

**Accounting**

Advanced GCE

Unit **F013**: Company Accounts and Interpretation

**Mark Scheme for January 2013**

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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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## Annotations

Annotation	Meaning
	Unclear
	Benefit of Doubt
	Cross
	Own Figure Rule
	Repeat
	Noted but no credit given
	Tick

## Subject-specific Marking Instructions

Every working box – whether it contains working or not – must be stamped as ‘seen’

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*.

**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 question. 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.

Question		Answer		Marks	Guidance
1	(a)	Westwood Ltd Manufacturing and Trading Account and Profit and Loss Account for the year ended 31 December 2012		20	
		Opening stock of raw materials	84,300		
		Purchases of raw materials	950,000		
		Carriage on materials	<u>7,300</u>		
			1,041,600		
		Purchase returns of raw materials	<u>26,900</u>		
			1,014,700		
		Closing stock of raw materials	<u>73,000</u>		
		Direct materials	941,700	(2)	
		Direct wages	<u>590,000</u>	(1)	
		Prime cost	1,531,700		
		Indirect wages	120,500		
		Rates and insurance	45,840	(1)	
		General factory overheads	164,200	(1)	
		Depreciation land and buildings	15,900	(1)	
		Depreciation office equipment	15,750	(1)	
		Depreciation factory machinery	<u>46,000</u>	(1)	
			<u>408,190</u>		
			1,939,890		
		Work in progress at start	112,300		
		Work in progress at end	<u>(128,000)</u>		
		Production cost of finished goods	<u>1,924,190</u>	(2)	
		Sales	3,280,000		
		Sales returns	<u>35,600</u>		
			3,244,400	(1)	
		Opening stock of finished goods	109,600		
		Production cost of finished goods	1,924,190		
		Closing stock of finished goods	<u>88,400</u>		

Question			Answer				Marks	Guidance
			Cost of sales		<u>1,945,390</u>			
			Gross Profit		1,299,010			
			Commission received		20,000	(1)		
			Provision for doubtful debts		<u>3,865</u>	(2)		
					1,322,875			
			Rates and insurance	11,460		(1)		
			Loan interest	10,000		(1)		
			Office salaries	180,000				
			General office expenses	135,100				
			Depreciation office equipment	5,250		(1)		
			Depreciation land and buildings	10,600		(1)		
			Bad debts	<u>9,300</u>		(1)		
			Net Profit		<u>361,710</u>	(1)		
					<u>961,165</u>			
						+QWC	2	
	(b)		The prudence concept must be applied according to SSAP 9/IAS 2 (1).				6	1 for point plus 1 for development
			The stock must not be valued at cost plus a manufacturing profit (1) because this would overstate the profit figure and overstate the stock figure in the balance sheet. (1)					
			Prudence (1) must be applied so that the accounts present a true and fair view of the financial position. (1)					
			The realisation concept (1) states that profit should only be recognised when the stock of finished goods has been made (1). An adjustment must be made for any unrealised profit in stock. (1)					
							<b>Total</b>	<b>28</b>

Question		Answer		Marks	Guidance
2	(a)			18	
		Dr	Cr		
		Bank			
		Application and allotment	420,000 (1)	420,000 (1)	
		Application and allotment	70,000 (1)		
		Bank		70,000 (1)	
		Bank	290,000 (2)		
		Application and allotment		290,000 (2)	
		Application and allotment	300,000 (1)		
		Share premium		300,000 (1)	
		Application and allotment	340,000 (2)		
		Ordinary share capital		340,000 (2)	
		Bank	156,000 (1)		
		First and final call		156,000 (1)	
		First and final call	160,000 (1)		
		Ordinary share capital		160,000 (1)	

Question		Answer	Marks	Guidance
	(b)	<p>Arvada would become a high geared company <b>(1)</b>.</p> <p>If profits are high the ordinary shareholders could benefit <b>(1)</b> from the high gearing ratio <b>(1)</b> of Arvada, because the increased capital could increase profitability of the company <b>(1)</b>.</p> <p>Low interest rates of 5% could have a minimal effect on profit <b>(1)</b> and will benefit the ordinary shareholders with a higher return for banks per share. <b>(1)</b>.</p> <p>If the profits of Arvada were to fall then the ordinary shareholders will be disadvantaged <b>(1)</b> because the interest payments <b>(1)</b> must be met before any ordinary dividends. <b>(1)</b></p> <p>An increase in interest rates from 5% would also affect the return to the ordinary shareholders. <b>(1)</b> Preference shareholders and loan providers <b>(1)</b> would receive the interest and dividends before the ordinary shareholders <b>(1)</b>.</p>	8	1 for point plus 1 for development x4
<b>Total</b>			<b>26</b>	

Question			Answer	Marks	Guidance
3	(a)	(i)	$\frac{1,500,000}{1,250,000}$ (1) = 1.2 times (1)	2	
		(ii)	$\frac{200,000}{350,000}$ = 0.57: 1	1	
		(iii)	$\frac{400,000}{25,000}$ (1) = 16 times (1)	3	
		(iv)	$\frac{300,000}{200,000}$ (1) = 1.5 times (1)	3	
		(v)	$\frac{500,000}{1,250,000}$ (1) $\times 100 = 40\%$ (1)	3	
		(vi)	$40\% \times \frac{1}{2.50}$ (1) = 16% (1)	3	

Question	Answer	Marks	Guidance
(b)	<p>Hughes plc could reduce the amount of cash tied up in stock <b>(1)</b> by improved stock management, eg</p> <ul style="list-style-type: none"> <li>• introduce a system of economic ordering and monitor minimum and maximum stocks <b>(1)</b></li> <li>• introduce a system of just in time for stock control. <b>(1)</b></li> </ul> <p>Consider the sale of fixed assets <b>(1)</b> which might be surplus such as land and buildings <b>(1)</b>. This would give a large cash injection and improve the liquidity of the company <b>(1)</b>.</p> <p>Hughes plc could consider an injection of cash through increasing the amount of long-term loans <b>(1)</b> or issuing more ordinary shares <b>(1)</b> by a rights issue of shares <b>(1)</b> or a full issue to the general public. <b>(1)</b></p> <p>Hughes plc could consider its dividend policy by reducing the amount of dividends <b>(1)</b>. This would improve the liquidity position of the company<b>(1)</b>. It could also consider a bonus issue of shares <b>(1)</b>, instead of paying out cash dividends to the shareholders <b>(1)</b>.</p> <p>Factoring of debt <b>(1)</b> by using debt factors. Factoring company will pay a percentage of debtors <b>(1)</b> and company will have a regular cash flow although will have reduced profits through the amount of fees paid to factoring company <b>(1)</b>.</p> <p style="text-align: right;">+QWC</p>	9	1 for each point plus 2 for development
	<b>Total</b>	26	

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