <td>424</td> <td>FAV</td> <td>✓</td> </tr> <tr> <td>    Variable Overheads</td> <td>12 310</td> <td>13 358</td> <td>1048</td> <td>ADV</td> <td>✓</td> </tr> <tr> <td>= Cost of Goods Sold</td> <td>68 750</td> <td>72 534</td> <td>3784</td> <td>ADV</td> <td>✓</td> </tr> <tr> <td><b>Gross Profit</b></td> <td><b>99 250</b></td> <td><b>87 216</b></td> <td><b>12034</b></td> <td><b>ADV</b></td> <td><b>✓</b></td> </tr> <tr> <td>    Fixed Overheads</td> <td>58 500</td> <td>58 500</td> <td>0</td> <td></td> <td>✓</td> </tr> <tr> <td><b>Net Profit</b></td> <td><b>40 750</b></td> <td><b>28 716</b></td> <td><b>12034</b></td> <td><b>ADV</b></td> <td><b>✓</b></td> </tr> </tbody> </table>		Budget £	Actual £	Variance £			Sales	168 000	159 750	8250	ADV	✓	Less						Material Costs	27 000	30 160	3160	ADV	✓	Labour Costs	29 440	29 016	424	FAV	✓	Variable Overheads	12 310	13 358	1048	ADV	✓	= Cost of Goods Sold	68 750	72 534	3784	ADV	✓	<b>Gross Profit</b>	<b>99 250</b>	<b>87 216</b>	<b>12034</b>	<b>ADV</b>	<b>✓</b>	Fixed Overheads	58 500	58 500	0		✓	<b>Net Profit</b>	<b>40 750</b>	<b>28 716</b>	<b>12034</b>	<b>ADV</b>	<b>✓</b>	(8)
	Budget £	Actual £	Variance £																																																											
Sales	168 000	159 750	8250	ADV	✓																																																									
Less																																																														
Material Costs	27 000	30 160	3160	ADV	✓																																																									
Labour Costs	29 440	29 016	424	FAV	✓																																																									
Variable Overheads	12 310	13 358	1048	ADV	✓																																																									
= Cost of Goods Sold	68 750	72 534	3784	ADV	✓																																																									
<b>Gross Profit</b>	<b>99 250</b>	<b>87 216</b>	<b>12034</b>	<b>ADV</b>	<b>✓</b>																																																									
Fixed Overheads	58 500	58 500	0		✓																																																									
<b>Net Profit</b>	<b>40 750</b>	<b>28 716</b>	<b>12034</b>	<b>ADV</b>	<b>✓</b>																																																									

Question Number	Answer	Mark
2(b)(i)	$\frac{£30\ 160 \text{ } \pounds}{400\ 000 \text{ } \pounds} \times 0.145 \text{ } \pounds = 0.52 \text{ kg } \pounds$	(4)

Question Number	Answer	Mark
2(b)(ii)	<p>Material Usage Variance = (Actual Usage - Standard Usage) x Standard Price  <math>\pounds</math></p> $= (0.52 \text{ o/f} - 0.50) \text{ } \pounds \times £0.135 \text{ } \pounds \times 400\ 000 \text{ } \pounds$ $= £1080 \text{ } \pounds \text{ Adverse } \pounds$	(6)

Question Number	Answer	Mark
2(b)(iii)	<p>Material Price Variance = (Actual Price - Standard Price) x Actual Usage  <math>\pounds</math></p> $= (£0.145 - £0.135) \text{ } \pounds \times 0.52 \text{ o/f kg } \pounds \times 400\ 000 \text{ } \pounds$ $= £2080 \text{ } \pounds \text{ Adverse } \pounds$	(6)



Question Number	Answer	Mark
2(c)(i)	$\frac{\pounds 29\,016 \text{ ✓}}{\pounds 5.85 \text{ ✓} \times 32 \text{ ✓}} = 155 \text{ hours } \text{✓}$	(4)

Question Number	Answer	Mark
2(c)(ii)	<p>Labour Efficiency Variance = (Actual Hours - Standard hours) x Standard Rate ✓</p> $= (155 \text{ o/f} - 160) \text{ ✓} \times 32 \text{ ✓} \times \pounds 5.75 \text{ ✓}$ $= \pounds 920 \text{ ✓ Favourable } \text{✓}$	(6)

Question Number	Answer	Mark
2(c)(iii)	<p>Labour Rate Variance = (Actual Rate - Standard Rate) x Actual Hours ✓</p> $= (\pounds 5.85 - \pounds 5.75) \text{ ✓} \times 32 \text{ ✓} \times 155 \text{ o/f } \text{✓}$ $= \pounds 496 \text{ ✓ Adverse } \text{✓}$	(6)

Question Number	Answer	Mark
2(d)	<p>Evaluation of best course of action to take.</p> <p>Answers may include:</p> <ul style="list-style-type: none"> <li>• selling price below budget ✓ competitive market? ✓ Difficult to raise price ✓ promotions? ✓</li> <li>• Investigate why 0.52 kg of material used per loaf. Wastage? ✓ Could reduce this figure. ✓</li> <li>• World price of wheat rising. ✓ Difficult to reduce purchase price. ✓</li> <li>• However, firm could try to find cheaper suppliers ✓ or receive discounts for buying in greater bulk. ✓</li> <li>• Labour just had a pay rise. ✓ Difficult to now reduce pay rate. ✓</li> <li>• Hours used less than budget. ✓ Any scope possible for further reduction? ✓</li> <li>• Variable overheads difficult to reduce rate, ✓ but could reduce usage. ✓</li> <li>• Fixed overheads unlikely to reduce rent, or managers salaries. ✓ Lay off staff? ✓</li> </ul> <p>Conclusion Probably best to try to control quantity of material used in production. ✓✓ (This could be included in evaluation of action points above.)</p>	(12)

(Total 52 marks)

Question Number	Answer	Mark																												
3(a)(i)	<p><b>Calculation of Purchase price for Wessex Quarries Limited</b></p> <table border="1"> <thead> <tr> <th></th> <th>Wessex Quarries Ltd</th> </tr> </thead> <tbody> <tr> <td>Buildings</td> <td>160</td> </tr> <tr> <td>Machinery</td> <td>380 <i>✓</i> Any two FA</td> </tr> <tr> <td>Furniture</td> <td>37</td> </tr> <tr> <td>Vehicles</td> <td>145 <i>✓</i> Any two FA</td> </tr> <tr> <td>Stock</td> <td>25</td> </tr> <tr> <td>Debtors</td> <td>22 <i>✓</i> Any two CA</td> </tr> <tr> <td>Bank</td> <td>12</td> </tr> <tr> <td>Cash</td> <td>2 <i>✓</i> Any two CA</td> </tr> <tr> <td>Goodwill</td> <td>30 <i>✓</i></td> </tr> <tr> <td></td> <td></td> </tr> <tr> <td>Creditors</td> <td>(72) <i>✓</i></td> </tr> <tr> <td></td> <td></td> </tr> <tr> <td>Purchase Price</td> <td>741 <i>✓</i> o/f <i>✓</i> C</td> </tr> </tbody> </table>		Wessex Quarries Ltd	Buildings	160	Machinery	380 <i>✓</i> Any two FA	Furniture	37	Vehicles	145 <i>✓</i> Any two FA	Stock	25	Debtors	22 <i>✓</i> Any two CA	Bank	12	Cash	2 <i>✓</i> Any two CA	Goodwill	30 <i>✓</i>			Creditors	(72) <i>✓</i>			Purchase Price	741 <i>✓</i> o/f <i>✓</i> C	(8)
	Wessex Quarries Ltd																													
Buildings	160																													
Machinery	380 <i>✓</i> Any two FA																													
Furniture	37																													
Vehicles	145 <i>✓</i> Any two FA																													
Stock	25																													
Debtors	22 <i>✓</i> Any two CA																													
Bank	12																													
Cash	2 <i>✓</i> Any two CA																													
Goodwill	30 <i>✓</i>																													
Creditors	(72) <i>✓</i>																													
Purchase Price	741 <i>✓</i> o/f <i>✓</i> C																													

Question Number	Answer	Mark
3(a)(ii)	Purchase Price $\frac{\pounds 741\ 000}{\pounds 1.50} \checkmark$ o/f = 494 000 shares <i>✓</i> o/f <i>✓</i> C $\pounds 1.50 \checkmark$	(4)

Question Number	Answer	Mark																																								
3(b)(i)	<p style="text-align: center;"><b>Highway Connections Realisation Account</b></p> <table border="1"> <tbody> <tr> <td>Buildings</td> <td>200</td> <td>Creditors</td> <td>46 <i>✓</i></td> </tr> <tr> <td>Machinery</td> <td>950 <i>✓</i> Any two FA</td> <td></td> <td></td> </tr> <tr> <td>Furniture</td> <td>70</td> <td>Roadworks</td> <td>2202 <i>✓</i></td> </tr> <tr> <td>Vehicles</td> <td>550 <i>✓</i> Any two FA</td> <td>(Purchase Consideration)</td> <td></td> </tr> <tr> <td>Stock</td> <td>58</td> <td></td> <td></td> </tr> <tr> <td>Debtors</td> <td>22 <i>✓</i> Any two CA</td> <td></td> <td></td> </tr> <tr> <td>Bank</td> <td>36</td> <td></td> <td></td> </tr> <tr> <td>Cash</td> <td>21 <i>✓</i> Any two CA</td> <td></td> <td></td> </tr> <tr> <td>Sundry Shareholders (Profit on Realisation)</td> <td>341 <i>✓</i> o/f <i>✓</i> C</td> <td></td> <td></td> </tr> <tr> <td></td> <td>2248</td> <td></td> <td>2248</td> </tr> </tbody> </table>	Buildings	200	Creditors	46 <i>✓</i>	Machinery	950 <i>✓</i> Any two FA			Furniture	70	Roadworks	2202 <i>✓</i>	Vehicles	550 <i>✓</i> Any two FA	(Purchase Consideration)		Stock	58			Debtors	22 <i>✓</i> Any two CA			Bank	36			Cash	21 <i>✓</i> Any two CA			Sundry Shareholders (Profit on Realisation)	341 <i>✓</i> o/f <i>✓</i> C				2248		2248	(8)
Buildings	200	Creditors	46 <i>✓</i>																																							
Machinery	950 <i>✓</i> Any two FA																																									
Furniture	70	Roadworks	2202 <i>✓</i>																																							
Vehicles	550 <i>✓</i> Any two FA	(Purchase Consideration)																																								
Stock	58																																									
Debtors	22 <i>✓</i> Any two CA																																									
Bank	36																																									
Cash	21 <i>✓</i> Any two CA																																									
Sundry Shareholders (Profit on Realisation)	341 <i>✓</i> o/f <i>✓</i> C																																									
	2248		2248																																							

Question Number	Answer	Mark														
3(b)(ii)	<p style="text-align: center;"><b>Highway Connections Sundry Shareholders Account</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Roadworks     £ 2202 £</td> <td style="width: 50%;">Share Capital                     800 £</td> </tr> <tr> <td>(Purchase Consideration 1468 shares at £1.50 each)</td> <td>Share Premium                     200 £</td> </tr> <tr> <td></td> <td>Profit &amp; Loss Account             861 £</td> </tr> <tr> <td></td> <td>Realisation Account             341 o/f £</td> </tr> <tr> <td></td> <td>(Profit on Realisation)</td> </tr> <tr> <td></td> <td></td> </tr> <tr> <td>2202</td> <td>2202</td> </tr> </table>	Roadworks     £ 2202 £	Share Capital                     800 £	(Purchase Consideration 1468 shares at £1.50 each)	Share Premium                     200 £		Profit & Loss Account             861 £		Realisation Account             341 o/f £		(Profit on Realisation)			2202	2202	<b>(6)</b>
Roadworks     £ 2202 £	Share Capital                     800 £															
(Purchase Consideration 1468 shares at £1.50 each)	Share Premium                     200 £															
	Profit & Loss Account             861 £															
	Realisation Account             341 o/f £															
	(Profit on Realisation)															
2202	2202															

Question Number	Answer	Mark																																										
3(c)	<p><b>Balance sheet of Roadworks Limited as at April 1<sup>st</sup> 2007</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">Roadworks Limited</th> </tr> </thead> <tbody> <tr> <td>Buildings</td> <td style="text-align: right;">440 £</td> </tr> <tr> <td>Machinery</td> <td style="text-align: right;">1330 £</td> </tr> <tr> <td>Furniture</td> <td style="text-align: right;">97 £</td> </tr> <tr> <td>Vehicles</td> <td style="text-align: right;">695 £</td> </tr> <tr> <td>Goodwill</td> <td style="text-align: right;">304 £</td> </tr> <tr> <td><b>Fixed Assets Total</b></td> <td style="text-align: right;"><b>2866</b></td> </tr> <tr> <td>Stock</td> <td style="text-align: right;">80 £</td> </tr> <tr> <td>Debtors</td> <td style="text-align: right;">44 £</td> </tr> <tr> <td>Bank</td> <td style="text-align: right;">48 £</td> </tr> <tr> <td>Cash</td> <td style="text-align: right;">23 £</td> </tr> <tr> <td><b>Current Assets Total</b></td> <td style="text-align: right;"><b>195</b></td> </tr> <tr> <td>Creditors</td> <td style="text-align: right;">118 £</td> </tr> <tr> <td><b>Working capital</b></td> <td style="text-align: right;"><b>77</b></td> </tr> <tr> <td></td> <td></td> </tr> <tr> <td><b>Net Assets</b></td> <td style="text-align: right;"><b>2943 £ C</b></td> </tr> <tr> <td></td> <td></td> </tr> <tr> <td>Ordinary Shares of £1 each</td> <td style="text-align: right;">1962 £</td> </tr> <tr> <td>Share Premium @ 50p share</td> <td style="text-align: right;">981 £</td> </tr> <tr> <td><b>Capital Employed</b></td> <td style="text-align: right;"><b>2943 £ C</b></td> </tr> <tr> <td></td> <td></td> </tr> </tbody> </table>	Roadworks Limited		Buildings	440 £	Machinery	1330 £	Furniture	97 £	Vehicles	695 £	Goodwill	304 £	<b>Fixed Assets Total</b>	<b>2866</b>	Stock	80 £	Debtors	44 £	Bank	48 £	Cash	23 £	<b>Current Assets Total</b>	<b>195</b>	Creditors	118 £	<b>Working capital</b>	<b>77</b>			<b>Net Assets</b>	<b>2943 £ C</b>			Ordinary Shares of £1 each	1962 £	Share Premium @ 50p share	981 £	<b>Capital Employed</b>	<b>2943 £ C</b>			<b>(14)</b>
Roadworks Limited																																												
Buildings	440 £																																											
Machinery	1330 £																																											
Furniture	97 £																																											
Vehicles	695 £																																											
Goodwill	304 £																																											
<b>Fixed Assets Total</b>	<b>2866</b>																																											
Stock	80 £																																											
Debtors	44 £																																											
Bank	48 £																																											
Cash	23 £																																											
<b>Current Assets Total</b>	<b>195</b>																																											
Creditors	118 £																																											
<b>Working capital</b>	<b>77</b>																																											
<b>Net Assets</b>	<b>2943 £ C</b>																																											
Ordinary Shares of £1 each	1962 £																																											
Share Premium @ 50p share	981 £																																											
<b>Capital Employed</b>	<b>2943 £ C</b>																																											

Question Number	Answer	Mark
3(d)	<p><b>Evaluation of merger</b></p> <p>Possible answers could include:</p> <p><b>For Merger</b>  Shareholders in Highway Connections “receive a profit” on realisation of £341 000 o/f ✓  also Goodwill valuation of £274 000. ✓  New company should enjoy benefits of vertical integration as in same line of business. ✓  New company could enjoy economies of scale ✓ for example bulk buying of machinery ✓  Or enjoy managerial economies of scale ✓ or marketing economies of scale ✓  Larger company could enjoy financial benefits for example easier to get bank loans ✓ at a lower interest rate. ✓</p> <p><b>Against Merger</b>  Dilution of ownership ✓ and voting power. ✓  Wessex Quarries do not appear to be in a healthy financial state ✓ for example negative profit &amp; loss reserve. ✓  Original Wessex balance sheet appears to have many assets overvalued ✓ for example machinery overvalued by £100 000.  Also liquidity position of Wessex is worrying ✓ as they appear to have low working capital ratio/negative working capital ✓ .  Wessex may be a drain on the liquid resources of the new company, ✓ especially with the large amount of creditors to pay. ✓  We do not know the market price of the Highway Connections shares. ✓  We do not know what the market price of Roadworks shares are likely to be. ✓</p> <p>(Maximum of 8 marks for argument if candidate argues only one side of argument)</p> <p><b>Evaluation</b>  Should conclude and relate to points made above. ✓✓</p>	(12)

(Total 52 marks)

## Section B

Question Number	Answer	Mark						
<b>4(a)(i)</b>	Purchases Budget (£)	<b>(3)</b>						
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%;">MONTH 1</td> <td style="width: 33%;">MONTH 2</td> <td style="width: 33%;">MONTH 3</td> </tr> <tr> <td style="text-align: center;">£9 600 <i>✓</i></td> <td style="text-align: center;">£9 600 <i>✓</i></td> <td style="text-align: center;">£9 600 <i>✓</i></td> </tr> </table>		MONTH 1	MONTH 2	MONTH 3	£9 600 <i>✓</i>	£9 600 <i>✓</i>	£9 600 <i>✓</i>
	MONTH 1		MONTH 2	MONTH 3				
£9 600 <i>✓</i>	£9 600 <i>✓</i>	£9 600 <i>✓</i>						

Question Number	Answer	Mark						
<b>4(a)(ii)</b>	Purchases Budget - Units	<b>(3)</b>						
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%;">MONTH 1</td> <td style="width: 33%;">MONTH 2</td> <td style="width: 33%;">MONTH 3</td> </tr> <tr> <td style="text-align: center;">240 <i>✓</i></td> <td style="text-align: center;">240 <i>✓</i></td> <td style="text-align: center;">240 <i>✓</i></td> </tr> </table>		MONTH 1	MONTH 2	MONTH 3	240 <i>✓</i>	240 <i>✓</i>	240 <i>✓</i>
	MONTH 1		MONTH 2	MONTH 3				
240 <i>✓</i>	240 <i>✓</i>	240 <i>✓</i>						

Question Number	Answer	Mark						
<b>4(a)(iii)</b>	Production Budget - Units	<b>(3)</b>						
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%;">MONTH 1</td> <td style="width: 33%;">MONTH 2</td> <td style="width: 33%;">MONTH 3</td> </tr> <tr> <td style="text-align: center;">180 <i>✓</i></td> <td style="text-align: center;">240 <i>✓</i></td> <td style="text-align: center;">240 <i>✓</i></td> </tr> </table>		MONTH 1	MONTH 2	MONTH 3	180 <i>✓</i>	240 <i>✓</i>	240 <i>✓</i>
	MONTH 1		MONTH 2	MONTH 3				
180 <i>✓</i>	240 <i>✓</i>	240 <i>✓</i>						

Question Number	Answer	Mark						
<b>4(a)(iv)</b>	Sales Budget - Units	<b>(3)</b>						
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%;">MONTH 1</td> <td style="width: 33%;">MONTH 2</td> <td style="width: 33%;">MONTH 3</td> </tr> <tr> <td style="text-align: center;">110 <i>✓</i></td> <td style="text-align: center;">220 <i>✓</i></td> <td style="text-align: center;">220 <i>✓</i></td> </tr> </table>		MONTH 1	MONTH 2	MONTH 3	110 <i>✓</i>	220 <i>✓</i>	220 <i>✓</i>
	MONTH 1		MONTH 2	MONTH 3				
110 <i>✓</i>	220 <i>✓</i>	220 <i>✓</i>						

Question Number	Answer	Mark												
<b>4(a)(v)</b>	Stock Budget - Units	<b>(6)</b>												
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 16.6%;">MONTH 1</td> <td style="width: 16.6%;">MONTH 2</td> <td style="width: 16.6%;">MONTH 3</td> </tr> <tr> <td>To Stock each month</td> <td style="text-align: center;">70 <i>✓</i></td> <td style="text-align: center;">20 <i>✓</i></td> <td style="text-align: center;">20 <i>✓</i></td> </tr> <tr> <td>Total in Stock</td> <td style="text-align: center;">70 <i>✓</i></td> <td style="text-align: center;">90 <i>✓</i></td> <td style="text-align: center;">110 <i>✓</i></td> </tr> </table>			MONTH 1	MONTH 2	MONTH 3	To Stock each month	70 <i>✓</i>	20 <i>✓</i>	20 <i>✓</i>	Total in Stock	70 <i>✓</i>	90 <i>✓</i>	110 <i>✓</i>
			MONTH 1	MONTH 2	MONTH 3									
	To Stock each month		70 <i>✓</i>	20 <i>✓</i>	20 <i>✓</i>									
Total in Stock	70 <i>✓</i>	90 <i>✓</i>	110 <i>✓</i>											

Question Number	Answer	Mark						
<b>4(a)(vi)</b>	Creditors Budget (£)	<b>(3)</b>						
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%;">MONTH 1</td> <td style="width: 33%;">MONTH 2</td> <td style="width: 33%;">MONTH 3</td> </tr> <tr> <td style="text-align: center;">£7 200 <i>✓</i></td> <td style="text-align: center;">£7 200 <i>✓</i></td> <td style="text-align: center;">£7 200 <i>✓</i></td> </tr> </table>		MONTH 1	MONTH 2	MONTH 3	£7 200 <i>✓</i>	£7 200 <i>✓</i>	£7 200 <i>✓</i>
	MONTH 1		MONTH 2	MONTH 3				
£7 200 <i>✓</i>	£7 200 <i>✓</i>	£7 200 <i>✓</i>						

Question Number	Answer	Mark						
4(a)(vii)	Debtors Budget <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 33%;">MONTH 1</th> <th style="width: 33%;">MONTH 2</th> <th style="width: 33%;">MONTH 3</th> </tr> </thead> <tbody> <tr> <td>£33 000 ✓</td> <td>£66 000 ✓</td> <td>£66 000 ✓</td> </tr> </tbody> </table>	MONTH 1	MONTH 2	MONTH 3	£33 000 ✓	£66 000 ✓	£66 000 ✓	(3)
MONTH 1	MONTH 2	MONTH 3						
£33 000 ✓	£66 000 ✓	£66 000 ✓						

Question Number	Answer	Mark
4(b)	<p><b>For Decision</b></p> <ul style="list-style-type: none"> <li>• Makes full use of factory ✓ ie capacity utilisation is 100%, ✓ no wastage ✓</li> <li>• Sales may be more than 55 a week. ✓ Able to meet this demand from production ✓ or stock. ✓</li> <li>• In the event of production breakdown ✓ customers orders can be met ✓ this will maintain customer loyalty. ✓</li> <li>• Beds kept in stock do not deteriorate / perish ✓ so money is not lost. ✓</li> </ul> <p><b>Against Decision</b></p> <ul style="list-style-type: none"> <li>• Stock is building up continually, ✓ and this involves a number of costs for example rent ✓ insurance ✓ and ties up working capital. ✓✓</li> <li>• Eventually will run out of storage space, ✓ so must find alternative premises ✓ or reduce production. ✓</li> <li>• It is possible that beds could deteriorate in stock ✓ for example due to dampness. ✓</li> <li>• Possible that tastes change ✓ and firm left with stock that they cannot sell. ✓</li> </ul> <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.</p>	(8)

(Total 32 marks)

Question Number	Answer	Mark
5(a)(i)	Earnings per ordinary share = $\frac{\pounds 400\,000 \text{ } \cancel{J}}{2\,500\,000 \text{ } \cancel{J}}$ = 16p $\cancel{J}$	(3)

Question Number	Answer	Mark
5(a)(ii)	Dividend paid per share = $\frac{\pounds 350\,000 \text{ } \cancel{J}}{2\,500\,000 \text{ } \cancel{J}}$ = 14p $\cancel{J}$	(3)

Question Number	Answer	Mark
5(a)(iii)	Price/Earnings ratio = $\frac{\pounds 1.85 \cancel{J}}{16 \cancel{J} \text{ o/f}}$ = 11.56 times/ years $\cancel{J}$	(3)

Question Number	Answer	Mark
5(a)(iv)	Dividend cover = $\frac{\pounds 400\,000 \text{ } \cancel{J}}{\pounds 350\,000 \text{ } \cancel{J}}$ = 1.142 times $\cancel{J}$	(3)

Question Number	Answer	Mark
5(b)(i)	Total ordinary dividend for the year = 4.8p $\cancel{J}$ x 3 000 000 $\cancel{J}$ = $\pounds 144\,000 \cancel{J}$	(3)

Question Number	Answer	Mark
5(b)(ii)	Share price = 4.32 $\cancel{J}$ x 20 $\cancel{J}$ = 86.4p $\cancel{J}$	(3)

Question Number	Answer	Mark
5(b)(iii)	Net profit after interest and tax = $\pounds 144\,000 \text{ o/f } \cancel{J}$ x 0.9 $\cancel{J}$ = $\pounds 129\,600 \cancel{J}$	(3)

Question Number	Answer	Mark
5(b)(iv)	Dividend yield = $\frac{4.8 \text{ } \cancel{J}}{86.4 \text{ } \cancel{J} \text{ o/f}}$ = 5.55% $\cancel{J}$	(3)

Question Number	Answer	Mark																																
5(c)	<p>Company doing WORSE in 2008-9</p> <table border="1"> <thead> <tr> <th></th> <th>2007-8</th> <th>2008-9</th> <th>Difference</th> </tr> </thead> <tbody> <tr> <td>Net Profit after Interest and tax worse ✓</td> <td>£400 000</td> <td>£129 600 o/f</td> <td>£270 400 ✓</td> </tr> <tr> <td>Earnings per share worse ✓</td> <td>16p o/f</td> <td>4.32p</td> <td>11.68p ✓</td> </tr> <tr> <td>Dividend paid worse ✓</td> <td>£350 000</td> <td>£144 000 o/f</td> <td>£206 000 ✓</td> </tr> <tr> <td>Share price worse ✓</td> <td>£1.85</td> <td>86.4p o/f</td> <td>98.6p ✓</td> </tr> <tr> <td>Dividend per share worse ✓</td> <td>14p o/f</td> <td>4.8p</td> <td>9.2p ✓</td> </tr> </tbody> </table> <p>Company doing BETTER in 2008-9</p> <table border="1"> <thead> <tr> <th></th> <th>2007-8</th> <th>2008-9</th> <th>Difference</th> </tr> </thead> <tbody> <tr> <td>Price/Earnings Ratio better ✓</td> <td>11.56 o/f</td> <td>20</td> <td>8.44 ✓</td> </tr> </tbody> </table> <p>Maximum of 4 marks for arguing one side only.</p> <p>Conclusion 2 marks - company is doing worse in 2008-9.</p>		2007-8	2008-9	Difference	Net Profit after Interest and tax worse ✓	£400 000	£129 600 o/f	£270 400 ✓	Earnings per share worse ✓	16p o/f	4.32p	11.68p ✓	Dividend paid worse ✓	£350 000	£144 000 o/f	£206 000 ✓	Share price worse ✓	£1.85	86.4p o/f	98.6p ✓	Dividend per share worse ✓	14p o/f	4.8p	9.2p ✓		2007-8	2008-9	Difference	Price/Earnings Ratio better ✓	11.56 o/f	20	8.44 ✓	(8)
	2007-8	2008-9	Difference																															
Net Profit after Interest and tax worse ✓	£400 000	£129 600 o/f	£270 400 ✓																															
Earnings per share worse ✓	16p o/f	4.32p	11.68p ✓																															
Dividend paid worse ✓	£350 000	£144 000 o/f	£206 000 ✓																															
Share price worse ✓	£1.85	86.4p o/f	98.6p ✓																															
Dividend per share worse ✓	14p o/f	4.8p	9.2p ✓																															
	2007-8	2008-9	Difference																															
Price/Earnings Ratio better ✓	11.56 o/f	20	8.44 ✓																															

(Total 32 marks)



Question Number	Answer	Mark																																																	
6 (a)(i)	<p><b>Payback Period</b></p> <p><math>210 \times 500 \times \text{£}20 = \text{£} 2\,100\,000 \text{ } \textit{J}\textit{J}</math></p> <p><math>210 \times 600 \times \text{£}25 = \text{£} 3\,150\,000 \text{ } \textit{J}\textit{J}</math></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Cash Inflow</th> <th>Cash Outflow</th> <th></th> <th>Net Cash Flow</th> <th></th> <th>Cumulative</th> </tr> </thead> <tbody> <tr> <td>0</td> <td></td> <td>6,000,000</td> <td></td> <td>6,000,000</td> <td><i>J</i></td> <td></td> </tr> <tr> <td>1</td> <td>2,100,000</td> <td>820,000</td> <td><i>J}\textit{J}</i></td> <td>1,280,000</td> <td><i>J</i> o/f</td> <td>-4,720,000</td> </tr> <tr> <td>2</td> <td>2,100,000</td> <td>820,000</td> <td></td> <td>1,280,000</td> <td></td> <td>-3,440,000</td> </tr> <tr> <td>3</td> <td>2,100,000</td> <td>820,000</td> <td></td> <td>1,280,000</td> <td></td> <td>-2,160,000</td> </tr> <tr> <td>4</td> <td>3,150,000</td> <td>1,020,000</td> <td><i>J}\textit{J}</i></td> <td>2,130,000</td> <td><i>J</i></td> <td>-30,000</td> </tr> <tr> <td>5</td> <td>3,150,000</td> <td>1,020,000</td> <td></td> <td>2,130,000</td> <td></td> <td>2,100,000</td> </tr> </tbody> </table> <p>Pay back is after 4 and <math>\frac{30}{2130}</math> years = 4 years 0.16 months (5 days)  <i>J}\textit{J}</i> o/f      <i>J</i> o/f</p>	Year	Cash Inflow	Cash Outflow		Net Cash Flow		Cumulative	0		6,000,000		6,000,000	<i>J</i>		1	2,100,000	820,000	<i>J}\textit{J}</i>	1,280,000	<i>J</i> o/f	-4,720,000	2	2,100,000	820,000		1,280,000		-3,440,000	3	2,100,000	820,000		1,280,000		-2,160,000	4	3,150,000	1,020,000	<i>J}\textit{J}</i>	2,130,000	<i>J</i>	-30,000	5	3,150,000	1,020,000		2,130,000		2,100,000	(14)
Year	Cash Inflow	Cash Outflow		Net Cash Flow		Cumulative																																													
0		6,000,000		6,000,000	<i>J</i>																																														
1	2,100,000	820,000	<i>J}\textit{J}</i>	1,280,000	<i>J</i> o/f	-4,720,000																																													
2	2,100,000	820,000		1,280,000		-3,440,000																																													
3	2,100,000	820,000		1,280,000		-2,160,000																																													
4	3,150,000	1,020,000	<i>J}\textit{J}</i>	2,130,000	<i>J</i>	-30,000																																													
5	3,150,000	1,020,000		2,130,000		2,100,000																																													

Question Number	Answer	Mark
6(a)(ii)	<p><b>Average Rate of Return</b></p> <p>Total Surplus of Project = <math>\frac{\text{£} 8\,100\,000}{\textit{J}} \text{ o/f} - \frac{\text{£} 6\,000\,000}{\textit{J}} = \frac{\text{£} 2\,100\,000}{\textit{J} \text{ o/f}}</math></p> <p>Average Annual return = <math>\frac{\text{£} 2\,100\,000}{5 \text{ years } \textit{J}} \text{ o/f } \textit{J} = \text{£}420\,000 \text{ per year o/f } \textit{J}</math></p> <p>Average rate of return = <math>\frac{\text{£} 420\,000}{\text{£} 6\,000\,000 \textit{J}} \text{ o/f } \textit{J} \times 100 = 7\% \text{ o/f } \textit{J} \textit{J}\textit{C}</math></p> <p>Other formulae for calculating Average Rate of Return could receive full marks.</p>	(10)

Question Number	Answer	Mark
6(b)	<p><b>Evaluation</b>  Answers may include :</p> <p><b>FOR INVESTMENT</b></p> <ul style="list-style-type: none"> <li>• Payback method invest ✓ as project profitable overall ✓ and within 5 year payback period. ✓</li> </ul> <p><b>AGAINST INVESTMENT</b></p> <ul style="list-style-type: none"> <li>• ARR states do not invest ✓ as fails to meet % return figure of 10% ✓</li> </ul> <p>Other Relevant Points:  Accuracy of predictions? ✓  What happens after 5 years? ✓  Other possible investment projects available? ✓  Objectives/strategy of company? ✓  If incomes fall ✓ consumers are likely to reduce expenditure on leisure activities (income elastic). ✓</p> <p>Total of 4 marks for arguing one side only.  Conclusion : Must relate to points made above. ✓✓</p>	(8)

(Total 32 marks)

Question Number	Answer	Mark																																																
7(a)	<table border="1"> <thead> <tr> <th></th> <th>Nevgrad</th> <th>Ostorov</th> <th>Yutanga</th> <th>Total</th> <th></th> </tr> </thead> <tbody> <tr> <td>Sales Revenue</td> <td>2160000/</td> <td>1920000/</td> <td>2640000/</td> <td>6720000</td> <td></td> </tr> <tr> <td>Direct Labour</td> <td>1,620,000</td> <td>1,080,000</td> <td>1,265,000</td> <td>3965000</td> <td></td> </tr> <tr> <td>Direct Materials</td> <td>630,000</td> <td>680,000</td> <td>605,000</td> <td>1915000</td> <td></td> </tr> <tr> <td>Fixed Costs</td> <td>270,000</td> <td>320,000</td> <td>440,000</td> <td>1030000</td> <td></td> </tr> <tr> <td></td> <td>All costs</td> <td>All costs</td> <td>All costs</td> <td></td> <td></td> </tr> <tr> <td></td> <td>∫</td> <td>∫</td> <td>∫</td> <td></td> <td></td> </tr> <tr> <td>Profit (Loss)</td> <td>-360000/ o/f</td> <td>-160000/ o/f</td> <td>330000/ o/f</td> <td>-190000</td> <td>∫o/f∫∫ C</td> </tr> </tbody> </table>		Nevgrad	Ostorov	Yutanga	Total		Sales Revenue	2160000/	1920000/	2640000/	6720000		Direct Labour	1,620,000	1,080,000	1,265,000	3965000		Direct Materials	630,000	680,000	605,000	1915000		Fixed Costs	270,000	320,000	440,000	1030000			All costs	All costs	All costs				∫	∫	∫			Profit (Loss)	-360000/ o/f	-160000/ o/f	330000/ o/f	-190000	∫o/f∫∫ C	(12)
	Nevgrad	Ostorov	Yutanga	Total																																														
Sales Revenue	2160000/	1920000/	2640000/	6720000																																														
Direct Labour	1,620,000	1,080,000	1,265,000	3965000																																														
Direct Materials	630,000	680,000	605,000	1915000																																														
Fixed Costs	270,000	320,000	440,000	1030000																																														
	All costs	All costs	All costs																																															
	∫	∫	∫																																															
Profit (Loss)	-360000/ o/f	-160000/ o/f	330000/ o/f	-190000	∫o/f∫∫ C																																													

Question Number	Answer	Mark																																				
7(b)	<table border="1"> <thead> <tr> <th>Per BTU</th> <th>Nevgrad</th> <th>Ostorov</th> <th>Yutanga</th> </tr> </thead> <tbody> <tr> <td>Sales Revenue</td> <td>24/</td> <td>24/</td> <td>24/</td> </tr> <tr> <td>Direct Labour</td> <td>18</td> <td>13.5</td> <td>11.5</td> </tr> <tr> <td>Direct Materials</td> <td>7</td> <td>8.5</td> <td>5.5</td> </tr> <tr> <td>Fixed Costs</td> <td>3</td> <td>4</td> <td>4</td> </tr> <tr> <td></td> <td>All costs</td> <td>All costs</td> <td>All costs</td> </tr> <tr> <td></td> <td>∫</td> <td>∫</td> <td>∫</td> </tr> <tr> <td>Profit (Loss)</td> <td>-4/</td> <td>-2/</td> <td>3/</td> </tr> <tr> <td>Contribution</td> <td>-1/</td> <td>2/</td> <td>7/</td> </tr> </tbody> </table>	Per BTU	Nevgrad	Ostorov	Yutanga	Sales Revenue	24/	24/	24/	Direct Labour	18	13.5	11.5	Direct Materials	7	8.5	5.5	Fixed Costs	3	4	4		All costs	All costs	All costs		∫	∫	∫	Profit (Loss)	-4/	-2/	3/	Contribution	-1/	2/	7/	(12)
Per BTU	Nevgrad	Ostorov	Yutanga																																			
Sales Revenue	24/	24/	24/																																			
Direct Labour	18	13.5	11.5																																			
Direct Materials	7	8.5	5.5																																			
Fixed Costs	3	4	4																																			
	All costs	All costs	All costs																																			
	∫	∫	∫																																			
Profit (Loss)	-4/	-2/	3/																																			
Contribution	-1/	2/	7/																																			

Question Number	Answer	Mark																				
7(c)	<table border="1"> <thead> <tr> <th></th> <th>Nevgrad</th> <th>Ostorov</th> <th>Yutanga</th> </tr> </thead> <tbody> <tr> <td>Future</td> <td>Do not reopen/</td> <td>Marginal costing says reopen/</td> <td>Reopen/</td> </tr> <tr> <td>Present ∫</td> <td>Not profitable/</td> <td>Not profitable/</td> <td>Profitable ∫</td> </tr> <tr> <td>Present</td> <td>Negative Contribution ∫</td> <td>Positive Contribution/</td> <td>Positive Contribution ∫</td> </tr> <tr> <td>Comment</td> <td>Maximum 1 ∫</td> <td>Maximum 1 ∫</td> <td>Maximum 1 ∫</td> </tr> </tbody> </table> <p>Maximum of 3 ∫'s per oilfield.</p>		Nevgrad	Ostorov	Yutanga	Future	Do not reopen/	Marginal costing says reopen/	Reopen/	Present ∫	Not profitable/	Not profitable/	Profitable ∫	Present	Negative Contribution ∫	Positive Contribution/	Positive Contribution ∫	Comment	Maximum 1 ∫	Maximum 1 ∫	Maximum 1 ∫	(8)
	Nevgrad	Ostorov	Yutanga																			
Future	Do not reopen/	Marginal costing says reopen/	Reopen/																			
Present ∫	Not profitable/	Not profitable/	Profitable ∫																			
Present	Negative Contribution ∫	Positive Contribution/	Positive Contribution ∫																			
Comment	Maximum 1 ∫	Maximum 1 ∫	Maximum 1 ∫																			

(Total 32 marks)

Further copies of this publication are available from  
Edexcel Publications, Adamsway, Mansfield, Notts, NG18 4FN

Telephone 01623 467467  
Fax 01623 450481

Email [publications@linneydirect.com](mailto:publications@linneydirect.com)

Summer 2009

For more information on Edexcel qualifications, please visit [www.edexcel.com/quals](http://www.edexcel.com/quals)

Edexcel Limited. Registered in England and Wales no.4496750  
Registered Office: One90 High Holborn, London, WC1V 7BH