

Accounting

Advanced GCE

Unit **F013**: Company Accounts and Interpretation

Mark Scheme for January 2012

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Annotations

Annotation	Meaning
	Unclear
	Benefit of doubt
	Cross
	Own figure rule
	Repeat
	Noted but no credit given

Subject-specific Marking Instructions

Every working box - whether it contains working or not - must be stamped as 'seen'.

Question		Answer	Marks	Guidance																																																																								
1	(a)	<p>Colclough plc Manufacturing Account for the year ended 31 May 2011</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Opening stock of raw materials</td> <td style="width: 10%;"></td> <td style="width: 10%; text-align: right;">28,000</td> <td style="width: 20%;"></td> </tr> <tr> <td>Purchases of raw materials</td> <td></td> <td style="text-align: right;"><u>730,000</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">758,000</td> <td></td> </tr> <tr> <td>Purchase returns of materials</td> <td></td> <td style="text-align: right;"><u>18,000</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">740,000</td> <td></td> </tr> <tr> <td>Closing stock of raw material</td> <td></td> <td style="text-align: right;"><u>24,000</u></td> <td></td> </tr> <tr> <td>Direct materials</td> <td></td> <td style="text-align: right;">716,000</td> <td style="text-align: right;">(2)</td> </tr> <tr> <td>Direct wages</td> <td></td> <td style="text-align: right;"><u>120,000</u></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Prime cost</td> <td></td> <td style="text-align: right;">836,000</td> <td></td> </tr> <tr> <td>Indirect wages</td> <td style="text-align: right;">67,000</td> <td></td> <td></td> </tr> <tr> <td>Depreciation plant and machinery</td> <td style="text-align: right;">23,550</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Salaries</td> <td style="text-align: right;">24,300</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Rates and insurance</td> <td style="text-align: right;">5,200</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Factory overheads</td> <td style="text-align: right;"><u>93,000</u></td> <td style="text-align: right;"><u>213,050</u></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">1,049,050</td> <td></td> </tr> <tr> <td>Work in progress at start</td> <td></td> <td style="text-align: right;">45,000</td> <td></td> </tr> <tr> <td>Work in progress at end</td> <td></td> <td style="text-align: right;"><u>(32,000)</u></td> <td></td> </tr> <tr> <td>Production cost of finished goods</td> <td></td> <td style="text-align: right;"><u>1,062,050</u></td> <td style="text-align: right;">(1)</td> </tr> </table>	Opening stock of raw materials		28,000		Purchases of raw materials		<u>730,000</u>				758,000		Purchase returns of materials		<u>18,000</u>				740,000		Closing stock of raw material		<u>24,000</u>		Direct materials		716,000	(2)	Direct wages		<u>120,000</u>	(1)	Prime cost		836,000		Indirect wages	67,000			Depreciation plant and machinery	23,550		(1)	Salaries	24,300		(1)	Rates and insurance	5,200		(1)	Factory overheads	<u>93,000</u>	<u>213,050</u>	(1)			1,049,050		Work in progress at start		45,000		Work in progress at end		<u>(32,000)</u>		Production cost of finished goods		<u>1,062,050</u>	(1)	8	
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	<p><u>Balance Sheet as at 31 May 2011</u></p> <p><u>Fixed Assets</u></p> <p>Premises 800,800</p> <p>Plant and machinery 133,450</p> <p>Office equipment <u>15,000</u></p> <p>949,250 (1)</p> <p><u>Current Assets</u></p> <p>Stock 126,000 (1)</p> <p>Debtors 84,500 (2)</p> <p>Prepaid <u>4,000</u> (1)</p> <p>214,500</p> <p><u>Creditors amounts falling due within one year</u></p> <p>Creditors 73,000</p> <p>Accruals 5,600 (1)</p> <p>Interest owing 2,000 (1)</p> <p>Taxation 165,000 (1)</p> <p>Dividends 420,000 (1)</p> <p>Bank <u>26,000</u></p> <p>691,600</p> <p>Net current assets <u>(477,100)</u> (1)</p> <p>472,150</p> <p><u>Creditors amounts falling due after one year</u></p> <p>Debentures <u>80,000</u> (1)</p> <p><u>392,150</u></p> <p><u>Capital and Reserves</u></p> <p>Ordinary share capital 300,000</p> <p>General reserve 65,000</p> <p>Retained profit <u>27,150</u> (1 of)</p> <p><u>392,150</u></p>		
	QWC	2	
	Total	29	

Question			Answer	Marks	Guidance
2	(a)	(i)	Earnings per share $\frac{200,000}{500,000} = 40 \text{ pence}$	3	
		(ii)	Dividend yield $\frac{1}{2.50} \times 20\% = 8\%$	3	
		(iii)	Interest cover $\frac{376,000}{96,000} = 3.92 \text{ times}$	3	
		(iv)	Return on capital employed $\frac{376,000}{2,500,000} \times 100 = 15.04\%$	3	
	(b)*		<p>When profits are high the ordinary shareholders will benefit from the high gearing ratio of Webb plc and the ordinary shareholders will show an increased earnings per share.</p> <p>Lower interest rates of Webb plc will have a minimal effect on profit and will benefit the ordinary shareholders.</p> <p>If the profits of Webb plc were to fall, then the shareholders will be disadvantaged because the interest payments and preference share dividends must be met before any ordinary dividends are paid.</p> <p>An increase in interest rates would also affect the return of the ordinary shareholders.</p> <p>Webb plc might have to reduce gearing by selling off any surplus assets or increasing revenue reserves as an alternative to payment of dividends.</p>	10 QWC 2	

Question			Answer	Marks	Guidance
			<p>Webb plc may have difficulty in raising further finance from the banks and might have to consider a rights issue of shares to the existing ordinary shareholders.</p> <p>Maximum up to 10 marks (1 for point, plus 2 for development)</p>		
Total				24	

Question			Answer	Marks	Guidance																		
3	(a)		<p style="text-align: center;">Journal</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 30%; text-align: center;">Dr</th> <th style="width: 30%; text-align: center;">Cr</th> </tr> </thead> <tbody> <tr> <td>Bank</td> <td style="text-align: right;">250,000 (2)</td> <td></td> </tr> <tr> <td>Share capital</td> <td></td> <td style="text-align: right;">150,000 (1)</td> </tr> <tr> <td>Share premium</td> <td></td> <td style="text-align: right;">100,000 (1)</td> </tr> <tr> <td>Interim dividend</td> <td style="text-align: right;">50,000 (2)</td> <td></td> </tr> <tr> <td>Bank</td> <td></td> <td style="text-align: right;">50,000 (1)</td> </tr> </tbody> </table>		Dr	Cr	Bank	250,000 (2)		Share capital		150,000 (1)	Share premium		100,000 (1)	Interim dividend	50,000 (2)		Bank		50,000 (1)	7	
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	(b)	(i)	<p>An overdraft is used to help with short term cash flow problems such as the payment of trade creditors and wages, although by increasing the overdraft it would reduce the current ratio of Manson Ltd because it would increase the current liabilities.</p> <p>Used as an alternative to other sources of finance because it is not secured on the assets of the company and may be easier to arrange than a bank loan but the interest charges would increase the finance costs of the company and reduce profitability</p> <p>Maximum 4 marks</p> <p>Up to 2 marks for profitability Up to 2 marks for liquidity</p>	4																			

Question			Answer	Marks	Guidance
3	(b)	(ii)	<p>Factoring involves selling sales invoices to a third party such as a bank. The factoring company will process the invoices and pay a percentage against the money owed to the business. This will improve the cash flow position of Manson plc.</p> <p>A factoring company will provide a debt collection and ledger management service but a fee will be charged which will reduce the profits of the company. This could be offset by the factoring company taking over the management of the sales ledger which will reduce administration expenses and bad debts.</p> <p>Maximum 4 marks</p> <p>Up to 2 marks for profitability Up to 2 marks for liquidity</p>	4	
		(iii)	<p>An operating lease allows the company to acquire and use an asset such as machinery without having ownership of the asset. It is not capital expenditure and rental payments would be made which are shown as an expense which will increase the expense in the profit and loss account.</p> <p>The company will not be required to make large cash investments and can spread the payments over a period of time which will improve the liquidity.</p> <p>Maximum 4 marks</p> <p>Up to 2 marks for profitability Up to 2 marks for liquidity</p>	4	
Total				19	

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