

OCR ADVANCED SUBSIDIARY GCE IN ACCOUNTING (3808)

OCR ADVANCED GCE IN ACCOUNTING (7808)

Specimen Question Papers and Mark Schemes

These specimen assessment materials are designed to accompany the OCR Advanced Subsidiary GCE and Advanced GCE specifications in Accounting for teaching from September 2000.

Centres are permitted to copy materials from this booklet for their own internal use.

The GCE awarding bodies have prepared new specifications to incorporate the range of features required by new GCE and subject criteria. The specimen assessment material accompanying the new specifications is provided to give centres a reasonable idea of the general shape and character of the planned question papers in advance of the first operational examination

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Oxford Cambridge and RSA Examinations

Advanced Subsidiary GCE

ACCOUNTING

ACCOUNTING PRINCIPLES

2500

Specimen Paper

Additional materials:

answer paper

squared paper, if required

TIME 1 hour 15 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer booklet.

Answer **all** questions.

You must show the calculations leading to your answers.

You may use calculators in this paper.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [] at the end of each question or part question.

In this paper you will be assessed on quality of written communication, including your ability to present information clearly and the accuracy of your spelling, grammar and punctuation.

Answer **all** questions.

- 1** Gemma Bay started business on 1 January 1998. The following information is available for the purchases of machinery and office equipment.

Machinery

1 January 1998	Three machines purchased, M1 and M2 costing £15,000 each, and M3 costing £20,000.
1 January 2000	Two machines purchased, M4 and M5 costing £12,000 each.
1 October 2000	Two machines purchased, M6 costing £15,000 and M7 costing £25,000.

Office Equipment

1 January 1998	Office equipment purchased costing £25,000.
----------------	---------------------------------------------

Machinery is depreciated at the rate of 20% per annum by the reducing balance method. Office equipment is depreciated by the straight line method over an estimated life of 10 years, taking into account a residual value of 10% on cost price. Machine M2 was disposed of on 30 June 1999 for £10,200 and Machine M3 was disposed of on 30 September 2000 for £13,000. No office equipment was disposed of during the period.

A full year's depreciation is provided in the year that machinery is purchased. No depreciation is provided in the year of disposal. The financial year end is 31 December.

REQUIRED

- (a) Prepare the following accounts for each of the years 1998, 1999 and 2000:
- (i) Machinery Account;
 - (ii) Provision for Depreciation of Machinery Account. [19]
- (b) Prepare the Machinery Disposals Account for each of the years 1999 and 2000. [8]
- (c) Prepare the Balance Sheet extract as at 31 December 2000 for Machinery and Office Equipment. [4]
- (d) Evaluate the choice of depreciation methods used by the business for these types of fixed asset. [8]

[Total: 39]

- 2 Paul Cooper started in business on 1 January 1998. At the end of the first year in business his debtors amounted to £38,000 and he decided to create a provision for doubtful debts of £1,520.

During the years ended 31 December 1999 and 31 December 2000, the following transactions relating to credit sales and debtors occurred.

	Year ended 31 December	Year ended 31 December
	1999	2000
	£	£
Sales	220,000	250,000
Receipt from debtors	190,000	210,000
Sales Returns	1,750	2,000
Discount allowed	3,700	2,500
Bad debts	3,000	3,700

At 31 December 1999, Paul decided to maintain his provision for doubtful debts at the same percentage as it was on 31 December 1998. At 31 December 2000 he decided that a provision of 6% of his debtors would be required.

REQUIRED

- (a) Calculate the Provision for Doubtful Debts as at 31 December 1999 and 31 December 2000. **[17]**
- (b) Explain the purpose and accounting treatment of a business creating a provision for doubtful debts. Make reference to the application of any relevant accounting concept. **[8]**

[Total: 25]

- 3 Dragon Ltd manufactures a single product. Its costs and sales for the year ended 30 November 2000 were as follows:

Units sold	21,000
Selling price	£40 per unit
Variable costs per unit	
Wages	£8
Materials	£18
Overheads	£4
Fixed costs	£187,000

To improve profit for the year commencing 1 December 2000 the following changes are expected to take place.

Units to be sold are 22,500.

Selling price is to be maintained at £40 per unit.

Wages are to be increased by 5% per unit.

Material costs are to be reduced by 10% per unit, this being achieved by committing to a long term contract with a single supplier only.

Variable overheads are to be reduced by £0.10 per unit.

Fixed costs are to increase by £20,000.

REQUIRED

- (a) Using the data for the year commencing 1 December 2000, calculate:
- (i) the break-even in units and sales value;
 - (ii) the profit for the year;
 - (iii) the margin of safety in units and as a percentage;
 - (iv) the sales in units required to maintain the profit level of the year ended 30 November 2000. [24]
- (b) Explain what you understand by the term 'margin of safety'. [4]
- (c) Evaluate its usefulness to a company. [4]
- (d) Briefly outline two advantages and two limitations of break-even analysis. [4]

[Total: 36]

Oxford Cambridge and RSA Examinations

Advanced Subsidiary GCE

ACCOUNTING

ACCOUNTING PRINCIPLES

2500

Mark Scheme

This mark scheme consists of 5 printed pages and a cover sheet.

1 Numerical Answers

Answers to computational questions or part-questions are mainly through calculation. Marks are awarded for particular calculations.

Own figures ('of'): where 'of' is indicated a figure which is incorrect solely because of an error in an earlier part of the question will be awarded the appropriate marks as if it were correct.

2 Quality of Written Communication

The specification states that 'Candidates will be required to select and use a form and style of writing appropriate to purpose and to complex subject matter; to organise relevant information clearly and coherently, using specialist accounting vocabulary and conventions; and to ensure text is legible, and spelling, grammar and punctuation are accurate, so that meaning is clear.'

Up to five marks (5%) may be added to the overall mark for a candidate's paper, if the candidate's written responses have met the specification requirement in some measure.

Marks will be allocated according to the following criteria:

[4-5 marks] Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, are well structured, using specialist accounting terminology where appropriate. There are few, if any, errors of spelling, punctuation and grammar.

[2-3 marks] Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Answers are generally relevant, though may sometimes stray from the point, and are broadly logical and coherent. There are some errors of spelling, punctuation and grammar, but these are not intrusive or totally obscure the meaning.

[0-1 marks] Simple ideas have been expressed, generally in a style lacking clarity and fluency. Answers have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar which are noticeable and intrusive. Writing may lack legibility.

In this examination the following questions will be assessed for quality of written communication:

1(d), 2(b) and 3(b).

1 (a)

(i) **Machinery Account**

1998	Jan 1	Bank	<u>50,000</u>	[1]	Dec 31	Bal c/d	<u>50,000</u>
1999	Jan 1	Bal b/d	50,000	[1 of]	June 30	Disposal	15,000 [1]
					Dec 31	Bal c/d	<u>35,000</u> [1]
			<u>50,000</u>				<u>50,000</u>
2000	Jan 1	Bal b/d	35,000	[1 of]	Sept 30	Disposal	20,000 [1]
	Jan 1	Bank	24,000	[1]	Dec 31	Bal c/d	79,000
	Oct 1	Bank	<u>40,000</u>	[1]			
			<u>99,000</u>				<u>99,000</u>

(ii) **Depreciation of Machinery Account**

1998	Dec 31	Bal c/d	<u>10,000</u>		Dec 31	P & L	<u>10,000</u> (2)
1999	June 30	Disposal	3,000	(2)	Jan 1	Bal c/d	10,000
	Dec 31	Bal c/d	<u>12,600</u>		Dec 31	P & L	<u>5,600</u> (2)
			<u>15,600</u>				<u>15,600</u>
2000	Sept 30	Disposal	7,200	(2)	Jan 31	Bal b/d	12,600
	Dec 31	Bal c/d	<u>20,120</u>	(1)	Dec 31	P & L	<u>14,720</u> (2)
			<u>27,320</u>				<u>27,320</u>

[19]

1 (b)

Machinery Disposals Account

1999	June 30	Machinery	15,000	(1)	June 30	Dep Mach	3,000 (1)
					June 30	Bank	10,200 (1)
					Dec 31	P & L	<u>1,800</u> (1)
			<u>15,000</u>				<u>15,000</u>
2000	Sept 30	Machinery	20,000	(1)	Sept 30	Dep Mach	7,200 (1)
	Dec 31	P & L	<u>200</u>	(1)	Sept 30	Bank	<u>13,000</u> (1)
			<u>20,200</u>				<u>20,200</u>

[8]

1 (c)

Balance Sheet extract as at 31 December 2000

Fixed Assets

	<u>Cost</u>	<u>Dep</u>	
Machinery	79,000 (1 of)	20,120 (1 of)	58,880
Office Equipment	25,000 (1)	6,750 (2)	18,250

[4]

1 (d) Evaluation should include:

Reducing balance is suited to assets that have a heavier fall in value in earlier years (1) and repair/maintenance costs that increase over life. (1) The combined depreciation and repair charge will even out. (1) It would therefore be appropriate for machinery. (1)

Straight line is suited to assets that have an even use over their life (1) where the spread of depreciation complements the even use (1) and fall in value of an asset. (1) It would therefore be appropriate for office equipment. (1)

[8]

(1 mark for each point up to a maximum of 8 marks)

[Total: 39]

2 (a)

Original provision $\frac{1,520}{38,000} \times 100 = 4\%$ (1)

Total debtors 31 December 1999

	Balance	38,000	(1)
	Sales	<u>220,000</u>	(1)
		258,000	
Less	Bank	190,000	(1)
	Returns	1,750	(1)
	Discount	3,700	(1)
	Bad debts	<u>3,000</u>	(1)
Balance		<u>59,550</u>	(1)

$59,550 \times 0.04 = 2,382$ (1 of)

Total debtors 31 December 1998

	Balance	59,550	(1 of)
	Sales	<u>250,000</u>	(1)
		309,550	
Less	Bank	210,000	(1)
	Returns	2,000	(1)
	Discount	2,500	(1)
	Bad debts	<u>3,700</u>	(1)
Balance		<u>91,350</u>	

$91,350 \times 0.06 = 5,481$ (1 of)

[17]

(b) Explanation of purpose and accounting treatment should include:

Profit is realised at the time of sale (1); some debts might prove difficult to collect and could eventually lead to bad debts (1).

A provision is set up by debiting the Profit and Loss Account (1) thus reducing net profit for the year (1). Credit provision for bad debts (1). The provision is also deducted from debtors in the Balance Sheet (1) to give a more realistic view of debtors (1).

The concept applied is prudence (1) which states that losses should be provided for as soon as anticipated (1) and profit should be understated rather than overstated (1).

(1 mark for each point and for identification of concept up to a maximum of 8 marks)

[8]

[Total: 25]

3 (a)

(i) new data

selling price	=	£40	
wages	=	£8.40	
materials	=	£16.20	
overheads	=	£3.90	
fixed costs	=	£207,000	
break even	=	$\frac{207,000}{40(1) - 28.50(2)}$	= $\frac{207,000}{11.50}$ (1)
	=	18,000 units	(1)
sales value	=	18,000 x £40	= £720,000 (1)

(ii)

selling price	40.00	
variable costs	<u>28.50</u>	
contribution	11.50	(2 of)
x units	<u>22,500</u>	
	258,750	
fixed costs	<u>207,000</u>	(2)
profit	<u>51,750</u>	(2)

(iii) margin of safety = $22,500 - 18,000 = 4,500$ units (2)
 = $\frac{4,500}{22,500}$ (1 of) = 20% (1)

(iv) profit for y/e 30 Nov 2000

selling price	40	
variable costs	<u>30</u>	
contribution	10	
x units	<u>21,000</u>	
	210,000	(1)
fixed costs	<u>187,000</u>	
profit	<u>23,000</u>	(2)

profit = contribution – fixed costs

$23,000 = 11.50 \times \text{units} - 207,000$

$\frac{230,000}{11.50} (2) = 20,000$ units (2)

[24]

(b) Explanation and evaluation should include:

Margin of safety is the difference between a given volume of sales (1) and break even point. (1) It may be expressed in units (1) or as a percentage of sales. (1) [4]

(c) It provides an assessment of risk by (1) indicating the extent to which expected output can fall (1) before a loss is made. (1) It shows the ability to withstand adverse trading conditions. (1) [4]
 (1 mark per point up to a maximum of 8 marks across (b) and (c). [8]

[Total: 25]

(d)

Advantages:

- Can give quick indication of financial consequences.
- Can quickly indicate 'what if' assumption.
- Can be presented graphically to assist communication.

(1 mark for each advantage stated up to a maximum of 2 marks)

Limitations:

- Costs may only be linear within a certain range.
- Total revenue is unlikely to be linear.
- Difficulty in separating fixed and variable costs.
- Assumes a single product or constant sales mix.

(1 mark for each advantage stated up to a maximum of 2 marks)

[4]

[Total: 36]

Advanced Subsidiary GCE

ACCOUNTING

FINANCIAL ACCOUNTING

2501

Specimen Paper

Additional materials:

- answer paper
- squared paper, if required

TIME 1 hour 15 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer booklet.

Answer **all** questions.

You must show the calculations leading to your answers.

You may use a calculator in this paper.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [] at the end of each question or part question.

In this paper you will be assessed on quality of written communication, including your ability to present information clearly and the accuracy of your spelling, grammar and punctuation.

Answer **all** questions.

- 1 Nazim Rajan is a retailer of garden supplies. You are supplied with the following information for the month of July 2000.

Purchases and sales of hanging baskets

		Purchases		Sales		
Date	Quantity	Price per unit	Date	Quantity		
		£				
July	2	10	1.90	July	5	20
	4	60	2.00		11	30
	16	100	2.20		18	80
	22	80	2.10		20	40
	28	120	2.30		29	50
					30	80

All sales were made at £5 per hanging basket.

Nazim had an opening stock of 5 hanging baskets costing £1.75 each on 1 July 2000.

REQUIRED

- (a) Calculate the closing stock value of hanging baskets at 31 July 2000 under the following methods of stock valuation (perpetual basis):
- (i) FIFO;
 - (ii) LIFO. [12]
- (b) Trading Accounts for the month ended 31 July 2000 using the following methods of stock valuation (perpetual basis):
- (i) FIFO;
 - (ii) LIFO. [9]
- (c) Discuss the advantages and disadvantages of using the FIFO and LIFO methods of stock valuation. [8]
- (d) State and explain three advantages that Nazim Rajan would gain from using a computerised system of stock control. [10]

[Total: 39]

- 2 The sales ledger control account of Workitt Ltd for the year ended 31 December 2000 has been prepared from the following information.

	£
Debit balance b/d 1 January 1999	56,000
Totals for the year 1 January 1997 to 31 December 2000	
Credit Sales	800,000
Cheques received from debtors	676,000
Cash received from debtors	1,000
Discount allowed	20,000
Dishonoured cheques	2,000
Contra Purchase Ledger	4,000

The control account debtors balance failed to agree with the total debtors of £156,125 shown by the schedule of debtors. The following errors were subsequently discovered.

- (i) Workitt Ltd had sent goods on a sale or return basis to a customer with a selling price of £1,000. The customer had not signified its intention to purchase goods sold, and made the relevant accounting entries.
- (ii) No contra entry had been made in a debtors account in the sales ledger in respect of purchases by Workitt Ltd of goods list price £500, trade discount 15%. This entry had been correctly dealt with in the control account.
- (iii) The discount allowed total shown in the cash book had been undercast by £700.
- (iv) A customer had returned goods to Workitt Ltd at the selling price of £2,000. These goods had been bought on credit by the customer. No entries had been made to record the return of goods in the accounts of Workitt Ltd.
- (v) During 1999 Workitt Ltd received a cheque drawn by a customer for goods sold on credit for £600. The correct double entry was made in the accounts. The cheque was subsequently returned by the bank marked 'Refer to drawer'. Workitt Ltd credited the bank account. The amount was included in the total of dishonoured cheques, but there was no further entry. The company expects the account will be settled in February 2001.

REQUIRED

- (a) A corrected sales ledger control account for the year ended 31 December 2000 together with a reconciliation statement of the debtors schedule showing the correct total for the schedule of debtors. [21]
- (b) Discuss **two** advantages of operating a control accounts system. [8]

[Total: 29]

- 3 Jane Newbury has been in business for some years, and has not kept any proper accounting records. She has however managed to provide the following information for the year ended 30 April 2000:

	£
Receipts from debtors	122,300
Debtors at 1 May 1999	8,400
Debtors at 30 April 2000	10,600
Creditors at 30 April 2000	12,810
Expenses paid by cheque	9,480
Expenses paid from cash sales	1,122
Expenses owing at 1 May 1999	440
Expenses owing at 30 April 2000	390
Stock at 1 May 1999	8,300
Stock at 30 April 2000	9,700
Drawings from cash sales	3,648
Fixed assets (net) at 1 May 1999	40,000
Capital at 1 May 1999	35,000

Additional Information

There were no prepayments.

No fixed assets were bought or disposed during the year. Jane Newbury depreciates her fixed assets each year and a specific entry should be made in the final accounts.

All current liabilities are shown above. The total current assets are exactly twice the total current liabilities.

Stock turnover has been twelve times during the year.

All sales are based on a mark up of 30% and after allowing for all expenses a sales margin of 10% is achieved.

In addition to the information provided, other cash sales were also made during the year.

The only drawings made were those from cash sales as indicated.

REQUIRED

Prepare a Trading and Profit and Loss Account for the year ended 30 April 2000 and a Balance Sheet as at that date. (Purchases and Stock figures must be shown in the Trading Account.)

[32]

[Total: 32]



Oxford Cambridge and RSA Examinations

Advanced Subsidiary GCE

ACCOUNTING

FINANCIAL ACCOUNTING

2501

Mark Scheme

This mark scheme consists of 5 printed pages and a cover sheet.

1 Numerical Answers

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[4-5 marks] Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, are well structured, using specialist accounting terminology where appropriate. There are few, if any, errors of spelling, punctuation and grammar.

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In this examination the following questions will be assessed for quality of written communication:

1(c), (d), 2(b).

1 (a)

(i) LIFO

$$\begin{aligned} 5 \text{ units (2)} \times 1.75 \text{ (2)} &= \quad \text{£}8.75 \\ 70 \text{ units (2)} \times 2.10 \text{ (2)} &= \underline{\text{£}147.00} \\ &\text{£}155.75 \end{aligned}$$

(ii) FIFO

$$75 \text{ units (2)} \times \text{£}2.30 \text{ (2)} = \text{£}172.50$$

[12]

(b) (i) FIFO

	£		£
Sales			1500 (2)
<u>Less Cost of Sales</u>			
Opening Stock	8.75 (1)		
Purchases	<u>803.00 (2)</u>		
	811.75		
Closing Stock	<u>172.50 (2 of)</u>		<u>639.25</u>
Gross Profit			<u>860.75</u>

(ii) LIFO

	£		£
Sales			1500.00
<u>Less Cost of Sales</u>			
Opening Stock	8.75		
Purchases	<u>803.00</u>		
	811.75		
Closing Stock	<u>155.75 (2 of)</u>		<u>656.00</u>
Gross Profit			<u>844.00</u>

[9]

(c) Advantages/disadvantages identified could include :-

FIFO

Advantages:

Good representation of an actual cost system – unrealised profits on losses will not occur.

Basis of sound storekeeping - oldest items are issued first.

The stock valuation is based upon recently acquired materials and will approach the market value.

The system is acceptable to the Inland Revenue and SSAP 9.

Disadvantages

In periods of inflation costs are understated and profits overstated.

In periods of falling prices costs are overstated and profits understated.

Difficult to compare costs from different jobs because the material issue price will vary from batch to batch.

1 mark for identification of advantage/disadvantage and 1 additional mark for further development up to maximum of 4 marks

LIFO

Advantages

It is an actual cost system.

Product costs will be based on current prices.

Disadvantages

When prices are rising LIFO keeps price down.

Stocks are valued at the oldest prices.

Not accepted by the Inland Revenue or recommended by SSAP 9.

Could result in batches of production being only partly charged when a new batch is received.

1 mark for identification of advantage/disadvantage and 1 possible additional mark for further development up to maximum of 4 marks

[8]

(d) Advantages of a computerised system of stock control

Possible re-ordering of stock at the re-order quantity.

Increased control of minimum and maximum stock levels.

Improved monitoring of economic order quantities.

Just in time methods of stock management could be introduced.

Potential of point of sale integrated stock systems/retail and electronic point of sale (EPS).

Regular stock updates for management and reports on the performance of different lines of stock.

Software package for stock could be integrated with present accounting system.

1 mark for identification of advantage/disadvantage and 1 possible additional mark for further development/application to Nazim Rajan's business

5 points x 2 marks maximum

[10]

[Total: 39]

2 (a)

Sales Ledger Control Account

Balance b/d 56,000 (1) Credit sales 799,000 (1) Dishonoured cheque 2,000 (1)		Bank 676,000 (1) Cash 1,000 (1) Discount allowed 20,700 (2) Contra Purchase Ledger 4,000 (2)	Returns 2,000 (2) Bal c/d <u>153,300</u> (2)
			<u>857,000</u>
Bal b/d		153,300	

Schedule of Debtors

	£		
Original balance	156,125		
– sale of return	(1,000)	(2)	
– contra	(425)	(2)	
– returns	(2000)	(2)	
+ dishonoured cheque	600	(2)	
	<u>153,300</u>		[21]

(b) Advantages of operating a control accounts system:

When the ledger is subdivided errors can be difficult to find. A control account means that only the ledger whose control account does not balance will need checking, thus saving time.

Control accounts are prepared by a responsible employee. Fraud is made more difficult because of the independent check made on the ledger. Transfers made to disguise fraud will not pass the check carried out.

(Up to 4 marks for identification of an advantage and appropriate evaluation) **[8]**

[Totals: 29]

3 J Newbury

Trading and Profit and Loss Account for the year ended 30 April 2000 (1)

Sales:			
122,300 – 8,400 + 10,600 = 124,500 + cash (missing figure) 15,900 =		140,400	(4)
Opening stock	8,300	(1)	
Purchases (m/f)	<u>109,400</u>	(2)	
	117,700		
Closing stock	<u>9,700</u>	(1)	
Cost of sales (12 x 9,000)			<u>108,000</u> (2)
Gross Profit			32,400
Expenses (9,480 + 1,122 – 440 + 390)	10,552	(4)	
Depreciation (m/f)	7,808	(2)	
			<u>18,360</u>
Net Profit		<u>14,040</u>	

Balance Sheet as at 30 April 2000

Fixed Assets		40,000	(2)
Less depreciation		<u>7,808</u>	(2 of)
		32,192	

Current Assets

Stock	9,700	(1)	
Debtors	10,600	(1)	
Bank/Cash (m/f)	<u>6,100</u>	(2)	
	26,400		

Current Liabilities

Creditors	12,810	(2)	
Expenses	<u>390</u>	(2)	
	13,200		<u>13,200</u>
			<u>45,392</u>

Financed by

Capital		35,000	(1)
Net Profit		<u>14,040</u>	(1 of)
		49,040	
Drawings		<u>3,648</u>	(1)
		<u>45,392</u>	

[Total: 32]

Advanced Subsidiary GCE

ACCOUNTING

FINAL ACCOUNTS

2502

Specimen Paper

Additional materials:

- answer paper
- squared paper, if required

TIME 1 hour 15 minutes

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INFORMATION FOR CANDIDATES

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In this paper you will be assessed on quality of written communication, including your ability to present information clearly and the accuracy of your spelling, grammar and punctuation.

Answer **all** questions.

- 1 On 28th February 1999 the following balances were extracted from the books of Barber Manufacturing, a local business solely owned by Ken Barber.

	£
Stocks - 1 March 1998	
Raw materials	38,300
Work in progress	40,200
Finished goods	58,590
Purchases - raw materials	573,000
Direct expenses	63,100
Direct wages	146,200
Indirect wages	38,300
Sales	1,163,400
Debtors	93,600
Loan interest	500
Rent and Rates	16,100
Insurance	920
Sundry office expenses	15,760
Premises at cost	120,000
Provision for depreciation – premises	24,000
Plant and machinery at cost	80,000
Provision for depreciation - plant and machinery	52,560
Provision for unrealised profit and goods manufactured	2,790
Bad debts	720
Provision for doubtful debts	3,120
Loan (10% p.a. interest)	10,000

The following information is also relevant:

- Stocks as at 28 February 1999:

Raw materials	£35,400
Work in progress	£36,476
Finished goods	£74,340
- The business transfers finished goods from the factory to the Trading Account at factory cost plus 5% profit on manufacture.
- A provision is to be made for unrealised profit on the stock of finished goods on 28th February 1999 of £3,540.
- The loan was taken out on March 1 1997 and is for a five year period.
- Rent and rates are apportioned between the factory and office on the basis 5:1.

- Rent of £1,900 is outstanding.
- Insurance, which includes a prepayment of £80, is apportioned between factory and office on the basis 6:1.
- Provision for depreciation is to be made as follows:
 - Premises: 5% on cost, to be apportioned 5:1 between factory and office;
 - Plant and machinery: 30% on the reducing balance basis, to be apportioned 6:1 between factory and office.
- Provision for doubtful debts is to be provided at 4% of debtors.

REQUIRED

- (a) A Manufacturing, Trading and Profit and Loss Account for the year ended 28 February 1999 (for internal use only). **[28]**
- (b) An explanation of the advantages and disadvantages for Barber Manufacturing of changing from a sole trader business to a partnership in terms of ownership and finance. **[8]**

[Total: 36]

- 2 Nick Morgan, a member of Sandfields Sports Club, has taken over the duties of Treasurer of the Club, the previous Treasurer having recently moved away from the area. The following statement has been prepared for presentation to members at the Club's annual general meeting.

Balance Sheet for the year end 31 December 1999

Balances for 1998		£	Payments	£
Premises		12,000	Equipment	1,100
Equipment		2,400	Donations	250
Bank		<u>810</u>	Rates and Insurance	1,840
		15,210	Postages	235
			Depreciation and equipment	480
Subscriptions Received			Part-time wages	2,707
1998	279			
1999	4,314			
2000	<u>168</u>	4,761		
			Balances to 2000	
Life Membership		600	Premises	12,000
			Equipment	1,920
Premises sub-let		1,300	Bank	1,439
Premises sub-let advance payments		<u>100</u>		
		<u>21,971</u>		<u>21,971</u>

- A life membership scheme was introduced during 1999 and any such fees received are to be capitalised and transferred to income over five years by equal instalments each year, commencing in the year received.
- Premises are not depreciated, while equipment is depreciated by 20% of the balance brought forward from the year before. Provision should be made on new equipment bought during the year. The depreciation rate is applied for the full year irrespective of date of purchase. No assets were disposed of during the year.
- At 31 December 1999 £40 was owing for part-time wages, and rates of £110 had been prepaid.

REQUIRED

- (a) An Income and Expenditure Account for the year ending 31 December 1999, together with a Balance Sheet as at that date, to good accounting format, for submission to members. [28]
- (b) Explain to the new Treasurer the differences between a Receipts and Payments Account, and an Income and Expenditure Account. Indicate when one would be used in preference to the other. [12]

[Total: 40]

- 3 Adil Zahir is concerned about the lack of cash in his business and why he has found it difficult to meet orders for customers in the last year.

The following summary information relates to his business for the last two years.

Summarised Profit and Loss Account for the years ended:

	31st December 1999	31st December 2000
	£'000	£'000
Sales	90	120
Cost of goods sold	<u>45</u>	80
Gross profit	45	40
Sundry expenses	<u>30</u>	34
Net profit	<u>15</u>	6

Opening stock as at 1 January 1999 was £15,000

Balance Sheets as at:	31st December 1999		31st December 2000	
	£'000	£'000	£'000	£'000
Net fixed assets		40		30
Current assets	5		20	
Stock	10		20	
Debtors	<u>3</u>		-	
Cash at bank	18		40	
 Current Liabilities				
Bank overdraft	-		10	
Creditors	<u>9</u>		<u>30</u>	
	<u>9</u>	<u>9</u>	<u>40</u>	
 Financed By		<u>49</u>		<u>30</u>
Opening capital		40		49
Net profit for year		<u>15</u>		<u>6</u>
		55		55
Less: Drawings		<u>6</u>		<u>25</u>
Closing capital		<u>49</u>		<u>30</u>

REQUIRED

- (a) A calculation of the following ratios:

- return on capital employed (based on closing capital)
- gross profit as a percentage of sales
- net profit as a percentage of sales
- current ratio
- liquid (acid test) ratio
- stock turnover

[12]

- (b) An analysis of the changes between the two years, based on the ratios calculated and information available in the financial statements. Suggest how Adil Zahir could tackle his concerns and improve future liquidity.

[12]

[Total: 24]

Oxford Cambridge and RSA Examinations

Advanced Subsidiary GCE

ACCOUNTING

FINAL ACCOUNTS

2502

Mark Scheme

This mark scheme consists of 7 printed pages and a cover sheet.

1 Numerical Answers

Answers to computational questions or part-questions are mainly through calculation. Marks are awarded for particular calculations.

Own figures ('of'): where 'of' is indicated a figure which is incorrect solely because of an error in an earlier part of the question will be awarded the appropriate marks as if it were correct.

2 Quality of Written Communication

The specification states that 'Candidates will be required to select and use a form and style of writing appropriate to purpose and to complex subject matter; to organise relevant information clearly and coherently, using specialist accounting vocabulary and conventions; and to ensure text is legible, and spelling, grammar and punctuation are accurate, so that meaning is clear.'

Up to five marks (5%) may be added to the overall mark for a candidate's paper, if the candidate's written responses have met the specification requirement in some measure.

Marks will be allocated according to the following criteria:

[4-5 marks] Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, are well structured, using specialist accounting terminology where appropriate. There are few, if any, errors of spelling, punctuation and grammar.

[2-3 marks] Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Answers are generally relevant, though may sometimes stray from the point, and are broadly logical and coherent. There are some errors of spelling, punctuation and grammar, but these are not intrusive or totally obscure the meaning.

[0-1 marks] Simple ideas have been expressed, generally in a style lacking clarity and fluency. Answers have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar which are noticeable and intrusive. Writing may lack legibility.

In this examination the following questions will be assessed for quality of written communication:

2(b) and 3(b).

1 (a)

Barber Manufacturing
Manufacturing, Trading and Profit and Loss Account for the year ended
28th February 1999

	£		£	
Opening stock of raw materials	38,300			
Purchase of raw materials	<u>573,000</u>			
	611,300			
Less: closing stock of raw materials	<u>35,400</u>		575,900	(1)
Direct Expenses			63,100	
Direct wages			<u>46,200</u>	
Prime cost			785,200	
<i>Factory expenses</i>				
Indirect wages	38,300			
Rent and rates	15,000	(2)		
Insurance	720	(2)		
Depreciation of premises	5,000	(2)		
Depreciation of plant and machinery	7,056	(2)	<u>66,076</u>	
			851,276	
Add: WIP at start	40,200			
Less: WIP at close	<u>36,476</u>		<u>3,724</u>	(1)
Cost of goods manufactured			855,000	(1)
Manufacturing profit			<u>42,750</u>	(1 of)
Finished goods transferred to trading			897,750	(1)
Sales			1,163,400	(1)
Less: cost of sales				
Opening stock of finished goods	58,590			
Transfer from Manufacturing account	<u>897,750</u>	(1 of)		
	956,340			
Less: closing stock of finished goods	74,340		<u>882,000</u>	
Gross profit			281,400	(1 of)
Loan interest	1,000	(1)		
Rent and rates	3,000	(1)		
Insurance	120	(1)		
Sundry office expenses	15,760			
Depreciation of premises	1,000	(1)		
Depreciation of plant and machinery	1,176	(2)		
Bad debts	720			
Increase in provision for doubtful debts	<u>624</u>	(2)		
			<u>23,400</u>	
			258,000	
Manufacturing profit	42,750	(1)		
Less: increase in provision for unrealised profit	<u>750</u>	(1)	42,000	(1)
			300,000	(1 of)

[28]

(b) Advantages

Increase in capital – providing money for expansion

Shared responsibilities – ‘two heads better than one’

Greater expertise available – to deal with any problems arising/able to take advantage of opportunities

1 mark for identification of each advantage and 1 for explanation/development relating to Barber Manufacturing up to maximum of 4 marks

Disadvantages

Loss of overall control – partner needs to be consulted on decisions

Requirement to share business losses incurred by partner as well as own – may be greater risk for individual

1 mark for identification of each disadvantage and 1 for explanation/development relating to Barber Manufacturing up to maximum of 4 marks

[8]

[Total: 36]

2 (a)

Sandfields Sports Club

Income and Expenditure Account for the year ended 31 December 1999

<u>Income</u>		4,314	(1)
Subscription		120	(2)
Life membership		<u>1,300</u>	(1)
Premises sub-let		5,734	

Expenditure

Donations	250	(1)	
Rates and Insurance	1,730	(2)	
Postages	235	(1)	
Depreciation	700	(2)	
Part-time wages	2,747	(2)	5,662
Surplus			<u><u>72</u></u> (1)

Balance Sheet as at 31 December 1999

Fixed Assets

Premises		12,000	(1)
Equipment		2,800	(2)
		<u>14,800</u>	

Current Assets

Rates prepaid	110	(2)	
Bank	<u>1,439</u>	(1)	
	1,549		

Current Liabilities

Subscriptions pre-paid	168	(2)	
Premises sub-let	100	(2)	
Part-time wages	<u>40</u>	(1)	
	308		<u>1,241</u>
			<u><u>16,041</u></u>
Accumulated Fund			15,489 (1)
Life membership			480 (2)
Surplus			<u>72</u> (1 of)
			<u><u>16,041</u></u>

[28]

(b) Receipts and Payments Account is a summary of the cash and bank transactions for a period. (1)

It is similar to a cash book in a commercial organisation. (1)

It shows the cash position at the end of a period. (1)

It does not include any pre-payments/accruals. (1)

The Income and Expenditure Account is accruals rather than cash based. (1)

It is similar to a Profit and Loss Account in a commercial organisation. (1)

It shows the surplus or deficit for a period. (1)

It includes prepayments and accruals. (1)

The Receipts and Payments Account is normally prepared as a single entry. (1)

The Income and Expenditure Account is normally part of a double entry system. (1)

If a club operates a trading activity any profit/loss may be transferred to the Income and Expenditure Account. (1)

The Receipts and Payments Account includes all transactions for a period and does not distinguish between capital and revenue expenditure. (1)

The Income and Expenditure Account differentiates between capital and revenue expenditure and may include depreciation. (1)

The Income and Expenditure Account is preferred in final accounts as an indicator of annual performance. (1)

(1 mark per point up to a maximum of 12 marks)

[12]

[Total: 40]

3 (a)		<u>1999</u>		<u>2000</u>	
	Return on capital employed	30.6	(1)	20%	(1)
	Gross profit margin	50%	(1)	33.3%	(1)
	Net profit margin	16.7%	(1)	5%	(1)
	Current ratio	2 : 1	(1)	1 : 1	(1)
	Liquid ratio	1 : 5 : 1	(1)	0 : 5 : 1	(1)
		4.5 times	(1)	6.4 times	(1)

[12]

(b) Reduction in gross profit margin between 1999 and 2000 (1) - increase in cost of goods purchased/sales prices have not increased to match (1).

Increase in sales of 25% in 2000 (1) - perhaps a drop in prices or more credit offered (1).

Significant reduction in net profit (1) - largely because of gross profit drop. Expenses are not unreasonably more because of the likely increase in volume of sales (1).

Reduction in current ratio between 1999 and 2000 (1) and change from balance at bank to overdraft (1).

Liquidity ratio decreased (1) - impossible in 2000 for creditors to be met if necessary (1).

Faster movement of stocks in 2000 (1) - perhaps due to lower selling prices (1).

Debtors doubled although only a 25% increase in sales. (1) More credit offered or poorer control. (1)

High level of reliance in 2000 on creditors. (1) Could risk loss of supply. (1)

Large level of drawings in 2000 in excess of profits. (1) Damages business through reduced resources. (1)

Need to reduce drawings, control working capital (1) and consider pricing policy (1).

Return on capital employed has fallen. (1) This is also reflected in the fall in net profit as a percentage of sales. (1)

(1 for identification of point and 1 for development/application to Adil Zahir up to maximum of 12 marks)

[12]

[Total: 24]

Advanced GCE

ACCOUNTING

MANAGEMENT ACCOUNTING 1

2503

Specimen Paper

Additional materials:

- answer paper
- squared paper, if required

TIME 1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer booklet.

Answer **all** questions.

You must show the calculations leading to your answers.

You may use a calculator in this paper.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [] at the end of each question or part question.

In this paper you will be assessed on quality of written communication, including your ability to present information clearly and the accuracy of your spelling, grammar and punctuation.

Answer **all** questions.

- 1** Derwentwater Ltd is a small business manufacturing garden products and leisure products. The budget for June estimated that 150 kilos of steel at £16 per kilo would be used and 240 metres of timber at £3 per metre. The actual usage was 160 kilos of steel purchased at £15.80 per kilo and 260 metres of timber purchased at £3.20 per metre.

The budget also anticipated that 850 hours of semi-skilled labour at £8 per hour would be required, together with 1,600 hours of unskilled labour at £5 per unit. In the event, 860 hours of semi-skilled labour at £8.50 per hour was used and 1,500 hours of unskilled labour at £5.20 per hour.

REQUIRED

- (a) (i) A calculation of the standard and the actual cost of production for the month of June. **[4]**
- (ii) A calculation of the following:
- Material price variances;
 - Material usage variances;
 - Labour rate variances;
 - Labour efficiency variances. **[16]**
- (b) Comment on the material price variances and the labour efficiency variances. **[6]**
- (c) Discuss the factors which should be taken into account when setting standards. **[12]**

[Total: 38]

- 2 Lakeside plc is considering purchasing one of two businesses in order to expand its operations. The options are:

Turner Ltd

Estimated cost of the take-over bid: £2.15 million

Production: 100,000 units per annum.

Sales: 80% of the output will be sold under an existing fixed price contract which has a further four years to run at £15 per unit. The remainder of the production will be sold on the open market at the following selling prices:

Year	1	2	3	4
Selling price per unit	£14	£14	£15	£16

Operating costs (including depreciation): £750,000 over each of years 1 and 2
£800,000 over each of years 3 and 4.

Depreciation: £60,000 per year.

Paxton Ltd

Estimated cost of take-over bid: £3.5 million

Production: 200,000 units per annum.

Sales: A contract already exists covering the next four years under which the entire product will be taken at a price of £13 per unit for years 1 and 2, £14 per unit in year 3 and £15 per unit in year 4.

Operating costs (including depreciation): £1.2 million in the first year,
£1.3 million in the second year,
£1.5 million in the third year
and £1.7 million in the fourth year.

Depreciation: £90,000 per year.

The cost of capital for Lakeside plc is 12%. All receipts and payments take place at the end of each year.

Extract from present value tables of £1 @ 12%:

Year 1	.893
Year 2	.797
Year 3	.712
Year 4	.636

REQUIRED

- (a) Calculate the net present value of each of the two businesses. Make a recommendation, with reasons, as to which business appears to be the better investment. [21]
- (b) Describe **two** other methods of capital investment appraisal. What are the advantages and disadvantages of each method? [10]

[Total: 31]

3 The following is a summary of the balance sheet for Mandeep Ltd as at 31 May 1998:

	£	£
Fixed Assets at cost		65,000
Less depreciation to date		<u>14,000</u>
		<u>51,000</u>
<u>Current Assets</u>		
Stock	60,000	
Trade Debtors	35,000	
Bank	<u>14,300</u>	
	109,300	
<u>Current Liabilities</u>		
Trade Creditors	30,000	
		<u>79,300</u>
Capital and Reserves		<u>130,300</u>

The company is in the process of preparing budgets for the three months ending 31 August 1998, and the following information is available.

- Budgeted sales (which provide a gross profit of 25% on cost) are:

	£
May	70,000
June	75,000
July	65,000
August	100,000
September	90,000

Half the sales are paid for in the month in which the sales are made and attract a 2% cash discount. The remainder are paid net the following month.

- It has been company policy since January 1998 to arrange purchases, such that stock at the end of each month exactly covers sales for the following month. Half of the purchases are paid in the month received and the company have negotiated a 2½ % discount for prompt payment; the remainder are paid net the following month.
- Expenses (excluding depreciation) are £8,400 per month, payable in the month they are incurred.
- The company will be purchasing additional fixed assets costing £17,000 on 1 June 1998 with 50% payable in July and the balance in October 1998. Depreciation on all fixed assets is at the rate of 10% p.a. on cost (rates being charged from the date of purchase).

REQUIRED

(a) A Cash Budget for the three months ending 31 August 1998. [18]

(b) A budgeted Trading and Profit and Loss account for the three months ending 31 August 1998. [13]

[Total: 31]

Oxford Cambridge and RSA Examinations

Advanced GCE

ACCOUNTING

MANAGEMENT ACCOUNTING 1

2503

Mark Scheme

This mark scheme consists of 5 printed pages and a cover sheet.

1 Numerical Answers

Answers to computational questions or part-questions are mainly through calculation. Marks are awarded for particular calculations.

Own figures ('of'): where 'of' is indicated a figure which is incorrect solely because of an error in an earlier part of the questions will be awarded the appropriate marks as if it were correct.

2 Quality of Written Communication

The specification states that 'Candidates will be required to select and use a form and style of writing appropriate to purpose and to complex subject matter; to organise relevant information clearly and coherently, using specialist accounting vocabulary and conventions; and to ensure text is legible, and spelling, grammar and punctuation are accurate, so that meaning is clear.'

Up to five marks (5%) may be added to the overall mark for a candidate's paper, if the candidate's written responses have met the specification requirement in some measure.

Marks will be allocated according to the following criteria:

[4-5 marks] Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, are well structured, using specialist accounting terminology where appropriate. There are few, if any, errors of spelling, punctuation and grammar.

[2-3 marks] Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Answers are generally relevant, though may sometimes stray from the point, and are broadly logical and coherent. There are some errors of spelling, punctuation and grammar, but these are not intrusive or totally obscure the meaning.

[0-1 marks] Simple ideas have been expressed, generally in a style lacking clarity and fluency. Answers have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar which are noticeable and intrusive. Writing may lack legibility.

In this examination the following questions will be assessed for quality of written communication:

1(c) and 2(b).

3 Synoptic Assessment

Synoptic assessment in this paper tests candidates' understanding of the connections between different elements of the subject, in particular:

- understanding of the inter-relatedness of many accounting problems;
- understanding of how certain accounting principles and techniques may be relevant to a range of different contexts;
- application of such principles and techniques in analysing accounting problems and in evaluating evidence.

In this paper the following questions provide opportunities for synoptic assessment:

Question 1(b) requires understanding of costing and decision making and application of appropriate principles and techniques (Module 2500).

Question 1(c) requires understanding of the social, moral and ethical implications of the outcomes of accounting for decision-making (Module 2500).

Questions 3(a) and (b) require understanding and application of accounting concepts and conventions (Module 2500)

Question 3(b) requires understanding of preparation of final accounts and application of principles and techniques developed in Modules 2500 and 2502.

Synoptic assessment comprises approximately 30% of the available marks in this paper. All questions require understanding of accounting concepts and experience in evaluating evidence developed in Modules 2500, 2501 and 2502.

1	(a) Standard cost of Production	17920 (2)	
	Actual cost of Production	18470 (2)	
	(b) Material Price	(16 - 15.80) x 160 = 32 F (2)	
		(3 - 3.20) x 260 = 52 A (2)	
	Material Usage	(150 - 160) x 16 = 160 A (2)	
		(240 - 260) x 3 = 60 A (2)	
	Labour Rate	(8 - 8.50) x 860 = 430 A (2)	
		(5 - 5.20) x 1500 = 300 A (2)	
	Labour Efficiency	(850 - 860) x 8 = 80 A (2)	
		(1600 - 1500) x 5 = 500 F (2)	[16]

Material price variance is favourable for steel and adverse for timber.

Higher or lower price; possibly use of substitute material.

Lower price could have been obtained by buying in bulk and gaining quantity discount.

Higher price due to inflation or shortage of material.

Labour efficiency variance is adverse for semi-skilled and favourable for unskilled
- more or less hours used than planned due using a different grade of labour.

Poor workshop supervision resulting in more hours than planned. Good working practices increase efficiency of each worker.

1 mark for identification of point and up to 2 for development up to a maximum of 6 marks

[6]

(c) A standard must be attainable for those who are asked to achieve the standard.

A standard should be based upon normal efficient working conditions any variance calculated could then be used for management information purposes.

Should not use ideal standards, an ideal standard may not be achieved by workers and could cause a lack of motivation in the work force.

Consultation should take place between workforce and management on the setting of standards.

The involvement of the workforce may lead to an increase in motivation and a sense of ownership.

If management impose standards without consultation could lead to a decrease in motivation.

1 mark for identification of factor and up to 2 marks for development/analysis up to a maximum of 12 marks.

[12]

[Total: 38]

2 (a) **Turner Ltd**

<u>Year</u>	<u>Net Cash Flows</u>	<u>Discount Factor</u>	<u>Net Present Values</u>
0	(2150,000)	1	(2150,000) (1)
1	790,000 (1)	.893	705,470 (1)
2	790,000	.797 (1)	629,630 (1)
3	760,000	.712	541,120 (1)
4	780,000	.636	<u>496,080</u> (1)
			<u>222,300</u>

Paxton Ltd

<u>Year</u>	<u>Net Cash Flows</u>	<u>Discount Factor</u>	<u>Net Present Values</u>
0	(3150,000)	1	(3500,000) (1)
1	14900,000 (1)	.893	1330,570 (1)
2	1390,000	.797 (1)	107,830 (1)
3	1390,000	.712	989,680 (1)
4	1390,000	.636	<u>884,040</u> (1)
			<u>812,120</u>

1 additional mark if both net present values correct

Paxton Ltd shows a higher positive net present value than Turner Ltd (1) and should take preference (2).

Paxton Ltd requires a higher capital investment than Turner Ltd. (1)

Paxton Ltd has a fixed contract for all output for next four years. (1) 20% of the output of Turner Ltd can be sold on the open market for next four years (1)

1 mark for explanation of valid reasons up to maximum of 6 marks

[21]

(b) Payback Method (1 mark): How quickly the project pays back the cash investment (1)

- Advantages -
- Easy to use
 - Measures Risk
 - Uses actual Cash Flows
 - Can be used with net present values

1 mark for each advantage up to maximum of 2 marks

Disadvantages - Time value of money

- Ignores the net cash flow after payback period
- Timing differences of net cash flows

1 mark for each advantage up to maximum of 2 marks

Accounting rate of return (1 mark): Percentage return on capital invested in the project (1)

Advantages - Uses profit figures which are easier to understand
Can be used to compare with overall capital employed.
Can compare accounting rate of return with different projects.

1 mark for each advantage up to maximum of 2 marks

Disadvantages - Time value of money
Ignores cash flows
Used profit figures which include non cash items
Problems with averaging

1 mark for each advantage up to maximum of 2 marks

[10]

[Total: 31]

3 (a) Mandeep Ltd

Cash Budget for the 3 months ending 31 August 1998

	JUNE		JULY		AUGUST	
	£		£		£	
<u>Receipts</u>						
Sales	71,750	(2)	69,350	(2)	81,500	(2)
<u>Payments</u>						
Purchases	55,350	(2)	65,000	(2)	75,100	(2)
Expenses	8,400		8,400		8,400	(2)
Fixed asset	_____		<u>8,500</u>	(1)	_____	
	<u>63,750</u>		<u>81,900</u>		<u>83,500</u>	
Net Receipts/ (Payments)	8,000		(12,550)		(2,000)	
Opening balance	<u>14,300</u>	(1)	<u>22,300</u>		<u>9,750</u>	
Closing balance	<u>22,300</u>		<u>9,750</u>		<u>7,750</u>	

(2/1 of)

[18]

(b) Mandeep Ltd

Budgeted Trading and Profit and Loss Account
for the 3 months ending 31 August 1998 (1)

	£		£
Sales			240,000 (2)
Opening Stock	60,000 (2)		
Purchases	<u>204,000</u> (1)		
	264,000		
Less closing stock	72,000 (2)		
Cost of goods sold			<u>192,000</u> (1)
Gross profit			48,000
Discount received			<u>2,550</u> (1 of)
			<u>50,550</u>
Expenses	25,200 (1)		
Discount allowed	2,400 (1 of)		
Depreciation	<u>2,050</u> (1)		
			<u>29,650</u>
Net Profit			<u>20,900</u>

[13]

[Total: 31]

Advanced GCE

ACCOUNTING

MANAGEMENT ACCOUNTING 2

2504

Specimen Paper

Additional materials:

- answer paper
- squared paper, if required

TIME 1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer booklet.

Answer **all** questions.

You must show the calculations leading to your answers.

You may use a calculator in this paper.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [] at the end of each question or part question.

In this paper you will be assessed on quality of written communication, including your ability to present information clearly and the accuracy of your spelling, grammar and punctuation.

Answer **all** questions.

- 1** Bluebell Engineering offers specialist engineering services to the motor industry. It has three production departments (machining, finishing and assembly) and two service departments (canteen and maintenance). The company wishes to calculate its overhead absorption rates for the forthcoming year, and expected costs together with related information are shown below. Management has decided that consumables are to be fixed at the previous year's level, and the relevant charges are also shown.

	£
Repairs and maintenance	86,000
Rent and rates	27,000
Insurance and Premises	4,200
Power	14,600
Heat and light	4,800
Consumables	5,800

	Production Departments			Service Departments	
	Machining	Finishing	Assembly	Canteen	Maintenance
Indirect wages allocated (£)	122,400	81,600	114,240	32,640	57,120
Direct labour hours	7,000	16,000	17,000	-	-
Machine hours	40,000	4,000	6,000	-	-
Number of employees	15	10	14	4	7
Floor areas (m ²)	3,500	2,000	2,000	1,000	1,500
Power usage (%)	60	25	11	-	4
Consumables (£)	2,778	890	2,132	-	-

The proportion of work done by departments is as follows:

	Machining	Finishing	Assembly	Canteen	Maintenance
Canteen(%)	35	30	20	-	15
Maintenance(%)	70	20	10	-	-

REQUIRED

- (a) Calculate, using appropriate bases, the overhead absorption rates for each of the production departments. [27]
- (b) Explain the problems associated with using predetermined overhead absorption rates, indicating how an unsatisfactory method of overhead absorption can adversely affect the profits of a business. [9]

[Total: 36]

- 2 Reed Ltd manufactures three products A, B and C. Budgeted costs and selling prices for the three months ending 30 September 1999 were as follows.

	A	B	C
Sales (units per month)	6,000	8,000	5,000
	£	£	£
Selling price per unit	45	44	37
Unit costs			
Direct labour	6	9	6
Direct materials	20	24	16
Variable overhead	4	3	2

The total fixed costs are £100,000 per month, and are unavoidable.

The company has been advised by its supplier that, due to a material shortage, its material requirement for the month of September will be reduced by 15%. Material costs are £4 per kilo for all products.

REQUIRED

- (a) A statement to show the net profit for July 1999, clearly showing the contribution per unit for each product. [9]
- (b) A statement to show the maximum net profit for the three months ending 30th September 1998 taking into account the material shortage for the month of September 1998, clearly showing the total contribution for each product. [20]

[Total: 29]

3. Barley Construction plc are the contractors for the building of a replacement high technology factory for a multinational company. The total value of the contract is £8,500,000 over a three year period. The contract commenced on 1 March 1998, and the following details are available as at 28 February 1999.

	£
Materials purchased	848,200
Materials transfers out to another site	8,000
Materials on site, not yet used	38,000
Direct labour	448,000
Direct labour accrued	19,500
Indirect labour	63,000
Indirect labour accrued	2,400
Plant delivered to site	120,000
Head office charges	48,000
Cost of work not yet certified	86,000

Barley Construction plc have received payment of £1,555,500 which represents work certified as completed by the architects as at 28 February 1999, less a 15% retention. The company takes credit for two third of the profit on work certified (less retention).

The plant is estimated to last the life of the contract, and no residual value is expected.

REQUIRED

- (a) The Contract Account for the year ended 28 February 1999. [22]
- (b) Briefly explain the accounting concept involved in the calculation of profit to be credited to the accounts for the year ended 28 February 1999. In the event of a loss being made, how could this be dealt with? [4]
- (c) It is intended that the new factory be fully automated with the consequence of a number of redundancies amongst existing employees. From the social responsibility viewpoint, what factors should the business consider, and what assistance could it give to employees who will eventually be made redundant at the site (the majority of whom it is anticipated will be taking early retirement)? [9]

[Total: 35]

Oxford Cambridge and RSA Examinations



Advanced GCE

ACCOUNTING

MANAGEMENT ACCOUNTING 2

2504

Mark Scheme

This mark scheme consists of 5 printed pages and a cover sheet.

1 Numerical Answers

Answers to computational questions or part-questions are mainly through calculation. Marks are awarded for particular calculations.

Own figures ('of'): where 'of' is indicated a figure which is incorrect solely because of an error in an earlier part of the questions will be awarded the appropriate marks as if it were correct.

2 Quality of Written Communication

The specification states that 'Candidates will be required to select and use a form and style of writing appropriate to purpose and to complex subject matter; to organise relevant information clearly and coherently, using specialist accounting vocabulary and conventions; and to ensure text is legible, and spelling, grammar and punctuation are accurate, so that meaning is clear.'

Up to five marks (5%) may be added to the overall mark for a candidate's paper, if the candidate's written responses have met the specification requirement in some measure.

Marks will be allocated according to the following criteria:

[4-5 marks] Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, are well structured, using specialist accounting terminology where appropriate. There are few, if any, errors of spelling, punctuation and grammar.

[2-3 marks] Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Answers are generally relevant, though may sometimes stray from the point, and are broadly logical and coherent. There are some errors of spelling, punctuation and grammar, but these are not intrusive or totally obscure the meaning.

[1 mark] Simple ideas have been expressed, generally in a style lacking clarity and fluency. Answers have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar which are noticeable and intrusive. Writing may lack legibility.

In this examination the following questions will be assessed for quality of written communication:

1(b), 3(b) and 3(c).

3 Synoptic Assessment

Synoptic assessment in this paper tests candidates' understanding of the connections between different elements of the subject, in particular:

- understanding of the inter-relatedness of many accounting problems;
- understanding of how certain accounting principles and techniques may be relevant to a range of different contexts;
- application of such principles and techniques in analysing accounting problems and in evaluating evidence.

In this paper the following questions provide opportunities for synoptic assessment:

Question 2(a) and (b) requires understanding of cost behaviour and application of principles and techniques developed in Modules 2500 and 2503.

Question 3(a) requires understanding of ledger accounts and application of principles and techniques developed in Module 2500.

Question 3(b) requires understanding of accounting concepts in evaluating evidence (Module 2500).

Question 3(c) requires understanding of the social, moral and ethical implications of the outcomes of accounting for decision making and of social audit (Modules 2500 and 2503).

Synoptic assessment comprises approximately 45 % of the available marks in this paper. All questions require understanding of accounting concepts and experience in evaluating evidence developed in Modules 2500, 2501, 2502 and 2503.

1 (a)

Basis	Expense	Machining	Finishing	Assembly	Canteen	Maintenance
		£	£	£	£	£
Employees	Ind wages	122,400 (1)	81,600	114,240 (1)	32,640	57,120
M/c hrs	Repairs and maintenance	68,800 (1)	6,880	10,320 (1)	-	-
Floor area	Rent and rates	9,450 (1)	5,400	5,400 (1)	2,700	4,050
Floor area	Ins premium	1,470 (1)	840	840 (1)	420	630
Usage	Power	8,760 (1)	3,650	1,606 (1)	-	584
Floor area	Heat and light	1,680 (1)	960	960 (1)	480	720
Actual	Consumables	2,778 (1)	890	2,132 (1)	-	-
					36,240 (1)	
Apportion	Canteen	12,684 (1 of)	10,872	7,248	36,240 (1)	5,436
					Nil	68,540
	Maintenance	47,978 (1 of)	13,708	6,854		68,540 (1)
		276,000	124,800	149,600		Nil
Overhead rate		<u>276,000</u>	<u>124,800</u> (1 of)	<u>149,600</u> (1 of)		
		40,000	16,000 (1)	17,000 (1)		
		=£6.90	£7.80 (1)	£8.80 (1)		
		Per m/c hr	Per lab hr	Per lab hr		

[27]

- (b) Problems with use of estimated data which over a period could be inaccurate. (1)
 Actual figures could differ from estimated data (1) leading to under/over absorption of overhead. (1)

Over absorption of overhead will lead to too much overhead charged to product and therefore a higher price to the customer. (1) This will cause a fall in demand for the product (1) and subsequent loss of revenue. (1)

Under absorption of overhead could lead to insufficient overhead charged to product and therefore a lower price to customer (1), which does not cover costs (1) and will therefore reduce profits. (1)

(1 mark for identification of problem and up to 2 for development/analysis up to a maximum of 9 marks)

[9]

[Total: 36]

2 (a)

	A	B	C	
Selling Price	45	44	37	
Variable Cost	30	36	24	
Contribution	15 (2)	8 (2)	13 (2)	
x Quantity	<u>6,000</u>	<u>8,000</u>	<u>5,000</u>	
	90,000	64,000	65,000	
Total Contribution				219,000
Total Fixed Costs				<u>100,000</u> (1)
Net Profit				<u>119,000</u> (2)

[9]

(b)

Material Requirements	A	5 kg x 6,000	=30,000
	B	6kg x 8,000	=48,000
	C	4kg x 5,000	= <u>20,000</u>
			98,000
		15 % Reduction	(14,700)
		Amount available	<u>83,300</u> kg

	A	B	C
<u>Contribution:</u>	<u>15</u> = 3	<u>8</u> = 1.33	<u>13</u> = 3.25
Kilo material	5	6	4
Ranking	2nd (2)	3rd (2)	1st (2)
Material available		83,300	(2)
Product C	4 x 5,000	(20,000)	
		63,300	
Product A	5 x 6,000	(30,000)	
		33,300	
Product B	6 x 5,550	<u>(33,300)</u>	

Profit Statement for September 1998

Contribution A	£15 x 6,000	=	90,000	(2)
Contribution B	£8 x 5,550	=	44,400	(2)
Contribution C	£13 x 5,000	=	<u>65,000</u>	(2)
Total Contribution			199,400	
Less Fixed Costs			<u>100,000</u>	(1)
Net Profit			99,400	(2) (1 of)

Maximum Net Profit

July 1998	119,000	(1)
Aug 1998	119,000	(1)
Sept 1998	99,400	(1)
	337,400	

[20]

[Total: 29]

3 (a)

Contract Account

Materials Purchased			Materials trfs out	8,000	(1)	
Direct Lab	448,000	884,200	(1)	Material c/d	38,000	(1)
Accrued c/d	19,500			Plant c/d	80,000	(1)
		467,500	(2)	Cost to date c/d	1,423,100	
Indirect Lab	63,000					
Accrued c/d	<u>2,400</u>					
		65,400	(2)			
Plant		120,000	(1)			
Head office charges		<u>48,000</u>	(1)			
		<u>1,549,100</u>			<u>1,549,100</u>	
Cost to date b/d		1,423,100		Work certified	1,830,000	(2)
Notional Profit c/d		<u>492,900</u>	(1)	Work not yet cert c/d	<u>86,000</u>	(2)
		1,916,000			<u>1,916,000</u>	
Profit and Loss		279,310	(2)	Notional Profit b/d	492,900	
Profit provision c/d		<u>213,590</u>				
		<u>492,900</u>			<u>492,900</u>	
Materials b/d		38,000	(1)	Profit provision b/d	213,590	(1)
Plant b/d		80,100	(1)	Dir lab b/d	19,500	(1)
Work not yet cert b/d		86,000	(1)	Ind lab b/d	2,400	(1)

Work Certified

$$1,555,500 \times \frac{100}{85} = \text{£}1,830,00$$

P+L:

$$492,900 \times \frac{2}{3} (1) \times \frac{1,555,500}{1,830,000} (1) = \text{£}279,310$$

[22]

- (b) Prudence (1), hazardous nature of work (1), retention made to cover any future problem (2).
Whole loss should be written off against profit and loss (1).

(1 mark for identification of concept and up to 3 marks for explanation)

[4]

- (c) Factors identified/possible assistance could include:

Replacing labour by automation could lead to conflict with unions. (1) A consultation process should take place to ensure any grievances are discussed, and, if not resolved, the consequences are considered. (2)

Redundancies might lead to industrial action and adverse publicity. (1) Customers might purchase from other sources and there could be general loss of good will in and towards the company. (2)

Redundant employees in an area of high unemployment (1) could lead to a consequent loss of purchasing power in the community. This in turn could lead to additional adverse publicity for the company. (2)

If the company was part of a larger group or had other departments (1), it could consider retraining or re-deploying some employees. (2) **[9]**

(1 mark for identification of point and up to 2 for development/application to Barley Construction) **[9]**

[Total: 35]

Advanced GCE

ACCOUNTING

COMPANY ACCOUNTS AND INTERPRETATION

2505

Specimen Paper

Additional materials:

- answer paper
- squared paper, if required

TIME 1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer booklet.

Answer **all** questions.

You must show the calculations leading to your answers.

You may use a calculator in this paper.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [] at the end of each question or part question.

In this paper you will be assessed on quality of written communication, including your ability to present information clearly and the accuracy of your spelling, grammar and punctuation.

1 The summarised Balance sheets at the end of the last two years for Tyler plc are shown below.

	30 April 1998			30 April 1999		
	£'000	£'000	£'000	£'000	£'000	£'000
Fixed Assets	Cost	Depreciation	Net	Cost	Depreciation	Net
Premises	100	-	100	100	-	100
Plant and Machinery	80	18	62	105	24	81
Motor Vehicles	<u>30</u>	<u>12</u>	<u>18</u>	<u>30</u>	<u>16</u>	<u>14</u>
	210	30	180	235	40	195
Current Assets						
Stock		38			79	
Debtors		52			49	
Bank		<u>56</u>			<u>25</u>	
		146			153	
Current Liabilities						
Trade Creditors	62			71		
Corporation Tax	11			12		
Dividends	<u>8</u>	<u>81</u>	<u>65</u>	<u>9</u>	<u>92</u>	<u>61</u>
			<u>245</u>			<u>256</u>
Capital and Reserves						
Ordinary shares			200			210
6% Redeemable preference shares			20			-
Capital redemption reserve			-			10
Profit and loss			<u>25</u>			<u>36</u>
			<u>245</u>			<u>256</u>

(i) Plant and machinery costing £25,000 was sold during the year at a loss of £3,000. The depreciation charge for the year on plant and machinery was £16,000.

No Motor Vehicles were disposed of or bought during the year.

- (ii) The 6% redeemable preference shares were redeemed at par on 1 May 1998.
- (iii) Interest received from short term investments purchased and sold between 1 January to 31 March 1999 amounted to £2000.

REQUIRED

- (a) A Cash Flow Statement in accordance with FRS 1 (revised) for the year ended 30 April 1999. [31]
- (b) A major shareholder is concerned about a reduction in the bank balance of Tyler plc although a profit has been made for the year. How would the directors explain this situation? [4]

[Total: 35]

- 2 The issued share capital of Cowbridge plc consists of 400,000 Ordinary Share of £1 each, and 80,000 7% Preference Shares of £1 each. It offered a further 150,000 Ordinary Shares to the public at a price of £1.80 each. The terms of the issue were:

	£
Payable on application	0.50
Payable on allotment (including the premium)	0.80
First call	0.50

Applications were received for 165,000 shares. It was decided to return application monies to applicants for 15,000 shares, and the remaining applicants were allotted shares to exactly the full issue amount.

All money due on allotment was duly received and the first call was to be made at a later date.

REQUIRED

- (a) Prepare the following ledger accounts to record the above transactions.

(Note: balancing of accounts is not required.)

Bank Account

Application and Allotment Account

Ordinary Share Capital Account

Share Premium Account

[14]

- (b) Explain the term authorised Share Capital. How is the authorised share capital of a company authorised? Why could this capital differ from the issued capital?

[6]

[Total: 20]

- 3 The following is a list of balances from the books of Vale plc for the year ended 31 December 1997.

	£'000
Tax on Profit on ordinary activities	85
Turnover	1,250
Distribution Costs	200
Investment Income	45
Interest Payable	30
Cost of Sales	470
Administrative Expenses	270
Transfer to General Reserve	145
Proposed Dividend on Ordinary Shares	30
Undistributed Profit from last year	82

The issue share capital of the company is 1,000,000 £1 ordinary shares, and the current market price of one ordinary share is £2.40.

REQUIRED

- (a) A Profit and Loss Account for the year ended 31 December 1997, in accordance with the minimum required by the Companies Act 1985. [18]
- (b) Calculate the following:
- (i) earnings per share;
 - (ii) price/earnings ratio;
 - (iii) dividend yield;
 - (iv) dividend cover. [12]
- (c) Evaluate the dividend policy of Vale Plc. [9]
- (d) Explain how company law and the work of the Accounting Standards Board assist in interfirm comparisons. [6]
- [Total: 45]**

**Oxford Cambridge and RSA
Examinations**



Advanced GCE

ACCOUNTING

COMPANY ACCOUNTS AND INTERPRETATION

2505

Mark Scheme

This mark scheme consists of 7 printed pages and a cover sheet.

1 Numerical Numbers

Answers to computational questions or part-questions are mainly through calculation. Marks are awarded for particular calculations.

Own figures ('of'): where 'of' is indicated a figure which is incorrect solely because of an error in an earlier part of the questions will be awarded the appropriate marks as if it were correct.

2 Quality of Written Communication

The specification states that 'Candidates will be required to select and use a form and style of writing appropriate to purpose and to complex subject matter; to organise relevant information clearly and coherently, using specialist accounting vocabulary and conventions; and to ensure text is legible, and spelling, grammar and punctuation are accurate, so that meaning is clear.'

Up to five marks (5%) may be added to the overall mark for a candidate's paper, if the candidate's written responses have met the specification requirement in some measure.

Marks will be allocated according to the following criteria:

[4-5 marks] Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, are well structured, using specialist accounting terminology where appropriate. There are few, if any, errors of spelling, punctuation and grammar.

[2-3 marks] Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Answers are generally relevant, though may sometimes stray from the point, and are broadly logical and coherent. There are some errors of spelling, punctuation and grammar, but these are not intrusive or totally obscure the meaning.

[0-1 marks] Simple ideas have been expressed, generally in a style lacking clarity and fluency. Answers have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar which are noticeable and intrusive. Writing may lack legibility.

In this examination the following questions will be assessed for quality of written communication:

1(b), 2(b), 3(c) and (d).

3 Synoptic Assessment

Synoptic assessment in this paper tests candidates' understanding of the connections between different elements of the subject, in particular:

- understanding of the inter-relatedness of many accounting problems;
- understanding of how certain accounting principles and techniques may be relevant to a range of different contexts;
- application of such principles and techniques in analysing accounting problems and in evaluating evidence.

In this paper the following questions provide opportunities for synoptic assessment:

Question 2(a) requires understanding of the double entry system of book-keeping and application of principles and techniques developed in Module 2500.

Question 2(b) requires understanding of types of organisation and types of finance developed in 2501.

Question 3(a) requires understanding of final accounts and application of principles and techniques developed in Modules 2500 and 2502.

Question 3(b) requires understanding of ratios and application of principles and techniques developed in 2502.

Question 3(d) requires understanding of accounting concepts and conventions developed in Module 2500.

Synoptic assessment comprises approximately 50% of the available marks on this paper. .

All questions require understanding of accounting concepts and experience in evaluating evidence developed in Modules 2500, 2501, 2502, 2503 and 2504.

(b) Explanation should include the following points:

Accruals/Matching concept is used in revenue statements as opposed to cash based measures. (1)

Revenue should be matched with expenses for that period. (1)

Not all revenues/expenses might have been paid during the period so a difference would occur. (1)

Profit realisation allows profit to be realised when legal ownership of goods passes to buyer, even though payment is later. (1)

(1 mark per point up to a maximum of 4 marks)

[4]

[Total: 35]

2 (a)

Bank			
Appl & Allot	82,500	(2)	Appl & Allot
Appl & Allot	120,000	(1)	7,500 (2)
Application and Allotment			
Bank	7,500	(2)	Bank
Ord Share Cap	75,000	(1)	82,500 (2)
Share Premium	<u>120,000</u>	(1)	Bank
	<u>202,500</u>		<u>120,000 (1)</u>
			<u>202,500</u>
Ordinary Share Capital			
			Bal b/d
			400,000
			Appl & Allot
			75,000 (1)
Share Premium			
			Appl & Allot
			120,000 (1)

[14]

(b) Explanation should include:

Authorised Share Capital is the total share capital a company may issue(1) as specified in its memorandum of association (1).

It is authorised by the shareholders/members (1), detailed in the memorandum of association and confirmed by the Registrar of Companies (1) in accordance with company law. (1) Issued capital may be less but not more than the authorised capital(1). Issued capital is issued to the extent required. (1)

1 mark for each point up to a maximum of 6 points

[6]

[Total: 20]

3 (a) Profit and Loss Account for the year ended 31 December 1997 (1)

	£'000	£'000	
Turnover		1,250	
Cost of sales		<u>470</u>	
Gross profit (1)		780	(1)
Distribution cost	200		(1)
Administrative expenses	270	<u>470</u>	(1)
		310	
Investment Income		<u>45</u>	(1)
		355	
Interest payable		<u>(30)</u>	
Profit on ordinary activities before tax (1)		325	(2)
Tax on profit on ordinary activities		(85)	(1)
Profit on ordinary activities after tax (1)		240	(2)
		<u>82</u>	(1)
		322	
Transfer to General Reserve	145		(1)
Proposed dividend or ordinary share	30	<u>175</u>	(1)
Retained profit		<u>147</u>	(2/of 1)

[18]

(b) (i) $EPS = \frac{240,000}{1,000,000} = 24p$ per share (3 marks)

(ii) $P/E \text{ ratio} = \frac{2.40}{0.24} = 10$ years (3 marks)

(iii) $Div \text{ yield} = .03 \times \frac{1.00}{2.40} = 1.25\%$ (3 marks)

(iv) $Div \text{ cover} = \frac{240,000}{30,000} = 8$ times (3 marks)

[12]

(c) Evaluation should include:

- prudent policy (1) 12.5% paid out of current policies (1) with significant retentions (1)

- investors many consider dividend low (1), and invest elsewhere (1) so company may find it difficult to issue capital(1)

- dividend cover high (1), so able to maintain dividend should profits subsequently fall (1) allowing smoothing of dividend levels over the years (1)

(1 mark for each point and up to 2 for development/application to Vale plc) **[9]**

(d) Explanation could include:

Company law provides common presentation and rules for content. (1) This makes comparison easier. (1)

The ASB limits variety of accounting practices (1) and narrows differences between profit calculations and asset values caused by application of accounting policies (1) Performance, position and other aspects can be compared fairly (1) and not be easily manipulated (1).

As regards interfirm comparisons it is easier to compare like with like (1). There is better base information for problem solving (1), general analysis and decision making (1).

(1 mark for each point up to a maximum of 6 marks) **[6]**

[Total: 45]