GCE

Accounting

Unit **F013:** Company Accounts and Interpretation

Advanced GCE

Mark Scheme for June 2018

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All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

Question			Answer	Mark	Guidance
1	(a)*		Hilgerson plc	28	.

Profit and Loss Account for the year ended 31 December 2017

Turnover		1,746 000 **(1)**
Cost of sales		896,000 **(2)**
Gross Profit		850 000
Distribution costs	363,175 **(4)**	
Administrative expenses	223,675 **(6)**	586,850
Operating profit		263,150
Other income		22,500 **(1)**
Profit on ordinary activities before tax		285,650
Corporation tax		76,000
Profit after tax		209,650 **(1)**
Profit and Loss b/f		18,000
		227,650
Dividends	50,000 **(1)**	
Reserves	38,000	88,000
Retained profit		139,650

Distribution costs
200,000 +4,800 +128,000 + 21,000 + 9,375

Administrative expenses
185,000- 7,400 + 10,000 – 4,000 + 32,000 – 1,300 + 9,375

Question			Answer	Mark	Guidance
			<u>Balance Sheet as at 31 December 2017</u>		

<u>Fixed Assets</u>		
Land and buildings		750,000
Equipment		86,250
Delivery Vehicles		<u>84,000</u>
		920,250 **(1)**
<u>Current Assets</u>		
Stock	58,000	
Debtors	57,300 **(2)**	
Prepaid	7,400 **(1)**	
Bank	<u>134,000</u>	
	256,700	
<u>Creditors amounts falling due within one year</u>		
Creditors	83,000	
Accruals	34,800 **(1)**	
Rent paid in advance	7 500 **(1)**	
Taxation	<u>76,000</u> **(1)**	
	201,300	
Net current assets		<u>55,400</u>
		<u>975, 650</u>
<u>Capital and Reserves</u>		
Ordinary share capital		500,000
Share premium		100,000 **(1)**
Revaluation reserve		158,000 **(1)**
General reserve		78,000 **(1)**
Retained profit		<u>139,650</u>
		<u>975,650</u>

QWC 2

Question			Answer	Mark	Guidance
1	(b)		Share Premium is a capital reserve and is created when the company issues shares above the nominal value. The amount of the premium is credited to the Share Premium Account and is not allowed to be used for the payment of cash dividends to shareholder. . General reserve is a revenue reserve and is created by the retention of profit in the company. It is the property of the ordinary shareholders and can be used for the payment of cash dividends. **(2 x 2 marks)** **(1 for point plus 1 for development)**	**4**	

Question			Answer	Mark	Guidance
2	(a)		Sowerby plc	17	

Schedule of Fixed Assets for year ended 31 December 2017

	Land and buildings	Machinery	Office equipment
Cost at 1 Jan	700,000	360,000	240,000 **(1) line**
Additions		22,000 **(1)**	25,000 **(1)**
Disposals			(20,000) **(1)**
Revaluations	50,000 **(1)**		
Cost at 31 Dec	750,000	382,000	245,000 **(1)**
Total depreciation 1 Jan	80,000	165,000	90,000 **(1) line**
Disposals			(8,000) **(2)**
Profit and loss	8,000 **(2)**	43,400 **(2)**	36,750 **(2)**
Total depreciation 31 Dec	88,000	208,400	118,750 **(1) line**
Net book value 31 Dec	662,000	173,600	126,250 **(1) line**

Question			Answer	Mark	Guidance
2	(b)		Land will increase in value over a period of time due to market forces. If Land is shown in the balance sheet at the historic cost this would not reflect the fair value of Sowerby plc as at 31 December 2017. A revaluation will increase the net asset value of the business and this must be shown as an increase to the reserves. A capital reserve called the Revaluation Reserve should be created in the accounts of the company and the capital reserve is part of the shareholders equity. **(2 x 2 marks)** **(1 for point plus 1 for development)**	4	

Question			Answer	Mark	Guidance
3	(a)		Dr / Cr Bank 1,250,000 **(1)** Application and allotment 1,250,000 **(1)** Application and allotment 150,000 **(1)** Bank 150,000 **(1)** Bank 1,100,000 **(1)** Application and allotment 1,100,000 **(1)** Application and allotment 1,000,000 **(2)** Share premium 1,000,000 **(2)** Application and allotment 1,200,000 **(1)** Share capital 1,200,000 **(1)** Bank 298,500 **(1)** First and final call 298,500 **(2)** First and final call 300,000 **(1)** Share capital 300,000 **(1)**	17	
3	(b)		Issuing bonus shares will reduce the amount of cash outflows in dividend payments and would improve the liquidity of the company. The ordinary shares do not reflect the asset value of the company and the capital and revenue reserves can be used to create extra shares this would increase the number of equity shares on the balance sheet of the company. If the company issues more ordinary shares this will dilute the market share price of the share. The price of the share may be more attractive to the investor. The market in the shares could be increased because of the lower price. Shareholders regard a bonus issue as a strong indication that the prospects of the company have brightened and they can reasonably look for an increase in total dividend. It may improve the prospects of raising additional funds from banks in the form of loans (**1 for point plus up to 2 for development)** **QWC 2**	10	

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