



GCE

Accounting

Advanced GCE **F013**

Company Accounts and Interpretation

Mark Scheme for June 2010

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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.

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Instructions to examiners**Own figure rule ('of')**

Where 'of' is indicated, a figure which is incorrect solely because of an error in an earlier part of the question may be awarded the appropriate marks as if it were correct.

Quality of Written Communication

The rubric states:

** In these two questions/sub questions, you will be assessed on the quality of your written communication. In one of these questions, the focus will be on your ability to present numerical information legibly and in an appropriate accounting format. In the other, you will be assessed on the legibility and style of writing, the clarity and coherence of your arguments and the accuracy of your spelling, punctuation and grammar.*

4% of the paper marks are available for rewarding *Quality of Written Communication*, as follows:

Levels of Response for Numerical Questions

Level	Mark	Description
2	2	Almost all account headings, terms and balances are included appropriately and in line with accounting conventions. Figures are legible with effective use made of columns and sub-totals. Accounts are ruled off as appropriate.
1	1	Some account headings, terms and balances are included though not always adhered to accounting conventions. Most figures are legible. Some appropriate use is made of columns and sub-totals. Some accounts are ruled off as appropriate.
-	0	Responses which fail to achieve the standard required for Level 1.

Levels of Response for Narrative Questions

Level	Mark	Description
2	2	Ideas, some complex, are expressed clearly and quite fluently, using an appropriate style of writing. Arguments made are generally relevant and are constructed in a logical and coherent manner. There are few errors of spelling, punctuation and grammar, and those that are made are not intrusive and do not obscure meaning.
1	1	Relatively straightforward or simple ideas are expressed in a generally appropriate style of writing which sometimes lacks clarity or fluency. Arguments have some limited coherence and structure occasionally showing relevance to the main focus of the questions. There are errors of spelling, punctuation and grammar which are noticeable and sometimes intrusive but do not totally obscure meaning.
-	0	Responses which fail to achieve the standard required for Level 1.

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Question Number	Expected Answer		Marks	Additional Guidance
1 (a)	Net profit before tax	45,000	(1)	
	Taxation	<u>38,000</u>	(1)	
		7,000		
	Profit and loss b/f	<u>40,000</u>	(1)	
		47,000		
	Dividends	<u>31,000</u>	(1)	
	Profit and loss c/f	<u>16,000</u>	(1)	
	Net cash flow from operating activities			
	Net profit for the year	45,000		
	Depreciation	88,000	(2)	
	Loss on sale	7,000	(2)	
	Increase in stock	(28,000)	(1)	
	Increase in debtors	(5,000)	(1)	
	Increase in creditors	4,000	(1)	
	Increase in accruals	<u>2,000</u>	(1)	
		<u>113,000</u>		
	<u>Crystal plc Cash Flow Statement for the year ended 31 May 2010</u>			
	Net cash flow from operating activities	113,000	(1)	
	Taxation			
	Corporation tax	(32,000)	(1)	
	Capital expenditure			
	Purchase of fixed assets	(201,000)	(2)	
	Proceeds of sale	<u>1,000</u>	(1)	(200,000)
	Equity dividends paid	<u>(28,000)</u>	(1)	
		(147,000)		
	Financing			
	Issue of shares	<u>125,000</u>	(2)	
	Decrease in cash	<u>(22,000)</u>	(1)	

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Question Number	Expected Answer	Marks	Additional Guidance
(b)*	<p>The liquidity position has fallen as evidenced by the decrease in cash. The current ratio has fallen from 1.54:1 to 1.41:1.</p> <p>The acid test for both years is below 1:1 which could indicate that the company may have a problem in paying short-term debts.</p> <p>The company has large amounts of cash invested in stock and the stock holding has increased by £5,000. Stock is not a liquid asset and it will take time to convert into cash</p> <p>Investment in fixed assets has increased and the total cost of the investment in fixed assets was £201, 000. The increased investment may increase future profits and increase the return on capital employed and returns for the shareholders.</p> <p>The company has taken a risk with a large investment and if income does not increase, then it may make a lower return for shareholders.</p> <p>The equity share capital has increased due to the issue of shares of £125,000. More shares are available for purchase on the stock market. Although this increases equity, the control factor could change because of the increase in the number of votes by ordinary shareholders.</p> <p>(4 x max 3 marks) (1 mark for point plus up to 2 mark for development)</p> <p style="text-align: right;">(8) QWC (2)</p> <p style="text-align: right;">Total Marks</p>	<p style="text-align: center;">[10]</p> <p style="text-align: center;">[32]</p>	

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2	<p><u>Lemur plc</u> <u>Manufacturing Trading Profit and Loss Account for the year ended 31 May 2010</u></p> <table><tr><td>Opening stock of raw materials</td><td>43,000</td><td></td></tr><tr><td>Purchases of raw materials</td><td>910,000</td><td></td></tr><tr><td>Carriage inwards</td><td><u>12,000</u></td><td></td></tr><tr><td></td><td>965,000</td><td></td></tr><tr><td>Closing stock of raw material</td><td><u>44,000</u></td><td></td></tr><tr><td>Direct materials</td><td>921,000</td><td>(2)</td></tr><tr><td>Direct wages</td><td><u>180,000</u></td><td></td></tr><tr><td>Prime cost</td><td>1,101,000</td><td>(1)</td></tr><tr><td>Indirect wages</td><td>140,000</td><td>(1)</td></tr><tr><td>Depreciation plant and machinery</td><td>31,200</td><td>(1)</td></tr><tr><td>Rates and insurance</td><td>13,920</td><td>(1)</td></tr><tr><td>Factory overheads</td><td><u>90,000</u></td><td>(1)</td></tr><tr><td></td><td><u>275,120</u></td><td>(1)</td></tr><tr><td></td><td>1,376,120</td><td></td></tr><tr><td>Work in progress at start</td><td>56,000</td><td></td></tr><tr><td>Work in progress at end</td><td><u>(32,120)</u></td><td></td></tr><tr><td>Production cost of finished goods</td><td>1,400,000</td><td></td></tr><tr><td>Manufacturing profit</td><td><u>140,000</u></td><td>(1)</td></tr><tr><td>Finished goods transferred to trading account</td><td><u>1,540,000</u></td><td>(1)</td></tr><tr><td>Sales</td><td>2,100,000</td><td></td></tr><tr><td>Opening stock of finished goods</td><td>58,300</td><td></td></tr><tr><td>Transfer from manufacturing account</td><td><u>1,540,000</u></td><td>(1)</td></tr><tr><td></td><td>1,598,300</td><td></td></tr><tr><td>Closing stock of finished goods</td><td><u>55,000</u></td><td></td></tr><tr><td>Cost of sales</td><td><u>1,543,300</u></td><td>(1)</td></tr><tr><td>Gross Profit</td><td>556,700</td><td></td></tr><tr><td>Commission received</td><td>35,600</td><td>(1)</td></tr><tr><td>Provision for doubtful debts</td><td><u>200</u></td><td>(2)</td></tr><tr><td></td><td>592,500</td><td></td></tr></table>	Opening stock of raw materials	43,000		Purchases of raw materials	910,000		Carriage inwards	<u>12,000</u>			965,000		Closing stock of raw material	<u>44,000</u>		Direct materials	921,000	(2)	Direct wages	<u>180,000</u>		Prime cost	1,101,000	(1)	Indirect wages	140,000	(1)	Depreciation plant and machinery	31,200	(1)	Rates and insurance	13,920	(1)	Factory overheads	<u>90,000</u>	(1)		<u>275,120</u>	(1)		1,376,120		Work in progress at start	56,000		Work in progress at end	<u>(32,120)</u>		Production cost of finished goods	1,400,000		Manufacturing profit	<u>140,000</u>	(1)	Finished goods transferred to trading account	<u>1,540,000</u>	(1)	Sales	2,100,000		Opening stock of finished goods	58,300		Transfer from manufacturing account	<u>1,540,000</u>	(1)		1,598,300		Closing stock of finished goods	<u>55,000</u>		Cost of sales	<u>1,543,300</u>	(1)	Gross Profit	556,700		Commission received	35,600	(1)	Provision for doubtful debts	<u>200</u>	(2)		592,500			
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	<p>General office expenses 253,000</p> <p>Carriage outwards 22,000 (1)</p> <p>Rates and insurance 9,280 (1)</p> <p>Loan interest <u>6,000</u> (1) <u>290,280</u></p> <p>302,220</p> <p>Manufacturing profit 140,000 (1)</p> <p>Decrease in provision for unrealised profit <u>300</u> (2) <u>140,300</u></p> <p>Net profit before tax 442,520</p> <p>Corporation tax <u>96,000</u> (1)</p> <p>Profit after tax 346,520</p> <p>Share dividend 80,000 (1)</p> <p>Reserves <u>70,000</u> (1) <u>150,000</u></p> <p>Retained profit <u>196,520</u> (1)</p> <p style="text-align: right;">QWC (2) [25]</p>	[27]	

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3 (a) (i)	$\frac{500,000}{4,000,000} \times 100 = 37.5\%$ (1)	[1]	
(ii)	$\frac{400,000}{4,000,000} \times 100 = 10\%$ (2)	[2]	
(iii)	$\frac{400,000}{800,000} \times 100 = 50\%$ OR $\frac{600,000}{800,000} \times 100 = 75\%$ (2) (2)	[2]	
(iv)	$\frac{400,000}{100,000} = 4 \text{ times}$ (2)	[2]	
(v)	$\frac{600,000}{25,000} = 24 \text{ times}$ (2)	[2]	
(b) (i)	The dividend cover is important because it shows how many times the dividend could be paid from the profits of the company. The higher the dividend cover the less risk for the ordinary shareholders. (1 for point plus 1 for development)	[2]	
(ii)	The interest cover is important because it shows how many times the interest on long-term loans and debentures could be covered from the profit before interest. A low figure could indicate that the company is at a high risk if profits fall and or interest rates increase. (1 for point plus 1 for development)	[2]	

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Question Number	Expected Answer	Marks	Additional Guidance
(c)	<p>Ratio analysis can only be used if Chung plc is compared with firms of the same type and operating in the same type of markets.</p> <p>Figures used in ratios and the ratio calculation should only be used as a comparison if they have been compiled on a similar basis. For example, the profit figures for Chung plc may have been calculated using different methods of depreciation.</p> <p>Ratios are calculated using historic costs. In considering trends from ratios problems may arise during a period of price increases. The financial position of Chung plc may have changed and calculating ratios on the historic cost data could give a misleading picture of the financial stability of Chung plc</p> <p>The date of the ratios calculated for two similar types of business could give misleading information because of the seasonal factors involved. For example, toy shops will have very large stocks before Christmas and very small stocks after Christmas.</p> <p>The amount of financial information available on Chung plc is limited and more detailed information on assets, liabilities and a breakdown of expenses would be required.</p> <p>Ratio analysis only considers the financial data and would not take into account all the non-financial factors which are important for Chung plc. These would include employee morale and the turnover of employees</p> <p>(4x max 3 marks) (1 for point plus up to 2 for development)</p> <p style="text-align: right;">Total Marks</p>	<p>[8]</p> <p>[21]</p>	

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