

Accounting

Advanced GCE A2 H401

Advanced Subsidiary GCE AS H001

Mark Schemes for the Units

June 2008

H001/H401/MS/R/08

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Advanced Subsidiary GCE Accounting (H001)

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Unit 1 – Accounting Principles

1*

Tarig

Trading and Profit and Loss Account for the year ended 31 March 2008

| | | | |
|----------------------------------|----------------|----------------|-----|
| Sales | | 790,000 | |
| Sales returns | | <u>12,000</u> | |
| | | 778,000 | (1) |
| Opening stock | 36,000 | | |
| Purchases | <u>570,000</u> | | |
| | 606,000 | | |
| Drawings | 4,600 | | (1) |
| Purchase returns | <u>7,840</u> | | (1) |
| | 593,560 | | |
| Closing stock | <u>53,200</u> | | (1) |
| Cost of sales | | <u>540,360</u> | |
| Gross Profit | | 237,640 | |
| Discounts received | | 3,000 | (1) |
| Commission received | | 1,500 | (2) |
| Profit on sale of motor vehicle | | <u>1,240</u> | (1) |
| | | 243,380 | |
| Carriage outwards | 8,000 | | (1) |
| Discounts allowed | 2,000 | | (1) |
| Rent | 49,200 | | (2) |
| Wages | 65,200 | | (2) |
| General expenses | 31,000 | | |
| Machinery repairs | 11,780 | | (2) |
| Bad debts | 1,300 | | (2) |
| Loan interest | 8,400 | | (2) |
| Provision for doubtful debts | 2,300 | | (2) |
| Depreciation of machinery | 23,600 | | (2) |
| Depreciation of office equipment | 9,000 | | (1) |
| Depreciation of motor vehicles | <u>36,000</u> | | |
| | | <u>247,780</u> | |
| Net Loss | | <u>(4,400)</u> | (1) |

Balance Sheet as at 31 March 2008Fixed Assets

| | | | |
|------------------|--|---------------|------------------|
| Machinery | | 166,400 | |
| Office equipment | | 33,000 | |
| Motor vehicles | | <u>28,000</u> | |
| | | 227,400 | (2)(1 of) |

Current Assets

| | | | |
|-------------------------|--------------|------------|--|
| Stock | 53,200 | (1) | |
| Debtors (66,000 - 2300) | 63,700 | (2) | |
| Rent | 1,000 | (1) | |
| Commission receivable | 300 | (1) | |
| Bank | <u>3,000</u> | (1) | |
| | 121,200 | | |

Current Liabilities

| | | | |
|---------------|--------------|------------|--|
| Creditors | 63,000 | | |
| Loan interest | 1,400 | (1) | |
| Wages | <u>1,200</u> | (1) | |
| | 65,600 | | |

Working capital

55,600
283,000

Long term liabilities

| | | | |
|---------|--|----------------|------------|
| 7% Loan | | <u>120,000</u> | (1) |
| | | <u>163,000</u> | |

Financed by

| | | | |
|---------------------------|--|----------------|---------------|
| Capital | | 210,000 | (1) |
| Net Loss | | <u>(4,400)</u> | (1 of) |
| | | 205,600 | |
| Drawings (38,000 + 4,600) | | <u>42,600</u> | (2) |
| | | <u>163,000</u> | |

QWC [41]
Total marks [2]
[43]

2 (a)

| | | Insurance | | | |
|-----|---------|---------------|-----|-----------------|---------------|
| (i) | Bal b/d | 1,500 | (1) | Profit and Loss | 12,300 (1) |
| | Bank | 6,000 | (1) | Bal c/d | 1,600 (1) |
| | Bank | <u>6,400</u> | | | |
| | | <u>13,900</u> | | | <u>13,900</u> |

[4]

| | | Rent Receivable | | | |
|------|-----------------|-----------------|-----|---------|------------------|
| (ii) | Bal b/d | 550 | (1) | Bank | 1,750 (1) |
| | Profit and Loss | 7,200 | (1) | Bank | 1,800 |
| | | | | Bank | 1,800 |
| | | | | Bank | 1,800 |
| | | | | Bal c/d | <u>600</u> |
| | | <u>7,750</u> | | | <u>7,750</u> (1) |

[4]

| | | Electricity | | | |
|-------|---------|--------------|-----|-----------------|--------------|
| (iii) | Bank | 2,600 | (1) | Bal b/d | 800 (1) |
| | Bank | 2,800 | | Profit and Loss | 8,960 (1) |
| | Bank | 3,400 | | | |
| | Bal c/d | <u>960</u> | (1) | | |
| | | <u>9,760</u> | | | <u>9,760</u> |

[4]

| | | Bad Debts | | | |
|------|-------------|--------------|-----|-----------------|--------------|
| (iv) | Peter Plant | 600 | | Profit and Loss | 1,300 (1) |
| | Sian Leaf | 400 | | | |
| | Sven Baum | <u>300</u> | | | |
| | | <u>1,300</u> | (1) | | <u>1,300</u> |

[2]

| | | Profit and Loss Account (extract) | | | |
|-----|-------------|-----------------------------------|-----|-----------------|-----------|
| (b) | Insurance | 12,300 | (1) | Rent Receivable | 7,200 (1) |
| | Electricity | 8,960 | (1) | | |
| | Bad debts | 1,300 | (1) | | |

[4]

(c) Balance Sheet (extract)Current Assets

| | | |
|-----------------|--------|-----|
| Debtors | 34,700 | (1) |
| Insurance | 1,600 | (1) |
| Rent receivable | 600 | (1) |

Current Liabilities

| | | |
|-------------|-----|-----|
| Electricity | 960 | (1) |
|-------------|-----|-----|

[4]

- (d)* A system for recording all the financial transactions of a business. An application of the dual aspect concept. It helps reduce the risk of error.
Records transactions in individual accounts. The accounts are grouped together in ledgers, so it is easier to locate each account.
The individual accounts at the end of the period are balanced and a trial balance drawn up.
This provides a starting point for drawing up the final accounts.

Candidates are expected to evaluate the usefulness of the double entry book-keeping system with reference to the dual aspect of each transaction and identify it as a starting point for drawing up the final accounts.

Max 2 marks for analysis plus max 4 marks for evaluation.

| | |
|-------------|------|
| | [6] |
| QWC | [2] |
| Total marks | [30] |

3 (a)

| Office Equipment | | | | | |
|------------------|----------------|-----|--------------|----------------|-----|
| Bal b/d | 160,000 | (1) | Disposal (1) | 26,000 | (1) |
| | | | Bal c/d | <u>134,000</u> | (1) |
| | <u>160,000</u> | | | <u>160,000</u> | |

[4]

| Provision for Depreciation Office Equipment | | | | | |
|---|---------------|-----|-----------------|---------------|-----|
| Disposal | 15,600 | (1) | Bal b/d | 40,000 | |
| Bal c/d | <u>39,100</u> | (1) | Profit and Loss | <u>14,700</u> | (1) |
| | <u>54,700</u> | | | <u>54,700</u> | |

[3]

| Disposal of Office Equipment | | | | | |
|------------------------------|---------------|-----|-----------------------|---------------|-----|
| Office Equipment | 26,000 | (1) | Depn Office Equipment | 15,600 | (1) |
| | | | Bank | 7,400 | (1) |
| | <u>26,000</u> | | Profit and Loss | <u>3,000</u> | (1) |
| | | | | <u>26,000</u> | |

[4]

| Motor Vehicles | | | | | |
|----------------|----------------|-----|----------|----------------|-----|
| Bal b/d | 230,000 | (1) | Disposal | 24,000 | (1) |
| | | | Bal c/d | <u>206,000</u> | (1) |
| | <u>230,000</u> | | | <u>230,000</u> | |

[3]

| Provision for Depreciation Motor Vehicles | | | | | |
|---|----------------|-----|-----------------|----------------|-----|
| Disposal | 12,000 | (1) | Bal b/d | 110,000 | (1) |
| Bal c/d | <u>155,500</u> | | Profit and loss | <u>57,500</u> | (1) |
| | <u>167,500</u> | | | <u>167,500</u> | |

[3]

| Disposal of Motor Vehicles | | | | | |
|----------------------------|---------------|-----|---------------------|---------------|-----|
| Motor Vehicles | 24,000 | (1) | Depn Motor Vehicles | 12,000 | (1) |
| Profit and Loss | <u>2,000</u> | (1) | Bank | <u>14,000</u> | (1) |
| | <u>26,000</u> | | | <u>26,000</u> | |

[4]

- (b) Physical deterioration, wear and tear - assets become worn out through use.
 Economic factors, this arises when an asset is no longer used because of the growth and changes in size of the business.
 Obsolescence, assets have to be replaced because new more efficient technology has been developed.
 Depletion, mines, quarries and oil wells depreciate as minerals are extracted from them.
 Passage of time, an asset acquired for a limited period of time, such as a lease of premises, loses value as time passes.

**Candidates are expected to evaluate causes of depreciation.
 Max 3 marks for analysis, plus max 3 marks for evaluation.**

[(1+2)x2] [6]
 Total marks [27]

Unit 2 – Financial Accounting

1 (a)

| Subscriptions Account | | | |
|------------------------|---------------|-------------|---------------|
| Balance b/d | 3,300 (1) | Balance b/d | 4,800 (1) |
| Income and Expenditure | 21,000 (2) | Bank | 20,200 (2) |
| Balance c/d | 5,500 | Bad debts | 600 (2) |
| | <u>29,800</u> | Balance c/d | <u>4,200</u> |
| | | | <u>29,800</u> |

[8]

(b) Bar Trading Account for the year ended 31 March 2008

| | | | |
|--------------------------|------------------|------------------|--|
| Sales | | 11,800 (1) | |
| Opening stock | 2,470 | | |
| Purchases (8500-600+570) | <u>8,470 (2)</u> | | |
| | 10,940 | | |
| Closing stock | <u>5,050 (1)</u> | | |
| Cost of Sales | | <u>5,890 (1)</u> | |
| Gross Profit | | 5,910 | |
| Salaries | | <u>4,900 (1)</u> | |
| Bar Profit (1) | | <u>1,010</u> | |

[7]

(c)* Income and Expenditure Account for the year ended 31 March 2008

Income

| | |
|--------------------------|----------------|
| Bar profit | 1,010 (1of) |
| Subscriptions | 21,000 (1of) |
| Club disco (1800 – 1570) | <u>230 (2)</u> |
| | 22,240 |

Expenditure

| | |
|---|---------------------|
| Salaries – groundsman | 3,400 (1) |
| Premises – maintenance | 4,150 (1) |
| Heat and light | 2,300 (1) |
| Insurance (1950 + 350 – 490) | 1,810 (2) |
| Bad debts (subscriptions) | 600 (1) |
| Depreciation: premises | 10,380 (2) |
| : equipment | <u>13,294 (2)</u> |
| | <u>35,934</u> |
| Excess of Expenditure over Income/Deficit (1) | <u>(13,694) (1)</u> |

Balance Sheet as at 31 March 2008Fixed Assets

| | | |
|-----------|--|---------------|
| Premises | | 249,120 |
| Equipment | | <u>53,176</u> |
| | | 302,296 (1) |

Current Assets

| | | |
|--------------------------|------------------|--|
| Bar stocks | 5,050 (1) | |
| Insurance prepaid | 490 (1) | |
| Subscriptions in arrears | <u>4,200 (1)</u> | |
| | 9,740 | |

Current Liabilities

| | | |
|--------------------------|------------------|--|
| Bar creditors | 570 (1) | |
| Bank | 8,290 (1) | |
| Subscriptions in advance | <u>5,500 (1)</u> | |
| | 14,360 | |

Working Capital

(4,620)
297,676

Financed by

| | | |
|----------------------------------|--|----------------------|
| Accumulated fund at 1 April 2007 | | 311,370 (1) |
| Deficit | | <u>(13,694)(1of)</u> |
| | | <u>297,676</u> |

[25]

QWC [2]

(d)

- Increase subscriptions
- Chase up subscriptions in arrears
- Obtain sponsorship
- Organise more fund raising activities
- Sub-let premises to other organisations
- Change bar prices
- Reduce bar stocks
- Obtain a bank loan
- Use unpaid volunteers to run bar/maintain grounds
- Increase membership

Max 4 marks for quality of explanations which must be relevant to the club.

2 marks for identification of improvements.

[(1+2)x2] [6]

Total marks [48]

2 (a) Corrected Sales Ledger Control Account

| | | | | | |
|------------------|----------------|-----|-------------------|----------------|-----|
| Balance b/d | 105,000 | (1) | Balance b/d | 6,800 | (1) |
| Credit sales | 750,000 | (1) | Cash | 5,800 | (1) |
| Dis cheques/Bank | 9,300 | (1) | Bank | 698,000 | (1) |
| | | | Sales returns | 9,200 | (1) |
| | | | Contra PL | 18,700 | (1) |
| | | | Discounts allowed | 16,200 | (1) |
| | | | Bad debts | 4,700 | (1) |
| | | | Balance c/d | 104,900 | (2) |
| | <u>864,300</u> | | | <u>864,300</u> | |

[12]

(b) Reconciliation Statement

| | Add | Deduct | |
|-------------------------|------------------|---------------|----------------------|
| Original balance | | | 114,450 |
| (i) Cheque received | | 18,300 (2) | |
| (ii) Bad debt | | 4,700 (2) | |
| (iii) Credit sale | 8,950 (1) | | |
| (iv) Dishonoured cheque | <u>4,500 (1)</u> | | |
| | 13,450 | <u>23,000</u> | <u>(9,550)</u> |
| | | | <u>104,900 (1of)</u> |

[7]

(c)

Form an independent check on the Sales and Purchases Ledgers.

May be used to provide totals for Debtors and Creditors.

Can help with the location of errors.

Can help with the detection of fraud.

Max 3 marks for analysis and max 6 marks for evaluation.

[(1+2)x3] [9]

Total marks [28]

3 (a)

| | 31 March 2007 | | 31 March 2008 | |
|----------------------------|---------------|-----|---------------|-----|
| Net profit to sales % | 7.14% | (1) | 11.65% | (1) |
| Return on capital employed | 6.76% | (1) | 11.50% | (1) |
| Current ratio | 4.74 :1 | (1) | 6.34 :1 | (1) |
| Liquid (acid test) ratio | 0.99 :1 | (1) | 1.35 :1 | (1) |
| Stock turnover | 1.84 times | (1) | 1.56 times | (1) |

[10]

(b)* Profitability:

| | |
|-----------------------------|--|
| Net Profit as a % of sales: | improving but lower than competitors; administration costs may be higher. |
| Return on capital employed: | has nearly doubled in one year and is getting closer to competitors' level. |
| Liquidity: | |
| Current ratio: | increasing and higher than competitors. Stock levels too high and increasing. |
| Liquidity ratio: | improving but lower than competitors. Debtors have increased, bank has moved into overdraft possibly as a result of significantly reduced creditors. |
| Stock turnover: | falling and lower than competitors. Stock levels too high. |

Max 6 marks for analysis and max 6 for evaluation. Must address both liquidity and profitability. [(2+2)x3] [12]

QWC [2]

Total marks [24]

Unit 3 – Management Accounting

1 (a)*

Calculations

| | Jul | Aug | Sept |
|-----------|----------------|----------------|----------------|
| Sales | <u>250,000</u> | <u>270,000</u> | <u>280,000</u> |
| 50% -2.5% | 121,875 | 131,625 | 136,500 |
| 50% | <u>140,000</u> | <u>125,000</u> | <u>135,000</u> |
| | <u>261,875</u> | <u>256,625</u> | <u>271,500</u> |
| 2.5% | <u>3,125</u> | <u>3,375</u> | <u>3,500</u> |

| | | | |
|-------|------|------------------------|--------------|
| Sales | Jul | 250,000 x .625 = Purch | 156,250 Jun |
| | Aug | 270,000 x .625 = Purch | 168,750 Jul |
| | Sept | 280,000 x .625 = Purch | 175,000 Aug |
| | Oct | 290,000 x .625 = Purch | 181,250 Sept |

| | Jul | Aug | Sept |
|----------|----------------|----------------|----------------|
| Purch | <u>168,750</u> | <u>175,000</u> | <u>181,250</u> |
| 50% | 84,375 | 87,500 | 90,625 |
| 50% prev | <u>78,125</u> | <u>84,375</u> | <u>87,500</u> |
| | <u>162,500</u> | <u>171,875</u> | <u>178,125</u> |

Cash Budget for each of the three months ending 30 September 2008

| | Jul | Aug | Sept |
|-----------------|---------------------|------------------|-------------------|
| <u>Receipts</u> | | | |
| Sales | 261,875 (2) | 256,625 (2) | 271,500 (2) |
| Disposal | <u>1,000 (1)</u> | <u>-</u> | <u>-</u> |
| | <u>262,875</u> | <u>256,625</u> | <u>271,500</u> |
| <u>Payments</u> | | | |
| Purchases | 162,500 (2) | 171,875 (2) | 178,125 (2) |
| Wages | 25,500 (1) | 21,500 (1) | 26,000 (1) |
| Gen expenses | 24,000 (1) | 22,000 (1) | 25,000 (1) |
| Equipment | <u>120,000</u> | <u>-</u> | <u>-</u> |
| | <u>332,000</u> | <u>215,375</u> | <u>229,125</u> |
| Net cash flow | (69,125) | 41,250 | 42,375 |
| Open bal | <u>34,000</u> | <u>(35,125)</u> | <u>6,125</u> |
| Closing bal | <u>(35,125) (1)</u> | <u>6,125 (1)</u> | <u>48,500 (2)</u> |

[23]
QWC [2]

- (b) Seek bank overdraft, if this is agreed beforehand, then bank more likely to agree.

Rephase payments to creditors, by delaying payment, the company may have additional funds.

Rephase capital expenditure plans, delaying expenditure will help reduce likelihood of deficit.

Amend other budgets, such as purchases and sales, possible to reduce cash expenditure on purchases and reduce outflows.

Candidates are expected to consider three actions. Max 3 marks for analysis and max 3 marks for evaluation.

[6]

- (c) Management of cash.
Planning for actions to take if deficit or investment if surplus funds.

Financial awareness.

Managers will become aware of financial matters and importance of cost control.

Responsibility.

Will clarify the responsibilities of each manager who has a budget and the income generation and expenditure of departments.

Strengths and weaknesses.

The necessary examination of costs can result in improvements in efficiency.

Weaknesses become apparent and actions taken.

Motivation.

A budget holder may view his budget as a target and it may have a motivating impact.

Candidates are expected to discuss three advantages. Max 3 marks for analysis and max 6 marks for evaluation.

[9]

Total marks [40]

2 (a) Calculations

$$\text{Depn A} = \frac{90,000 - 5,000}{5} = 17,000 \text{ pa}$$

$$\text{Depn B} = \frac{120,000}{4} = 30,000 \text{ pa}$$

Cash flow

$$A = 46,000 + 17,000 = 63,000$$

$$B = 56,000 + 30,000 = 86,000$$

(i) Payback

$$A \quad 1 + 27/63 = 1.43 \text{ years (2)}$$

$$B \quad 1 + 34/86 = 1.40 \text{ years (2)}$$

[4]

(ii)

NPVA

| Year | CF | DF (1) | PV |
|------|-------------------|--------|--------------------|
| 1 | 63,000 (2) | .909 | 57,267 |
| 2 | 63,000 | .826 | 52,038 |
| 3 | 63,000 | .751 | 47,313 |
| 4 | 63,000 | .683 | 43,029 |
| 5 | 63,000 | .621 | 39,123 |
| 5 | 5,000 (2) | .621 | <u>3,105</u> |
| | | | 241,875 (1) |
| | Capital cost | | <u>90,000 (1)</u> |
| | Net present value | - | <u>151,875 (2)</u> |

B

| Year | CF | DF | PV |
|------|-------------------|------|--------------------|
| 1 | 86,000 (2) | .909 | 78,174 |
| 2 | 86,000 | .826 | 71,036 |
| 3 | 86,000 | .751 | 64,586 |
| 4 | 86,000 | .683 | <u>58,738</u> |
| | | | 272,534 (1) |
| | Capital cost | | <u>120,000 (1)</u> |
| | Net present value | | <u>152,534 (2)</u> |

[15]

(iii) ARR

$$A \quad \frac{46,000}{90,000} = 51.11\% (1)$$

$$B \quad \frac{56,000}{120,000} = 46.67\% (1)$$

[2]

- (b)* B has shortest payback.
B has highest net present value.
A has highest accounting rate of return.
Reasoned recommendation.

Net present value takes timing and all cash flows into account. Payback considers to payback period only and does not take timing into account. Accounting rate of return takes full period into account but not timing.

A has lower capital cost by £30,000 and if this amount was invested in a deposit account for the period, then the interest received would make this worth considering. It is difficult to estimate with accuracy, the longer the period. A lasts 5 years and B lasts 4 years and this should be considered.

***Candidates are expected to review each project under each method.
Each method is to be evaluated with reasoned recommendation,
Max 4 marks for analysis and max 8 marks for evaluation.***

[12]

QWC [2]

Total marks [35]

3 (a)

| Contract Account | | | | |
|---------------------|----------------|--------------------|---------------------|------------------|
| Materials | 1,305,000 | | Materials returns | 10,000 |
| Material trfs | <u>200,000</u> | 1,505,000 (1) | Materials c/d | 50,000 |
| Plant | | 270,000 (1) | Plant c/d | 185,000 |
| Dir labour | 740,000 | | Plant hire c/d | 8,000 |
| Dir labour c/d | <u>60,000</u> | 800,000 (1) | Cost to date c/d | 2,717,000 (1) |
| Plant hire | | 95,000 | | |
| Sub-contractors | | 230,000 (1) | | |
| Architects | | <u>70,000 (1)</u> | | |
| | | <u>2,970,000</u> | | <u>2,970,000</u> |
| Cost to date b/d | | 2,717,000 | Work cert | 3,300,000 (1) |
| Notional profit c/d | | <u>750,000 (1)</u> | Work not cert c/d | <u>167,000</u> |
| | | <u>3,467,000</u> | | <u>3,467,000</u> |
| Profit and loss | | 450,000 (2) | Notional profit b/d | 750,000 |
| Profit prov c/d | | <u>300,000</u> | | |
| | | <u>750,000</u> | | <u>750,000</u> |
| Materials b/d | | 50,000 (1) | Dir labour b/d | 60,000 (1) |
| Plant b/d | | 185,000 (2) | Profit prov b/d | 300,000 (1) |
| Plant hire b/d | | 8,000 (1) | | |
| Work not cert b/d | | 167,000 (1) | | |

[17]

(b) (i) Prudence (1)

[1]

(ii) Hazardous nature of work, reduction made to cover future problems. Reduction of profit by application of multiplier.

Max 1 mark for analysis and max 2 marks for evaluation.

[3]

(c) The 10% retention provides an incentive for completion of contract to a satisfactory standard. The retention puts the customer in a stronger position if faulty work is subsequently discovered.

Max 1 mark for analysis and max 3 marks for evaluation.

[4]

Total marks [25]

Unit 4 – Company Accounts and Interpretation

1 (a)* Wiggins Ltd
Manufacturing, Trading and Profit and Loss Account for the year ended 31 December 2007

| | | | |
|---------------------------------|------------------|------------------|-------|
| Opening stock of raw material | | 53,000 | |
| Purchases of raw materials | | <u>800,000</u> | (1) |
| | | 853,000 | |
| Carriage inwards | | <u>6,000</u> | (1) |
| | | 859,000 | |
| Purchase returns | | <u>18,500</u> | (1) |
| | | 840,500 | |
| Closing stock of raw material | | <u>47,000</u> | (1) |
| Direct materials | | 793,500 | |
| Direct wages | | <u>450,000</u> | (1) |
| Prime cost | | 1,243,500 | (1) |
| Indirect wages | 68,000 | | (1) |
| Rates and insurance | 31,160 | | (1) |
| General factory overheads | 93,000 | | (1) |
| Depreciation premises | 24,000 | | (1) |
| Depreciation machinery | <u>27,000</u> | | (1) |
| | | <u>243,160</u> | |
| | | 1,486,660 | |
| Work in progress at the start | | <u>80,000</u> | (1) |
| | | 1,566,660 | |
| Work in progress at the end | | <u>92,000</u> | (1) |
| Cost of production | | <u>1,474,660</u> | |
| Sales | | 2,500,000 | |
| Sales returns | | <u>22,000</u> | |
| | | 2,478,000 | (1) |
| Opening stock of finished goods | 76,000 | | |
| Cost of production | <u>1,474,660</u> | | (1of) |
| | 1,550,660 | | |
| Closing stock of finished goods | <u>68,000</u> | | (1) |
| Cost of Sales | | <u>1,482,660</u> | |
| Gross profit | | 995,340 | |
| Rates and insurance | 7,790 | | (1) |
| Loan interest | 10,000 | | (1) |
| Office salaries | 80,000 | | (1) |
| Depreciation premises | 6,000 | | (1) |
| Provision for doubtful debts | 350 | | (2) |
| General office expenses | <u>100,000</u> | | (1) |
| | | <u>204,140</u> | (1) |
| Net profit | | <u>791,200</u> | |

[24]

QWC [2]

- (b) (i) SSAP 9/Stocks and work in progress (1) [1]
- (ii) The finished stock must be valued at the lower of cost or net realisable value in the accounts of Wiggins Ltd (2) [2]

- (c) The prudence concept must be applied according to SSAP 9. The stock must not be valued at cost plus a manufacturing profit because this would overstate the profit figure and overstate the stock figure in the balance sheet. Prudence must be applied so that the accounts present a true and fair view.

The realisation concept states that profit cannot be taken until the goods have been sold. Wiggins Ltd has made a transfer at manufacturing profit to the trading account and the goods have been sold to customers as a cost of sale so the profit can be realised. Wiggins Ltd must make an adjustment for unrealised profit in the closing stock because the goods have not yet been sold to customers.

Maximum 2 marks for analysis.

Maximum 4 marks for evaluation.

[6]

Total marks [35]

| | | | | |
|---|-----|-----------------------|----------------|-----|
| 2 | (a) | Net profit before tax | (149,000) | (1) |
| | | Tax | | |
| | | | <u>149,000</u> | |
| | | P&L b/f | <u>276,000</u> | (1) |
| | | | 127,000 | |
| | | Dividend | <u>81,000</u> | (1) |
| | | P&L c/f | <u>46,000</u> | (1) |

Net cash flow from operating activities

| | | |
|----------------------------------|-----------------|-----|
| Net loss for the year | (149,000) | |
| Depreciation charge for the year | 62,000 | (2) |
| Loss on disposal | 17,000 | (2) |
| Increase in stock | (6,000) | (1) |
| Increase in debtors | (10,000) | (1) |
| Increase in creditors | <u>36,000</u> | (1) |
| | <u>(50,000)</u> | (1) |

Power plc

Cash Flow Statement for the year ended 31 March 2008 (1)

| | | |
|---|-----------------|-----|
| Net cash flow from operating activities (1) | (50,000) | |
| Taxation | | |
| Corporation tax | (38,000) | (1) |
| Capital expenditure | | |
| Purchase of fixed assets | (177,000) | (2) |
| Proceeds of sale | 3,000 | (1) |
| Equity dividends paid | <u>(69,000)</u> | (2) |
| | (331,000) | |
| Financing | | |
| Issue of shares | <u>320,000</u> | (2) |
| Decrease in cash | <u>11,000</u> | (1) |

[23]

- (b) The revaluation reserve is a capital reserve which is created by the revaluation of fixed assets and is a book entry which has not generated cash. Capital reserves are unrealised and cannot be used to pay cash dividends.

The board of directors should be made aware that the revaluation reserve cannot be used to pay dividends for the following reasons:

It is not allowed by company law to pay dividends from capital reserves/unrealised funds to protect the creditors of the company.

It would not be prudent to pay from a fund which is anticipating profits on the sale of an asset. If the asset falls in value, then a loss on the disposal could be made.

It would then be unethical to pay dividends to shareholders before any profit is realised. This could make the shareholders believe that the company is performing better than it may actually be.

Maximum 2 marks for analysis
Maximum 4 marks for evaluation

[6]

- (c) The following details in the cash flow statement give information on the following aspects to an investor.

The movement in the assets, capital and liabilities and the changes in working capital over the period.

A potential investor could use the information to analyse the liquidity of the business over the period of time.

Past performance, as evidenced in the cash flow statement, can be used as a measure of how well the company has been managed by the directors of the company. This could be used as an indicator of how well the company management might perform in the future.

A potential investor can use the cash flow statement to see how the company has made previous dividend payments. They will also look to see how the cash has been used; for example, investment in fixed assets will indicate that the company is prepared to invest to increase the returns to shareholders in the longer term.

Maximum 4 marks for analysis
Maximum 6 marks for evaluation

[10]

QWC [2]

Total marks [41]

| 3 (a) (i) | Rakesh | Gordon | |
|----------------------|---------------------------------|-----------------------------------|-----|
| Earnings per share | $\frac{470,000}{1,600,000}$ (1) | $\frac{748,000}{2,400,000}$ (1) | |
| | = 29.38 pence | = 31.17 pence | [4] |
| (ii) Dividend yield | $20\% \times \frac{0.5}{1}$ (1) | $20\% \times \frac{0.5}{1.5}$ (1) | |
| | = 10% (1) | = 8.33% (1) | [4] |
| (iii) Dividend cover | $\frac{470,000}{160,000}$ (1) | $\frac{748,000}{300,000}$ (1) | |
| | = 2.94 times (1) | = 2.49 times (1) | [4] |
| (iv) Price earnings | $\frac{1}{0.29387}$ (1) | $\frac{1.5}{0.3117}$ (1) | |
| | = 3.4 years (1) | = 4.81 years (1) | [4] |

- (b) A company usually declares dividend as a percentage return on the nominal value of a share. Shareholders will be more interested on the return based on the market price. This is shown by calculating dividend yield.

The dividend yield can be used to compare against other companies and other investments.

In addition to the dividend yield an investor should consider the change in market price of a share. A capital gain can be made if a share is sold at a price higher than the original purchase price.

A high dividend yield could indicate a company is paying too high a proportion of its profit to shareholders rather than re-investing in the company.

Maximum 2 marks for analysis
Maximum 6 marks for evaluation

[8]

Total marks [24]

Grade Thresholds

GCE Accounting H001/H401
June 2008 Examination Series

Unit Threshold Marks

| Unit | | Maximum Mark | A | B | C | D | E | U |
|------|-----|--------------|----|----|----|----|----|---|
| F001 | Raw | 100 | 80 | 68 | 56 | 45 | 34 | 0 |
| | UMS | 100 | 80 | 70 | 60 | 50 | 40 | 0 |
| F002 | Raw | 100 | 68 | 57 | 47 | 37 | 27 | 0 |
| | UMS | 100 | 80 | 70 | 60 | 50 | 40 | 0 |
| F003 | Raw | 100 | 76 | 66 | 56 | 46 | 36 | 0 |
| | UMS | 100 | 80 | 70 | 60 | 50 | 40 | 0 |
| F004 | Raw | 100 | 69 | 60 | 51 | 43 | 35 | 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 |

Advanced GCE (H401):

| Overall Grade | A | B | C | D | E |
|---------------|-----|-----|-----|-----|-----|
| UMS (max 400) | 320 | 280 | 240 | 200 | 160 |

Cumulative Percentage in Grade

Advanced Subsidiary GCE (H001):

| A | B | C | D | E | U |
|--|------|------|------|------|-------|
| 13.1 | 27.2 | 45.0 | 61.5 | 75.4 | 100.0 |
| There were 2030 candidates aggregating in June 2008. | | | | | |

Advanced GCE (H401):

| A | B | C | D | E | U |
|--|------|------|------|------|-------|
| 16.9 | 37.8 | 60.3 | 81.2 | 93.3 | 100.0 |
| There were 1135 candidates aggregating in June 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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