GCE

Accounting

Unit **F013:** Company Accounts and Interpretation

Advanced GCE

Mark Scheme for June 2016

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

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.

OCR will not enter into any discussion or correspondence in connection with this mark scheme.

Question			Answer			Mark	Guidance
1*							.
			Ridley plc				
			Manufacturing, Trading and Profit and Loss Account for the year ended 31 May 2016			**28**	
			Opening stock of raw materials		52,000		
			Purchases of raw materials		970,000		
			Carriage on materials		18,000 **(1)**		
					1,040,000		
			Closing stock of raw material		28,000		
			Direct materials		1,012,000 **(2)**		
			Direct wages		165,000 **(1)**		
			Direct expenses		40,000		
			Prime cost		1,217,000		
			Indirect wages	93,000 (**1)**			
			Depreciation - machinery	25,400 **(1)**			
			Rates and insurance	27,375 **(1)**			
			General factory overheads	88,225	234,000 **(1)**		
					1,451,000		
			Work in progress at start		63,000		
			Work in progress at end		(33,500)		
			Production cost of finished goods		1,480,500		
			Manufacturing profit		148,050 **(1)**		
			Finished goods transfer to trading a/c		1,628,550		
			Sales		2,187,550		
			Opening stock of finished goods	71, 500			
			Transfer from manufacturing	1,628,550 **(1 of)**			
			Closing stock of finished goods	88,000			
			Cost of sales		1,612,050 **(1)**		
			Gross Profit		575,500		
			Rent received		22,800 **(1)**		
					598 300		
1*			General Administration	480,000 **(1)**			
			Carriage outwards	18,000 **(1)**			
			Provision for doubtful debts	2,910 **(2)**			
			Rates and insurance	9,125 **(1)**			
			Loan interest	7,500 **(1)**	517,535 **(1)**		
					80,765		

Question			Answer			Mark	Guidance
			Manufacturing profit	148,050 **(1)**			
			Increase in provision for unrealised profit	(1,500) **(2)**	146,550		
			Net profit before tax		227,315		
			Corporation tax		125,000 **(1)**		
			Profit after tax		102,315		
			Share dividend	**(1)** 50,000			
			Reserves	**(1)** 40,000	90,000		
			Retained profit		12,315 **(1)**		
					QWC (2)		

Question			Answer	Mark	Guidance
2	(a)	(i)	$\frac{254{,}000}{970{,}000}$ **(1)** **x** 100 **=** 26.19% **(1)**	2	
		(ii)	$\frac{820{,}000}{970{,}000}$ **(1)** = 0.85 times **(1)**	2	
		(iii)	$\frac{90{,}000}{170{,}000}$ **(1)** = 0.53: 1 **(1)**	2	
		(iv)	$\frac{254{,}000}{20{,}000}$ **(1)** = 12.7 times **(1)**	2	
		(v)	$\frac{189{,}000}{60{,}000}$ **(1)** **=** 3.15 times **(1)**	2	
		(vi)	$\frac{400{,}000}{970{,}000}$ **(1)** **=** 41.24% **(1)**	2	
		(vii)	$\frac{1}{2.50}$ **(1)** **x** 20% **(1) =** 8% **(1)**	3	

Question			Answer	Mark	Guidance
2	(b)*		The liquid ratio is known as the acid test because it does not include the closing stock valuation when measuring liquidity. Cooper plc has a ratio of 0.53:1 which means that cash is tied up in stock and the stock is not a an asset in which cash can be raised quickly. Cooper plc could reduce the amount of cash tied up in stock by improved stock management and use of computer stock software. Introduce a system of economic ordering and monitor minimum and maximum stocks. Introduce a system of just-in-time for stock control to improve the liquidity position. Cooper plc could consider an injection of cash through increasing the amount of long-term loans Issuing more ordinary shares by a rights issue of shares or a full issue to the general public to improve the cash flow Entering into a factoring agreement to improve the cash flow for the financial year Cooper plc could consider the dividend policy by reducing the amount of dividends it would improve the liquidity position of the company. They could also consider a bonus issue of shares instead of paying out cash dividends to the shareholders. **Maximum 8 marks** **(1 for point plus up to 1 for development**) **QWC (2)**	10	

Question			Answer			Mark	Guidance
3	(a)		Bank	1,200 000 **(1)**		16	
			Application and allotment		1,200,000 **(1)**		
			Application and allotment	160,000 **(1)**			
			Bank		160,000 **(1)**		
			Bank	60,000 **(2)**			
			Application and allotment		60,000 **(2)**		
			Application and allotment	750,000 **(1)**			
			Share premium		750,000 **(1)**		
			Application and allotment	350,000 **(1)**			
			Ordinary share capital		350,000 **(1)**		
			Bank	149,250 **(1)**			
			First and final call		149,250 **(1)**		
			First and final call	150,000 **(1)**			
			Ordinary share capital		150,000 **(1)**		

<table>
<tr><th colspan="3">Question</th><th>Answer</th><th>Mark</th><th>Guidance</th></tr>
<tr><td>3</td><td>(b)

(c)</td><td></td><td>Authorised share capital is the maximum amount of capital that Clayton plc can issue in shares. The amount of authorised share capital is stated in the memorandum of association as £2,500,000.

(1 for point plus up to 2 for development)

<u>Advantages of preference shares</u>
Preference shares will give a cash injection and increase the financing of the company.

Control of the company will not be changed because the preference shareholders do not possess voting rights in the company.

The dividends that are paid to the preference shareholders are fixed unlike the ordinary shareholders.

Preference share are an alternative to borrowing from a bank because the assets of the company will not be required for security unlike a bank loan.

By issuing preference shares the company is attracting a wider range of investors especially those who want lower risks because the preference share pays a fixed rate of interest and is paid before the equity holders dividends.

<u>Disadvantages of preference shares</u>
The Company may have to pay higher rates of dividends to the preference shareholders as compared to the equity shareholders.

Preference shares are debt capital and will increase the gearing ratio of the company.

Preference shareholders have preferential rights over the company assets in case of winding up of the company unlike the equity. shareholders.

If the preference shares are cumulative this could place a financial burden on the company because the dividends would have to be paid when profits are available unlike dividends to the equity holders.

If the company issued redeemable preference shares then the company would have to repay the share capital to the shareholders at a given time which could cause a cash flow problem.

Each section
(2 x 2 marks) (i.e. in total 4 x 2 marks for 2 advantages and 2 disadvantages)

For each advantage/disadvantage discussed, 1 for point plus 1 for development. No more than 2 marks per advantage/disadvantage.</td><td>3

8</td><td>(i.e. in total 4 x 2 marks for 2 advantages and 2 disadvantages)</td></tr>
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