Mark Scheme (Results)

June 2014

International A Level Accounting

WACO2

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.

- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.

- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.

- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.

- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.

- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.

- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.

- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Q1a Mark Scheme

Statement of Comprehensive Income for
Wavelength Asia plc for Y/e 31st March 2014

Revenue	8653000	√	
Cost of sales	5102000	√	o/f
Gross profit	3551000	√	o/f
Distribution costs	1426000	√	o/f
Administrative expenses	555000	√	o/f
Financial cost	174000	√	o/f
Profit on ordinary activities before tax	1396000	√	o/f
Corporation tax	399000	√	
Profit on ordinary activities after tax	997000	√o/f	

9 x √

Total 23 x √

W1 Cost of Sales

Direct Materials	4121000	√
Factory Depreciation	56000	√
Direct factory labour	988000	√
Inventory Adjustment FG	-63000	√
	5102000	**4 x √**

W2 Distribution Costs

Marketing	509000	√
Rent on warehouse premises	209000	√
Depreciation on motor vans	31000	√
Shipping costs	521000	√
Van driver wages	156000	√
	1426000	**5 x √**

W3 Administrative Expenses

Bad Debts Written Off	77000	√
Office expenses	184000	√
Office staff	294000	√
	555000	**3 x √**

W5 Financial cost

Interest on debenture	150000	√
Interest on bank loan	24000	√
	174000	**2 x √**

Statement of Financial Position of Wavelength Asia plc as at 31 March 2014

ASSETS
Non-current assets
Property, Plant & Equipment

Land	3100000	√
Buildings	2632000	√
Motor vans	45000	√
	5777000	
Goodwill	800000	√
	6577000	

Current Assets

Inventories	389000	√
Trade and Other Receivables		
Trade receivables	556000	√
Prepayments	250000	√
	806000	
Cash and Cash Equivalents		
Bank	125000	√
Cash	27000	√
	152000	
	1347000	
Total Assets	7924000	

EQUITY AND LIABILITIES
 Equity
Share Capital

Ordinary shares of £1	2258000	√
Retained Earnings	2118000	√ o/f
	4376000	

Non-Current Liabilities
Long Term Borrowings

Debenture 7.5% 2016	2000000	√
	2000000	

Current Liabilities
Trade and other Payables

Trade Payables	645000	√
Loan Interest	4000	√
	649000	

Short Term Borrowings

Bank loan	500000	√

Current Tax Payable

Corporation Tax Payable	399000	√
	1548000	
Total Equity and Liabilities	7924000	√o/f

Total 17 x √

1b Mark scheme

Strengths
Gross Profit is good √ at 41% of sales. √ (own figure applies)
Net Profit before tax is good √ at 16% of sales. √ (own figure applies)
Profit for this year added to retained earnings is £1million, √ nearly as much as all previous retained earnings. . √ (own figure applies)
Gearing is good . √ at 31.4% . √ (own figure applies)
ROCE = 25% √ which is very good √ (own figure applies)

Weaknesses
Current ratio is poor   at 0.87:1 √ (own figure applies)
Acid ratio is poor √ at 0.62:1 √ (own figure applies)
Working capital is negative/poor √ at £ (201 000) √ (own figure applies)
Company has taken out a short term loan of £500 000 √ perhaps due to liquidity problems. √
Company has tax bill of £399 000 to pay in 30 days, √ but only £125 000 in the bank √

Maximum of 8 marks for arguing only one side.

Conclusion – 2 marks
Should relate to points made above.
Eg Wavelength Asia plc has had a good trading year √ but has liquidity problems √

12 marks

Total 52 marks

Q2 Mark Scheme					
(a) Required for Production					
	Vases	Bowls	Dishes	Ornaments	Total
Labour hours required	180	140	60	270 √	650 √ o/f
Machine hours required	120	175	90	315 √	700 √ o/f
Materials required	144	126	96	45 √	411 √ o/f
					6 marks
(b) Available for Production					
Labour hours	11 x 55	605 √			
Machine hours	14 x 55	770 √			
Materials	3x5x3x10 √ √	450 √			**5 marks**
	any two √				
(c) Limiting Factor	Required	Available	Difference		
Labour hours	650	605	-45	o/f √	Limiting √
Machine hours	700	770	70	o/f √	Not limiting √
Materials	411	450	39	o/f √	Not limiting √
					6 marks
(d) Optimum Production	Vases	Bowls	Dishes	Ornaments	
Selling price per unit	32	45	37	41	
Variable cost per unit	23	35	25	30	
Contribution	9 √	10 √	12 √	11 √	
Labour hours	1.5	2	1	3	
Contribution/Labour hours	6 √ o/f	5 √ o/f	12 √ o/f	3.67 √ o/f	
Order	2 o/f	3 √ o/f	1 o/f	4 √ o/f	
Production					
	Hours	Output			
Dishes	60	60	√ o/f		
Vases	180	120	√ o/f		
Bowls	140	70	√ o/f		
Ornaments	225 √	75	√ o/f		
	605				**15 marks**
(e) Forecast Profit		Contribution	Total		
Dishes	60	12	720	√ o/f	
Vases	120	9	1080	√ o/f	
Bowls	70	10	700	√ o/f	
Ornaments	75	11	825	√ o/f	
			3325	√ o/f	
		Fixed Costs	1950	√	
		Profit	1375	√o/f √ C	**8 marks**

Alternative Answer to 2e					
Sales	Qty	Price	Revenue		
Dishes	60	37	2220		
Vases	120	32	3840	√ o/f any two	
Bowls	70	45	3150		
Ornaments	75	41	3075	√ o/f any two	
				12285	
Var Costs					
Dishes	60	25	1500		
Vases	120	23	2760	√ o/f any two	
Bowls	70	35	2450		
Ornaments	75	30	2250	√ o/f any two	
				8960	
				3325	√ o/f
	Less	Fixed	Costs	1950	√
			Profit	1375	√ o/f √ C

2(f) Mark Scheme

For Accepting Offer

Grecian could buy for £35 and sell for £41 so making a profit / positive contribution √ of £6 per item. √ This may realise a total profit of £300 √ if all are sold. √

May allow Grecian to meet ALL orders promptly √ which keeps customers happy. √

Demand may increase still further, √ and Grecian can meet this increase. √

Avoid possible production problems √

Against Accepting Offer.

Marginal costing theory √ would say do not accept buying for £35 when business can make for £30 √ as this would be £5 more expensive. √

Grecian are only 15 items short on meeting an order, √ so do not need 50 items, √ as this gives an extra 35 items. √

There may not be any demand for the extra 35 items. √

There may not be any storage space for the extra 35 items. √

The increase in demand for week 16 may be temporary √ so more than 35 items may be left unsold. √

Possible quality issues √

Hellenic are interested in a regular/long term contract which may be problematic √

Maximum of 8 marks available for giving one side of the argument.

Conclusion
Grecian Glass should / should not accept contract.

(**12 marks**)

Total 52 marks

Q3 Mark Scheme
(a)
Figures are in £ millions

	Ordinary Share £1 Capital	Share Premium	Capital Redemption Reserve	Retained Earnings	General Reserve	Foreign Exchange Reserve	Total Equity
Balance at 1 April 2013	1 100	300	50	623	85	20	2 178
(i)Comprehensive Income for the Year				348 √			348
(ii) Transfer				(35) √	35 √		- -
(iii) Transfer				20 √		(20) √	- -
(iv) Final dividend				(30.8)√√			(30.8) √ both
(v) Redemption of Shares	(80) √	(24) √	104 √√	(104) √√			(104)
(vi) Interim dividend				(7.14)√√			(7.14) √ both
Balance at 31 March 2014	1 020 o/f	276 √ both o/f	154 o/f	814.06 √o/f	120 √ both o/f	- -	2 384.06 √o/f √C

(22)

There are four occasions where the word 'both' is used in the mark scheme for Q3a.
The couplings are:

- Balance of share premium 276 goes with balance of ordinary share capital 1,020;
- Balance of general reserve 120 goes with balance of capital redemption reserve 154;
- Final dividend (30.8) in total equity column goes with comprehensive income 348 in total equity column; and
- Interim dividend (7.14) in total equity column goes with redemption of shares (104) in total equity column.

(b)

Advantages of redeeming shares:

Company may have excess/large amounts of cash, √ which they feel would be best used / no better use than redeeming shares. √
Less funds will have to be paid out in the future √ in terms of dividends. √
Certain ratios will improve, √ eg Return on Capital Employed, Earnings per share.√ (need one)
This will make managers and directors and company look better. √
The share price will rise√ as less shares are on the market. √

Disadvantages of redeeming shares:

Drain on company's liquid resources. √ ie cash and cash equivalents. √
Liquidity ratios will worsen. √ eg Current ratio, and Acid ratio √
Gearing ratio will worsen. √ as Debts is a larger percentage of capital employed. √
The company's Statement of Financial Position has a smaller equity base √ which gives the impression of a smaller company √

Maximum of 2 marks for each advantage and disadvantage.

(8)

(c)

Reserves

Revenue reserves √ are appropriation of retained profit ie created after net profit has been calculated. √ Eg General reserve √
Capital reserves √ may arise for a specific reason.√ Eg issuing shares at a premium, √ or revaluing a non-current asset, √ or redeeming own shares without an issue of new shares. √ (max 2 examples).

Provisions

Provisions are amounts set aside before arriving at net profit √ eg for depreciation.√ Provisions reduce the value of assets. √ The reason for the provision will be specific √ eg for damages in a court case, √ but the amount of the provision would be an estimate. √
Provisions follow the concept of prudence √
Provisions enable a true and fair view to be shown/using matching concepts √

Liabilities

Liabilities are debts that have been incurred by the business √ and must be paid. √
Short term (current) liabilities must be paid back within one year. √ Eg trade payables to suppliers.√
Long term liabilities are to be repaid in a term greater than one year. √ Eg long term bank loan. √

Maximum of 4 marks for each term, maximum of 10 for the section.

(10)

(d)

<u>Dividend payment is generous</u>
3.5% return on nominal value of share £1 √ may be higher than interest rate in a bank. √
May be higher than other companies. √
May be a good return for this industry. √

<u>Dividend payment is not generous</u>
3.5p may be a lower return than what could have been gained on a debenture √ or bond.√

<u>Other factors </u>(could appear on either side or argument)
Need to know the price paid/market price for the share, √ which will tell us the yield √ie true return
on investment. √
Need to know the state of the world/national economy. √ If a boom year, then 3.5p is low. √ If a
recession, 3.5p could be regarded as high. √
How does 3.5p compare to previous year's dividends? √ May be seen as higher or lower. √

Maximum of 8 √s for arguing one side.

Conclusion
3.5p dividend is/is not generous. √√

(12)

Total 52 marks

Q4 Mark Scheme							
	(a)		**(b)**		**c**		
	BUDGET		ACTUAL		VARIANCE		
Sales	77000	√	74250	√√	2750	ADV	
Material	17600	√√	15488	√	2112	FAV	√ o/f(any two)
Labour	25840	√	26220	√√	380	ADV	
Variable Overheads	10460	√	10750	√	290	ADV	√ o/f(any two)
COGS	53900	√	52458	√	1442	FAV	
GrossProfit	23100	√	21792	√ o/f	1308	ADV	√ o/f(any two)
Fixed Overheads	16940	√	15440	√√ o/f	1500	FAV	
Net profit	6160	√	6352	√ o/f	192	FAV	√ o/f (any two)
	Marks	9		11			4

(d)
FOR Budgets as a tool for management control
Some costs are under management control √ eg rate paid to direct labour. √
Budgets allow business to see how a level of costs eg direct labour √ impacts on profit. √ This may result in management deciding on an appropriate level of pay rise. √
Variances can be analysed √ and remedial action taken. √
Budgets are good motivators √ especially where staff meet targets/bonus payments etc √
Budgets help coordination within the business √

AGAINST Budgets as a tool for management control
Some costs are out of management control √ eg commodity prices such as sugar. √
Some figures/costs may change, √ so drawing up budgets is a waste of time and money. √
Need to employ a specialist so wage rises √

Maximum of 4 √'s for arguing one side of argument.

Conclusion
Budgets are a useful tool for management control √√

8 marks

Total 32 Marks

Q5 Mark Scheme

(a)

(i) Depreciation is a non cash item, √ which has been deducted from profit. √   **(2)**

(ii) (£120 000 - £35 000) √ = £85 000 √   **(2)**

(iii) (£983 000 + £313 000) √ = £1 296 000 √   **(2)**

(iv) The amount owed by customers has decreased,√ so this represents an increase in cash inflow √

                                                                    (2)

(v) (£1 084 000 + £274 000) √ = £1 358 000 √   **(2)**

(vi) First interest payment made after 6 months, of £480 000√ Total for year would be £960 000 √

$\dfrac{£960\ 000\ √}{£12\ 000\ 000\ √}$ x100 = 8% √
                                                                    (5)

(vii) If Chang Tao Stores plc fail to pay the interest due, or repay the debenture when due or go into liquidation √ , the debenture holders can take over the property. √

                                                                    (2)

(viii) Because it has not been paid yet. √   **(1)**

(ix) (£2 106 000 - £209 000) √ = £1 897 000 √   **(2)**

(x) Year end cash balance = (£1 095 000 + £178 000) √ = £1 273 000 √
     Yearly movement = (£1 897 000 - £1 273 000) √ = £624 000 decrease √   **(4)**

(b)

Liquidity handled well

Positive cash and cash equivalent balances √ at start and end of year. √
Payments to purchase shares in other companies,√ seemed to have been almost entirely financed by issue of shares and debentures √ (long term finance). √
Operations are making a profit and generating funds. √
Low level of dividends √ appear to have been paid, so cash not leaving the company. √

Liquidity not handled well

Cash and cash equivalents has decreased over the year**.** √ Fall in cash is worrying √ , especially as company has stores, which should be taking in cash. √
Issue of shares and debentures √ not quite enough to finance purchase shares in other companies. √
All of Net cash from Operating activities may have been used buying non-current assets√

Maximum of 4 marks for arguing one side.

Conclusion

Liquidity has been handled well/badly √√

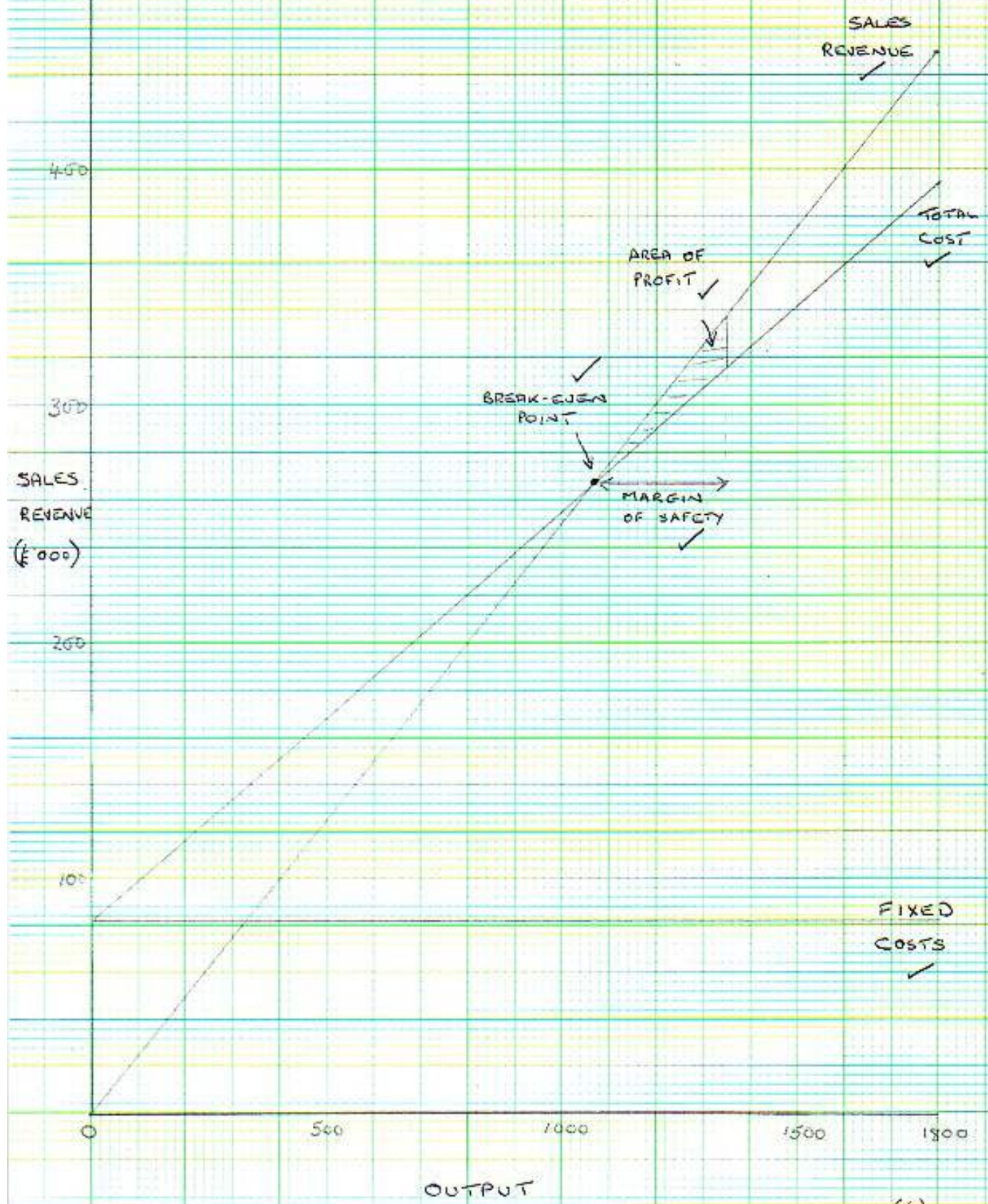   **8 marks**

                                                                    Total 32 marks

Q6 Mark Scheme

(a) (i)

Statement of comprehensive Income				
Sales	250		1400	350000	
Less					
Material Costs	78		1400	109200	√ any two
Direct Labour	95		1400	133000	
Rent	3375		16	54000	√ any two
Other Fixed Costs	1115		48	53520	
Insurance	184		12	2208	√ any two
Total Costs				351928	
Profit/(Loss)				-1928	√ o/f
(a) (ii)					4 marks
BEP	109728	√o/f		1425	√√ o/f
	77	√			4 marks

(b) (I)

Statement of comprehensive Income				
Sales	250		1350	337500	
Less					
Material Costs	78		1350	105300	√ any two
Direct Labour	95		1350	128250	
Rent	3375		12	40500	√ any two
Other Fixed Costs	1115		36	40140	
Insurance	170		12	2040	√ any two
Total Costs				316230	
Profit/(Loss)				21270	√ o/f
					4 marks
(b) (ii)					
BEP	82680	√o/f		1074	√√ o/f
	77	√			4 marks
(b) (iii)					
Margin of Safety	1350			-1074	√ o/f 276	√ o/f
					2 marks

MARK SCHEME - 6(c)

SALES
REVENUE

TOTAL
COST

AREA OF
PROFIT

BREAK-EVEN
POINT

MARGIN
OF SAFETY

FIXED
COSTS

SALES
REVENUE
(£'000)

500

450

300

200

100

O   500   1000   1500   1800

OUTPUT

(6)

6d Mark scheme

<u>FOR Closing store</u>
Loss turns into a profit, √ an improvement of £23 198 √ on the bottom line.
Break even point is lower √ by 351 units. √
Business may be leaner/lower fixed cost base √ which helps when trading is difficult. √
Margin of safety is now 276 units whereas before breakeven point was not reached √

<u>AGAINST Closing Store</u>
Sales in units have fallen √ by 50 units. √
Business has less store outlets √ to take advantage of upturn in trading conditions. √
Possible redundancy costs √
Figures are only predictions √

Maximum of 4 √'s for arguing one side.
<u>Conclusion</u>
Store should close √√

(8)

Total 32 marks

Q7a Mark scheme

(i) the payback period is the length of time taken to recover √ the initial cost of an investment √

(ii) the accounting (average) rate of return is the profit as a percentage of the cost of the investment √ over the life of the investment √

(iii) the internal rate of return shows the true return of the investment √ expressed as a percentage √ OR
the cost of capital √ when the net present value is equal to zero √

(6)

(b)								
					Net cash		Discount	Discounted
Amillakat	Inflow		Outflow		flow		Factor	Cash Flow	
Year 0			22		-22		1	(22.0000)	√
Year 1	11.3	√√	4.2	√√	7.1	√ o/f	0.935	6.6385	
Year 2	11.3		4.2		7.1		0.873	6.1983	√ o/f (2)
Year 3	11.3		4.2		7.1		0.816	5.7936	
Year 4	11.3		4.2		7.1		0.763	5.4173	√ o/f (2)
Year 5	11.3		4.2		7.1		0.713	5.0623	√ o/f
Total								7.1100	√ o/f
					Net cash		Discount	Discounted	
Barigong	Inflow		Outflow		flow		Factor	Cash Flow	
Year 0			16		-16		1	(16 0000)	√
Year 1	11.3		5.8	√√	5.5	√ o/f	0.935	5.1425	
Year 2	11.3		5.8		5.5		0.873	4.8015	√ o/f (2)
Year 3	11.3		5.8		5.5		0.816	4.4880	
Year 4	11.3		5.8		5.5		0.763	4.1965	√ o/f (2)
Year 5	11.3		5.8		5.5		0.713	3.9215	√ o/f
Total								6.5500	√ o/f
								18 marks	

Q7c Mark scheme

For Amillakat

Profitability Index						
Amillakat	<u>7.11</u>	√ o/f x	100		32.32	√ o/f
	22	√				

Has largest NPV √ by £0.56 million. √

Location of Barigong in city centre √ but Amillakat more environmentally friendly. √

Does company have to follow any obligations due to grant at Barigong? √

For Barigong

Profitability Index						
Barigong	<u>6.55</u>	√ o/f x	100		40.94	√ o/f
	16	√				

Has greater Profitability Index √ by 8.62 √
Grant is available so cost reduced.√

<u>Other points</u>
Figures are only predictions √
Other investment appraisal methods should be applied eg payback period √
What happens after five years? √

Maximum of arguing one side only 4 √

Conclusion (2 √√'s)
P.I. index states should choose Barigong √√ OR
Other factors may favour Amillakat √√

8 marks

Total 32 marks