

Accounting

Advanced GCE A2 H401

Advanced Subsidiary GCE AS H001

Mark Schemes for the Units

January 2008

H001/H401/MS/R/08J

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Advanced Subsidiary GCE Accounting (H001)

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Unit 1 – Accounting Principles

1*

Jill SportTrading and Profit and Loss Account for the year ended 30 September 2007

| | | | |
|--------------------------------|---------------|---------------|-----|
| Sales | | 189,000 | |
| Sales returns | | <u>1,400</u> | |
| | | 187,600 | (1) |
| Opening stock | 8,000 | | |
| Purchases | <u>97,000</u> | | |
| | 105,000 | | |
| Carriage inwards | <u>1,200</u> | (1) | |
| | 106,200 | | |
| Closing stock | <u>18,000</u> | (1) | |
| Cost of sales | | <u>88,200</u> | (1) |
| Gross profit | | 99,400 | |
| Discounts received | | <u>900</u> | (1) |
| | | 100,300 | |
| Carriage outwards | 800 | (1) | |
| Rent | 12,000 | (2) | |
| Insurance | 2,100 | (1) | |
| Salaries | 29,000 | (2) | |
| Discounts allowed | 1,250 | (1) | |
| General expenses | 6,150 | (2) | |
| Repairs and maintenance | 2,500 | (2) | |
| Bad debts | 450 | (1) | |
| Provision for doubtful debts | 300 | (2) | |
| Loan interest | 1,200 | (2) | |
| Depreciation of shop fittings | 3,850 | (2) | |
| Depreciation of motor vehicles | <u>5,500</u> | (2) | |
| | | <u>65,100</u> | |
| Net profit | | <u>35,200</u> | (1) |

Balance Sheet as at 30 September 2007Fixed Assets

| | | | |
|----------------|--|---------------|----------|
| Motor vehicles | | 16,500 | |
| Shop fittings | | <u>27,150</u> | |
| | | 43,650 | (2)(1of) |

Current Assets

| | | |
|------------------|--------------|-----|
| Stock | 18,000 | (1) |
| Debtors | 19,600 | (2) |
| General expenses | 450 | (1) |
| Rent | <u>1,000</u> | (1) |
| | 39,050 | |

Current Liabilities

| | | |
|---------------|---------------|-----|
| Creditors | 14,100 | (1) |
| Bank | 1,500 | (1) |
| Salaries | 600 | (1) |
| Loan interest | 100 | (1) |
| Loan | <u>15,000</u> | (1) |
| | 31,300 | |

Working Capital

7,75051,400Financed by:

| | | |
|------------|---------------|-------|
| Capital | 36,000 | (1) |
| Net Profit | <u>35,200</u> | (1of) |
| | 71,200 | |
| Drawings | <u>19,800</u> | (2) |
| | <u>51,400</u> | |

| | |
|--------------------|------|
| | [42] |
| QWC | [2] |
| Total marks | [44] |

2

| | | | | |
|---------|------------------|---------------|------------------|-----|
| (a) (i) | 31 December 2006 | 160,000 x 3% | 4,800 (1) | [1] |
| (ii) | 31 December 2007 | 182,000 | | |
| | | -5,000 | | |
| | | <u>-2,300</u> | | |
| | | 174,700 | | |
| | | <u>-1,700</u> | | |
| | | 173,000 x 3% | 5,190 (2) | |
| | | | <u>1,700 (1)</u> | |
| | | | <u>6,890</u> | [3] |

| | | | | | |
|---------|------------------------------|--------------|---------------------|------------------|-----|
| (b) (i) | Provision for Doubtful Debts | | | | |
| | Bal c/d (1) | 6,890 | Bal b/d | 4,800 (1) | |
| | | | Profit and Loss (1) | <u>2,090 (1)</u> | |
| | | <u>6,890</u> | | <u>6,890</u> | [4] |

| | | | | | |
|------|-----------|------------------|-----------------|--------------|-----|
| (ii) | Bad Debts | | | | |
| | Debtors | 1,600 (1) | Profit and Loss | 6,900 (1) | |
| | S Tapler | 3,000 (1) | | | |
| | Debtors | <u>2,300 (1)</u> | | | |
| | | <u>6,900</u> | | <u>6,900</u> | [4] |

| | | | | | |
|-------|----------|--------------|-----------|------------------|-----|
| (iii) | S Tapler | | | | |
| | Bal b/d | 5,000 (1) | Bank | 2,000 (1) | |
| | | | Bad debts | <u>3,000 (1)</u> | |
| | | <u>5,000</u> | | <u>5,000</u> | [3] |

| | | | | | |
|-----|---|-------------|--|--|-----|
| (c) | <u>Profit and Loss Account (extracts)</u> | | | | |
| | Less Expenses | | | | |
| | Prov for doubtful debts | 2,090 (1of) | | | |
| | Bad debts | 6,900 (1of) | | | [2] |

| | | | | | |
|-----|---------------------------------|-------------------------|--|--|-----|
| (d) | <u>Balance Sheet (extracts)</u> | | | | |
| | Debtors | 174,700 | | | |
| | less prov for doubtful debts | <u>6,890</u> | | | |
| | | <u>167,810 (2)(1of)</u> | | | [2] |

- (e) Provision for doubtful debts is an estimate of the amounts owed by credit customers who might be unable to pay their debt. The amount is not known with certainty. It is an application of the prudence concept in that profit is not overstated in the profit and loss account, and the debtors are not overstated in the balance sheet.

Candidates are expected to explain provision for doubtful debts and how it would affect the final accounts.

[(1+1)x2]

[4]

- (f) Past experience looking at previous debtors and the proportion of debtors that turn into bad debts.
Looking at the credit record of existing debtors.
Specific knowledge of debtors that are known to have financial problems.
State of the economy for example in a recession the proportion of bad debts may increase.

[(1+2)x3]

[9]

Candidates are expected to discuss three factors used in determining how the provision for doubtful debts could be calculated.

Total marks [32]

3*

- (a) (i) Ralph should include a proportion of this amount in the current years Profit and Loss Account as £7,200 covers a 6 month period of which 5 months are in the next accounting period. He should therefore include £1,200, which is equivalent of one month's rent should be included in the Profit and Loss Account for the year ended 31 December 2007. The remaining £6,000 should be included in the current assets on the Balance Sheet as a prepayment.
This is an example of the accruals (matching) concept which states that expenses should be matched against the period that they are incurred.
- (ii) Ralph should not include the £2,500 for a private holiday in the general expenses. This should be included in Ralph's drawings as it is for personal use.
This is an example of the business entity concept which states that the financial transactions of the business should be treated separate from those of the owner. Therefore personal transactions should not be confused with business transactions.
- (iii) Ralph should not include the sales of £10,000 as the customer has not yet signed the contract. Profit should not be recognised until the exchange of goods or services. This is an example of the realisation concept which states that profit should not be recognised until the goods or service pass to the customer.
- (iv) Ralph should not include the management as an asset of £50,000 in the Balance Sheet, as no monetary amount has exchanged hands.
This is an example of the money measurement concept which states that only assets that have a true monetary value can be included in the Balance Sheet. This helps to ensure that amounts on the balance sheet are objective not subjective.

Candidates are expected to identify whether the treatment is correct or not, advise how the item should be treated and related to and apply appropriate accounting concepts.

[(1+3) x 4] [16]
QWC [2]

| | | | | | |
|------------|------------------|---------------|-----|--------------------|-------------------|
| (b) | Rent | | | | |
| | Bank | 7,200 | (1) | Profit and Loss | 1,200 (1) |
| | | | | Bal c/d | <u>6,000</u> (1) |
| | | <u>7,200</u> | | | <u>7,200</u> |
| | | | | | [3] |
| | General expenses | | | | |
| | Bank | 15,000 | (1) | Drawings | 2,500 (1) |
| | | | | Profit and Loss | <u>12,500</u> (1) |
| | | <u>15,000</u> | | | <u>15,000</u> |
| | | | | | [3] |
| | | | | Total marks | [24] |

Unit 2 – Financial Accounting

1 (a)

The Journal

| | | Dr | | Cr | |
|-------|-------------------|-------|-----|-------|------|
| (i) | Suspense | 9,000 | (1) | | |
| | Wages | | | 9,000 | (1) |
| (ii) | Suspense | 3,500 | (1) | | |
| | Purchases | | | 3,500 | (1) |
| (iii) | Suspense | 4,500 | (1) | | |
| | Sales | | | 4,500 | (1) |
| (iv) | J Smith | 3,800 | (1) | | |
| | J Smythe | | | 3,800 | (1) |
| (v) | Purchases Returns | 6,300 | (1) | | |
| | Suspense | | | 6,300 | (1) |
| | Sales Returns | 6,300 | (1) | | |
| | Suspense | | | 6,300 | (1) |
| (vi) | Bank | 1,600 | (1) | | |
| | Cash | | | 1,600 | (1) |
| | Suspense | 1,600 | (1) | | |
| | S Jones | | | 1,600 | (1) |
| | | | | | [16] |

1 (b)

Suspense Account

| Wages | 9,000 | (1) | Bal b/d | 6,000 | (1) |
|-----------|---------------|-----|-------------------|---------------|-----|
| Purchases | 3,500 | (1) | Purchases Returns | 6,300 | (1) |
| Sales | 4,500 | (1) | Sales Returns | 6,300 | (1) |
| S Jones | <u>1,600</u> | (1) | | <u>18,600</u> | |
| | <u>18,600</u> | | | <u>18,600</u> | |

[7]

(c) Net Profit per Balance Sheet:

27,000

| | | | | | |
|------|--------------------------------|--------------|-----|---------------|---------|
| Add | Reduction in wages | 9,000 | (1) | | |
| | Reduction in purchases | 3,500 | (1) | | |
| | Increase in sales | <u>4,500</u> | (1) | | |
| | | | | <u>17,000</u> | |
| | | | | 44,000 | |
| Less | Reduction in purchases returns | 6,300 | (1) | | |
| | Increase in sales returns | <u>6,300</u> | (1) | | |
| | | | | <u>12,600</u> | |
| | | | | <u>31,400</u> | (1) [6] |

| | | |
|--|------------------|----------------------|
| (d) <u>Corrected Balance Sheet as at 31 December 2007</u> | | |
| <i>Fixed Assets (Net)</i> | | 310,000 |
| <i>Current Assets</i> | | |
| Stock | 20,000 | |
| Debtors | 15,400 (2) | |
| Cash | <u>1,400 (2)</u> | |
| | 36,800 | |
| <i>Current Liabilities</i> | | |
| Creditors | 23,000 | |
| Bank | <u>4,900 (2)</u> | |
| | 27,900 | |
| Working Capital | | <u>8,900</u> |
| | | <u>318,900</u> |
| <i>Financed by</i> | | |
| Capital | | 317,500 |
| Net Profit | | <u>31,400 (1 of)</u> |
| | | 348,900 |
| Drawings | | <u>30,000</u> |
| | | <u>318,900 (1)</u> |

[8]

- (e)** Omission (1) – both debit (1) and credit (1) entries are omitted.
 Commission (1) – the correct amount (1) is entered in the wrong personal account (1).
 Principle (1) – the correct amount (1) is entered in the wrong class of account (1).
 Compensating (1) – two or more errors (1) cancel each other out (1).
 Original Entry (1) – the original entry is incorrect (1) but the same amount has been debited and credited (1).
 Reversal (1) – the correct amounts (1) but on the wrong side (1).

[9]

One mark for each correct identification up to a maximum of three identifications, plus up to a further two marks for each of the three explanations.

Total marks [46]

2 (a)

Hayley and SiobhanProfit and Loss and Appropriation Account for the year ended 31 December 2007

| | | | | | |
|---------------------------|---------|---------------|---------|-----|-------------------|
| Consultancy fees | | | 358,760 | (2) | |
| Less Expenses: | | | | | |
| Consultancy expenses | | 194,790 | | | |
| Rent and rates | | 15,640 | (2) | | |
| Staff salaries | | 24,400 | (2) | | |
| Depreciation: equipment | | <u>8,125</u> | (1) | | |
| | | | | | <u>242,955</u> |
| Net profit | | | | | 115,805 (1) |
| Add Interest on drawings: | Hayley | 2,665 | | | |
| | Siobhan | <u>2,730</u> | (1) | | |
| | | | | | <u>5,395</u> |
| | | | | | 121,200 |
| Less Salary: Hayley | | | | | <u>10,000</u> (1) |
| | | | | | 111,200 |
| Less Interest on capital: | Hayley | 6,240 | (1) | | |
| | Siobhan | <u>9,600</u> | | | |
| | | | | | <u>15,840</u> |
| | | | | | 95,360 |
| Share of profits: | Hayley | 38,144 | | | |
| | Siobhan | <u>57,216</u> | (1) | | |
| | | | | | <u>95,360</u> |
| | | | | | [12] |
| | | | | | QWC [2] |

(b)

Current Accounts

| | Hayley | Siobhan | | Hayley | Siobhan |
|-----------------|------------------|---------------|----------------|---------------|--------------------|
| Bal b/d | | 3,320 (1) | Bal b/d | 10,300 | |
| Drawings | 53,300 (1) | 54,600 | Profit share | 38,144 | 57,216 (1of) |
| Int on drawings | 2,665 | 2,730 (1of) | Salary | 10,000 (1) | |
| Bal c/d | <u>8,719</u> (1) | <u>6,166</u> | Int on capital | <u>6,240</u> | <u>9,600</u> (1of) |
| | <u>64,684</u> | <u>66,816</u> | | <u>64,684</u> | <u>66,816</u> |

[7]

- (c) (i) Consultancy fees would have to be accrued in the 2007 Profit and Loss Account and shown as a current asset in the 31 December 2007 Balance Sheet. [4]
- (ii) The cash flow of the partnership would be adversely affected by the delay in receiving the fees.
The partnership may need to commence debt collection procedures if the fees are not received. [2]

Max 3 marks for analysis and 4 marks for evaluation**Total marks [27]**

3 (a)

Samantha WilsonTrading and Profit and Loss Account for the year ended 31 December 2007

| | | | | |
|-------------------|----------------|-----|----------------|----------|
| Sales | | | 1,350,000 | |
| Opening stock | 135,000 | (1) | | |
| Purchases | <u>912,000</u> | (2) | | |
| | 1,047,000 | | | |
| Closing stock | <u>147,000</u> | (1) | | |
| Cost of sales | | | <u>900,000</u> | (2) |
| Gross profit | | | 450,000 | |
| Business expenses | 77,880 | (2) | | |
| Depreciation | <u>20,000</u> | | | |
| | | | <u>97,880</u> | |
| Net profit | | | <u>352,120</u> | (2)(1of) |

[10]

(b)
$$\frac{900,000 \text{ (1of)}}{(135,000 + 147,000)/2} \text{ (1)} = 6.4 \text{ times (1)}$$

[3]

- (c) Advantages:
 Help with running the business
 Shared responsibility
 New skills/more expertise
 Holiday/sickness cover
 More finance capital for the business

- Disadvantages:
 No longer able to take decisions on your own
 Risk of disagreement between partners
 Profits have to be shared
 Liable for all debts including those incurred by the other partner

Max 4 marks for analysis and Max 8 marks for evaluation, which must include both advantage(s) and disadvantage(s).

[12]

QWC [2]

Total marks [27]

Unit 3 – Management Accounting

1 (a)*

| Cost | Basis | | <u>Mach</u> | <u>Assy</u> | <u>Canteen</u> | <u>Maint</u> | |
|---------------|-----------|-----|------------------|------------------|------------------|------------------|---------|
| Ind wages | Employees | (1) | 742,000 | 1,102,400 | 106,000 | 169,600 | |
| Rep & maint | Mach hrs | (1) | 369,000 | 41,000 | | | |
| Rent & rates | Area | (1) | 23,850 | 21,200 | 2,650 | 5,300 | |
| Ins mach | Mach cost | (1) | 15,600 | 8,400 | | | |
| Ins prem | Area | | 12,600 | (1) | 11,200 | 1,400 | 2,800 |
| Elect | % usage | | 26,400 | (1) | 16,800 | 2,400 | 2,400 |
| Dep mach | Mach cost | | 9,100 | (1) | 4,900 | | |
| Cons | Actual | | 9,550 | (1) | 9,800 | 550 | 1,250 |
| | | | | | 113,000 | (1) | |
| Reapp | Canteen | (1) | 39,550 | 67,800 | (113,000) | 5,650 | (1) |
| | | | | | | 187,000 | (1) |
| | Maint | | <u>149,600</u> | <u>37,400</u> | | <u>(187,000)</u> | |
| | | | <u>1,397,250</u> | (1) | <u>1,320,900</u> | (1) | |
| Overhead rate | | | <u>1,397,250</u> | <u>1,320,900</u> | | | |
| | | | 202,500 | (1) | 314,500 | (1) | |
| | | | £6.90 DMH | (1) | £4.20 DLH | (1) | [17] |
| | | | | | | | QWC [2] |

(b) (i)

| | <u>Mach</u> | <u>Assy</u> | |
|---------------------------------------|---------------------|--------------------|--------------|
| Actual overhead | 1,410,000 | 1,312,000 | |
| Absorbed overhead (195,000 x 6.90) | 1,345,500 | | |
| (318,000 x 4.20) | | <u>1,335,600</u> | |
| | <u>Under 64,500</u> | <u>over 23,600</u> | (2)(1of) [4] |

(ii) The machine department has not worked the planned hours, therefore, was unable to charge out to customers. Its actual overhead was greater than that budgeted for, giving increased costs.

The assembly department has worked more hours than planned, and has charged them out to customers. Its budgeted figure was greater than actual, showing a cost saving.

Candidates are expected to evaluate both departments. Max 3 marks for analysis and 3 marks for evaluation.

Candidates may score max 3 marks for each department.

[6]

- (c) Use of estimated data which could be inaccurate, leading to under/over absorption.

Over absorption, too much overhead charged to production, overpriced and uncompetitive, fall in demand and subsequent loss of revenue/reduction profit.

Under absorption, insufficient overhead charged to production, lower price to customer, costs not covered and subsequent reduction in profits.

Candidates are expected to evaluate both under and over absorption.
Max 3 marks for analysis and max 6 marks for evaluation. [9]

Total marks [38]

- 2 (a) (i)
- | | | | | |
|---------------------|------------------|-----|--|-----|
| Sales | 18,000 | | | |
| Variable costs | <u>13,000</u> | (1) | | |
| Contribution/flight | 5,000 | (1) | | |
| x flights | <u>600</u> | | | |
| | 3,000,000 | | | |
| Fixed costs | <u>1,800,000</u> | (1) | | |
| Profit | <u>1,200,000</u> | (1) | | [4] |
- (ii) B/E $\frac{1,800,000}{5,000} = 360$
 (1) (1) [2]
- (iii) MOS $600 - 360 = 240$
 (1) (1 of) [2]
- (b) (i)
- | | <u>Byton</u> | <u>Cosley</u> | <u>Darton</u> | |
|------------------------------|---------------|------------------|---------------|------|
| Sales | 15,500 | 14,800 | 14,000 | |
| Variable costs | <u>13,700</u> | <u>14,900</u> | <u>13,200</u> | |
| Contribution/flight | <u>1,800</u> | (100) | <u>800</u> | (1) |
| Total positive contribution: | | | | |
| Abton | | 3,000,000 | | (1) |
| Byton 1,800 x 400 | | 720,000 | | (2) |
| Darton 800 x 550 | | <u>440,000</u> | | (2) |
| | | 4,160,000 | | |
| Fixed costs | 1,800,000 | | | (1) |
| Two new airports | 780,000 | | | (1) |
| | | <u>2,580,000</u> | | [10] |
| Profit | | <u>1,580,000</u> | (1) | |
- (ii) Flights
 600 (1) + 950 (1) = 1,550 [2]

- (c) Currently making a profit of £1,200,000. Expanding would increase profit by 31.7% to £1,580,000. New airports would have higher costs and lower revenue at start up, but over time this may change.

Although Cosley shows a negative contribution, it is fairly small and operating on a wider base might bring benefits to the company. The company may consider running Cosley at an initial loss and developing over time.

All figures are estimates and may not materialise. Social factors such as global warming may decrease demand, although demand may increase with increasing leisure time/development/reputation.

Candidates are expected to evaluate in relation to current and different options. Max 2 marks for analysis and max 4 marks for evaluation. [6]

Total marks [26]

| | | | | | |
|---|-----|--------|--------------------------|-------------|-----|
| 3 | (a) | (i) | MPV (8-8.50) 12,000 | 6,000 A (2) | [2] |
| | | (ii) | MUV [7(1,850) – 12,000]8 | 7,600 F (2) | [2] |
| | | (iii) | LRV (10-10.50) 4,800 | 2,400 A (2) | [2] |
| | | (iv) | LEV [3(1,850) – 4,800]10 | 7,500 F (2) | [2] |
| | | (v) | SVV (1,750 – 1,700)125 | 6,250 F (2) | [2] |
| | | (vi) | SPV (130-125) 1,750 | 8,750 F (2) | [2] |
| | | (vii) | F O/H (5x1,850) – 9,000 | 250 F (2) | [2] |
| | | (viii) | V O/H (9x1,850)-16,000 | 650 F (2) | [2] |

(b) Material

Possible better quality building material, being more expensive, therefore, adverse price variance. Better quality leading to less scrap and favourable usage.

Labour

Possible more expensive labour, therefore, adverse rate variance. Labour greater skilled and more efficient, leading to favourable efficiency variance.

Candidates are expected to evaluate material and labour. Max 2 marks for analysis and 4 marks for evaluation. Candidates may score max 3 marks for each type. [6]

(c)* Benefits

Allows management by exception. By studying variances management attention is directed towards those areas which are not proceeding to plan.

Variance analysis enables comparison of actual and predetermined standards. Management can be held responsible for those variances under its control.

Aid to pricing, product and price policies can be formulated before production takes place. Prices can be calculated based on standard costs.

A properly designed system creates a positive attitude throughout the company. Can be used as the basis for incentive schemes.

Limitations

Volatile conditions in certain markets may mean standards continually being out of date.

There are different types of standard and need to decide on the most appropriate, ideal or attainable.

Might conflict with modern management where employees are expected to strive for continuous improvement rather than just to meet a standard.

System may be expensive to set up and time consuming to keep up to date. Costs may outweigh potential benefits.

***Candidates are expected to evaluate both benefits and limitations.
Max 6 marks for analysis and max 6 marks for evaluation. Candidates
may score max 6 marks for either benefits or limitations.***

[12]

QWC [2]

Total marks [36]

Unit 4 – Company Accounts and Interpretation

1 (a)

Waldie plc

Profit and Loss Account for the year ended 31 May 2007

| | | | |
|--|----------------|-----------------|-----|
| Turnover | | 1,494,400 | (1) |
| Cost of sales | | <u>698,500</u> | (1) |
| Gross profit | | 795,900 | |
| Distribution costs | 324,600 | (4) | |
| Administrative expenses | <u>214,700</u> | (5) | |
| Profit on ordinary activities | | 256,600 | |
| Other income | | <u>41,200</u> | (1) |
| Profit on ordinary activities before tax | | 297,800 | |
| Corporation tax | | <u>65,000</u> | (1) |
| Profit after tax | | 232,800 | |
| Profit and loss b/f | | <u>(36,000)</u> | |
| | | 196,800 | |
| Dividends | 125,000 | (1) | |
| Reserves | <u>45,000</u> | (1) | |
| Retained profit | | <u>170,000</u> | |
| | | <u>26,800</u> | (1) |

Cost of sales

$$54,000 + 700,000 - 55,500 = 698,500$$

Distribution costs

$$185,000 + 2,800 + 95,000 + 32,800 + 9,000 = 324,600$$

Administrative expenses

$$110,000 + 95,000 - 3,500 + 7,200 - 3,000 + 9,000 = 214,700$$

Balance Sheet as at 31 May 2007

| | | | |
|--|---------------|-----------------|-----|
| Calls not paid | | 8,000 | (1) |
| <u>Fixed assets</u> | | | |
| Land and buildings | | 650,000 | (1) |
| Delivery vehicles | | 131,200 | |
| Office equipment | | <u>42,000</u> | |
| | | 823,200 | (1) |
| <u>Current assets</u> | | | |
| Stock | 55,500 | | |
| Debtors | 58,200 | (1) | |
| Prepayments | 3,500 | (1) | |
| Commission owing | 1,200 | (1) | |
| Bank | <u>75,000</u> | | |
| | 193,400 | (1) | |
| <u>Creditors amounts falling due within one year</u> | | | |
| Creditors | 37,400 | | |
| Accruals | 2,800 | (1) | |
| Dividends | 125,000 | (1) | |
| Corporation tax | <u>65,000</u> | (1) | |
| | 230,200 | (1) | |
| Net current assets | | <u>(36,800)</u> | |
| Total assets less current liabilities | | <u>794,400</u> | |
| <u>Capital and reserves</u> | | | |
| Ordinary share capital | | 40,000 | |
| Share premium | | 100,000 | (1) |
| Revaluation reserve | | 132,600 | (1) |
| General reserve | | 135,000 | (1) |
| Profit and loss | | <u>26,800</u> | |
| | | <u>794,400</u> | (1) |

QWC [31]
[2]

- (b) (i) The share premium account is a capital reserve and created when shares are issued above nominal value. The general reserve is a revenue reserve and is created by transferring profit to the general reserve.

Maximum 4 marks for quality of explanation.

Minimum 2 points made.

[4]

- (ii) The balance on the share premium account can be used for issuing bonus shares and writing off the costs of an issue of shares. The balance on the general reserve can be used to pay cash dividends and for the issue of bonus shares.

Maximum 2 marks for analysis.

Maximum 2 marks for evaluation.

[4]

Total marks [41]

| | | | | | | |
|-------|----------------------------|--------|-----|---------------------------|--------|-----|
| 2 (a) | Bank | | | | | |
| (i) | Application and allotment | 40,000 | (1) | Application and allotment | 2,500 | (1) |
| | Application and allotment | 52,500 | (1) | | | |
| | First and final call | 59,200 | (1) | | | |
| | | | | | | [4] |
| | Application and allotment | | | | | |
| (ii) | Bank | 2,500 | (1) | Bank | 40,000 | (1) |
| | Share premium (1) | 30,000 | (1) | Bank | 52,500 | (1) |
| | Ordinary share capital (1) | 60,000 | (1) | | | |
| | | | | | | [7] |
| (iii) | Ordinary share capital | | | | | |
| | | | | Application and allotment | 60,000 | (1) |
| | | | | First and final call | 60,000 | (1) |
| | | | | | | [2] |
| (iv) | Share premium | | | | | |
| | | | | Application and allotment | 30,000 | (1) |
| | | | | | | [1] |
| (v) | First and final call | | | | | |
| | Ordinary share capital | 60,000 | (1) | Bank | 59,200 | (1) |
| | | | | | | [2] |

- (b) (i) Debentures are long-term debt capital. Debenture bonds could be issued by Paras plc to raise capital and the bond holder will receive a fixed rate of interest on the debenture. Debentures are secured on the assets of the company. Paras plc may decide to issue debenture when it requires an injection of capital in the business and consider an issue of debentures as an alternative to an issue of shares because debenture holders do not have a vote.

(1 mark for analysis 2 marks for evaluation).

[3]

- (ii) Paras plc could hire or lease assets from another company. They will pay a charge each month for the use of the asset. The company could enter into a finance lease or an operating lease. Paras plc could use leasing for assets such as motor vehicles because it does not have to purchase the assets and will preserve the cash flow by stopping large cash outflows for the purchase. Leasing arrangements will include repairs and maintenance, and Paras plc can update the asset when required.

(1 mark for analysis 2 marks for evaluation).

[3]

- (iii) Paras plc could consider a factoring arrangement with a bank or factoring company. The factoring company would pay a proportion of the amount of the debtors owed. Factoring is used to maintain the cash flow because the factoring company will pay an amount on the invoice value of Paras plc. Paras plc may require a constant cash flow and do not want to have the problems of managing debtors and chasing bad debts would consider a factoring agreement.

(1 mark for analysis 2 marks for evaluation). [3]

- (iv) Paras plc could be offered trade credit terms by its suppliers. The company could be given 30-60 days before it has to pay the outstanding amount this would help the cash flow of the business if payments from debtors are received before the payment to the trade suppliers. Trade credit would be appropriate for the short term to improve the management of working capital.

(1 mark for analysis 2 marks for evaluation). [3]

Total marks [28]

3 (a) (i)

$$\frac{200,000}{100,000} \quad (1) = 2 \text{ times } (1) \quad [2]$$

$$(ii) \quad \frac{200,000}{250,000} \quad (1) = 80 \text{ pence } (1) \quad [3]$$

$$(iii) \quad \frac{1}{4} (1) \quad \times \quad 40\% (1) = 10\% (1) \quad [3]$$

$$(iv) \quad \frac{4}{.80} (1) = 5 \text{ times/years } (1) \quad [3]$$

- (b) The price earnings ratio is important to an investor because it is an indicator of the markets confidence in the shares of the company.

A company with a high ratio indicates that the market anticipates good growth in the share price and that investors are willing to pay a higher price for the shares than what is justified by the historical earnings.

A company with a low ratio is out of favour with investors and the market has low confidence in the company.

Maximum 2 marks for analysis.

Maximum 2 marks for evaluation. [4]

- (c) Ratio analysis can only be of use if firms of the same type are compared a like with like situation.

Figures used in ratios and the ratio calculation should only be used to compare if they have been built on a similar basis. For example the profit figures of company A and company B may have been calculated using different accounting policies.

Ratios are calculated using historic costs. In considering trends from ratios problems may arise during a period of price increases because of inflation.

The date of the ratios calculated for two similar types of business could give misleading information because of the seasonal factors involved. For example toy shops will have very large stock before Christmas and very low stocks after Christmas.

Maximum 2 marks for analysis.

Maximum 6 marks for evaluation. [8]
QWC [2]

- (d) An issue of preference share capital will increase the gearing of the company.

An issue of preference shares would increase the amount of capital by £200,000 and this would allow the company to invest in new markets or technology.

Which could lead to increased returns on capital and higher dividends and market prices for the equity holders.

Preference shares are debt capital and the owners of preference shares take preference over the equity holders. The preference dividend of £14,000 must be paid before the equity holders are paid a dividend.

When company profits are low the preference dividends will reduce the amount of return for the equity holders as shown by the earnings per share.

Maximum 2 marks for analysis.

Maximum 4 marks for evaluation.

[6]

Total marks [31]

Grade Thresholds

GCE Accounting H001/H401
January 2008 Examination Series

Unit Threshold Marks

| Unit | | Maximum Mark | A | B | C | D | E | U |
|------|-----|--------------|----|----|----|----|----|---|
| F001 | Raw | 100 | 74 | 65 | 56 | 47 | 39 | 0 |
| | UMS | 100 | 80 | 70 | 60 | 50 | 40 | 0 |
| F002 | Raw | 100 | 72 | 64 | 56 | 48 | 41 | 0 |
| | UMS | 100 | 80 | 70 | 60 | 50 | 40 | 0 |
| F003 | Raw | 100 | 78 | 68 | 58 | 48 | 39 | 0 |
| | UMS | 100 | 80 | 70 | 60 | 50 | 40 | 0 |
| F004 | Raw | 100 | 79 | 69 | 60 | 51 | 42 | 0 |
| | UMS | 100 | 80 | 70 | 60 | 50 | 40 | 0 |

Specification Aggregation Results

Uniform marks correspond to overall grades as follows.
Advanced Subsidiary GCE (H001):

| Overall Grade | A | B | C | D | E |
|---------------|-----|-----|-----|-----|----|
| UMS (max 200) | 160 | 140 | 120 | 100 | 80 |

Cumulative Percentage in Grade

Advanced Subsidiary GCE (H001):

| A | B | C | D | E | U |
|---|-------|-------|-------|-------|--------|
| 13.20 | 32.40 | 48.50 | 79.40 | 91.20 | 100.00 |
| There were 70 candidates aggregating in Jan 2008. | | | | | |

For a description of how UMS marks are calculated see:
http://www.ocr.org.uk/learners/ums_results.html

Statistics are correct at the time of publication.

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