GCE

Accounting

Unit **F012:** Accounting Applications

Advanced Subsidiary GCE

Mark Scheme for June 2016

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All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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MARK SCHEME:

<table>
<tr><th colspan="3">Question</th><th>Answer</th><th>Mark</th><th>Guidance</th></tr>
<tr><td>1</td><td>(a)</td><td></td><td>
<u>Isla Fraser</u>
<u>A detailed Statement of Revised Stock Valuation as at 31 March 2016</u>
<table>
<tr><td>Original stock valuation</td><td></td><td></td><td>158,420</td></tr>
<tr><td></td><td>Increase</td><td>Decrease</td><td></td></tr>
<tr><td>(i) Purchases</td><td></td><td>24,000(1)</td><td></td></tr>
<tr><td>(ii) Sales returns</td><td></td><td>12,500(2)</td><td></td></tr>
<tr><td>(iii) Sales</td><td>10,000(2)</td><td></td><td></td></tr>
<tr><td>(iv) Damaged goods</td><td></td><td>4,700(1)</td><td></td></tr>
<tr><td>(v) Stationery</td><td></td><td>360(1)</td><td></td></tr>
<tr><td>(vi) Sale or return</td><td></td><td>680(1)</td><td></td></tr>
<tr><td>(vii) Display goods</td><td>4,800(1)</td><td></td><td></td></tr>
<tr><td>(viii) Purchase returns</td><td>10,300(1)</td><td></td><td></td></tr>
<tr><td>(ix) Drawings</td><td>3,500(1)</td><td></td><td></td></tr>
<tr><td></td><td>28,600</td><td>(42,240)</td><td></td></tr>
<tr><td></td><td></td><td></td><td>(13,640)</td></tr>
<tr><td>Revised stock valuation</td><td></td><td></td><td>144,780 (1)</td></tr>
</table>
</td><td>12</td><td>Marks for correct value with narrative or footnote.
Must have correct movement. If no signage treat as increase.
Final mark narrative can be in title.</td></tr>
</table>

Question			Answer	Mark	Guidance
	(b)		(iv) The damaged goods should be included in the stock valuation at their scrap value of £1,500in accordance with SSAP9 (IAS2), which states that stock should be valued at the lower of cost and net realisable value, as the net realisable is £1,500 this should be the figure that is used in the accounts. This also follows the prudence concept which states that profits and the value of assets should not be overvalued. (v) The stock valuation should only include those items which have been purchased with the intention of being resold for a profit. Stationery has been purchased by the business with the intention to use within the business and not to resell and therefore should not be included in thestock valuation. Stationery should be classed as an expense. Any unused stationery at the end of the financial year should be classified as a prepaid expense. **Each item(1 mark for point plus up to 2 for development)**	**6**	

<table>
<tr><th colspan="3">Question</th><th>Answer</th><th>Mark</th><th>Guidance</th></tr>
<tr><td>2</td><td>(a)*</td><td></td><td>
Charlie Towers
Trading and Profit and Loss Account for the year ended 30 April 2016
<table>
<tr><td>Sales</td><td></td><td>193,200**(4)**</td></tr>
<tr><td>Opening stock</td><td>12,400</td><td></td></tr>
<tr><td>Purchases</td><td>91,300**(4)**</td><td></td></tr>
<tr><td></td><td>103,700</td><td></td></tr>
<tr><td>Closing stock</td><td>10,300</td><td></td></tr>
<tr><td>Cost of sales</td><td></td><td>93,400</td></tr>
<tr><td>Gross profit</td><td></td><td>99,800</td></tr>
<tr><td>Commission received</td><td></td><td>1,440**(1)**</td></tr>
<tr><td>Discounts received</td><td></td><td>1,700**(1)**</td></tr>
<tr><td></td><td></td><td>102,940</td></tr>
<tr><td>Expenses</td><td></td><td></td></tr>
<tr><td>General expenses</td><td>23,880**(1)**</td><td></td></tr>
<tr><td>Wages</td><td>32,890**(1)**</td><td></td></tr>
<tr><td>Motor expenses</td><td>4,120**(1)**</td><td></td></tr>
<tr><td>Bad debts</td><td>500**(1)**</td><td></td></tr>
<tr><td>Loan interest</td><td>540**(1)**</td><td></td></tr>
<tr><td>Depreciation motor vehicle</td><td>8,800**(1)**</td><td></td></tr>
<tr><td>Depreciation equipment</td><td>820**(1)**</td><td></td></tr>
<tr><td>Discounts allowed</td><td>2,000**(1)**</td><td></td></tr>
<tr><td></td><td></td><td>73,550</td></tr>
<tr><td>Net Profit</td><td></td><td>29,390**(1)**</td></tr>
</table>
Sales: 14,200 + 176,000**(1)** - 11,600 + 2,000**(1)** + 12,600**(1)** = 193,200**(1)**
Purchases: 9,300 + 94,000**(1)** - 5,300**(1)** + 1,700**(1)** - 8,400 = 91,300**(1)** or 96,600**(3)**
</td><td>36</td><td>Sales and purchases calculations can be shown in control accounts.

Marks for correct value with narrative.</td></tr>
</table>

Question	Answer			Mark	Guidance
	Balance Sheet as at 30 April 2016				Marks for correct value with narrative.
	Fixed Assets				
	Equipment		7,380		
	Motor vehicles		43,200		
			50,580**(1)**		
	Current Assets				
	Stock	10,300			
	Debtors	13,700**(1)**			
	Commission Receivable	360**(1)**			
	Bank	5,400**(1)**			
		29,760			
	Current Liabilities				
	Creditors	9,300			
	Wages owing	240**(1)**			
	Motor expenses	420**(1)**			
	Loan interest	540**(1)**			
		10,500			
	Working capital		19,260		
			69,840		
	Long Term Liabilities				LTL can be shown in bottom half, then 69,840(1)
	Loan		(18,000)**(1)**		
			51,840**(1)**		
	Financed by				
	Capital		70,270**(2)**		
	Net Profit		29,390**(1)**		
			99,660		
	Drawings		47,820**(2)**		
			51,840		
			QWC (3)		

Question			Answer	Mark	Guidance
	(b)		<u>Advantages</u> Charlie will become a shareholder and will benefit from having limited liability. His personal possessions will be secure in the event of the business failing. There will be more capital available , it is relatively easy to raise capital in private limited companies, as there is no limit to the number of members. May help generate more profit. Control of the company cannot easily be lost to outsiders, because shares can only be sold tonew members with the agreement of the other shareholders. The business can continue even if one member dies because shares can be transferred to other people. <u>Disadvantages</u> Profits have to be shared between more members and dividends paid to each shareholder. This means that Charlie will not be able to keep all the profits. The legal procedure to set up a private limited company is more costly and may take time. Because shares cannot be offered to the general public this might restrict the raising of funds. Financial information must be filed with the registrar of companies and is open to public scrutiny and competitors. In practice it might be difficult for a shareholder to sell shares, because they cannot be offered to the general public. If there is a risk that there might be disagreement between directors making decision making more difficult. **Each section** **(2 x 2 marks)** **(1 mark for point plus 1 for development)**	**8**	

<table>
<tr><th colspan="3">Question</th><th>Answer</th><th>Mark</th><th>Guidance</th></tr>
<tr><td>3</td><td>(a)</td><td></td><td>
Atherton Ltd
Trading and Profit and Loss Account for the year ended 31 March 2016
<table>
<tr><td>Sales</td><td></td><td>600,000</td><td></td></tr>
<tr><td>Opening stock</td><td>40,000</td><td></td><td></td></tr>
<tr><td>Purchases</td><td>230,000</td><td></td><td></td></tr>
<tr><td></td><td>270,000</td><td></td><td></td></tr>
<tr><td>Closing stock</td><td>30,000</td><td></td><td></td></tr>
<tr><td>Cost of sales</td><td></td><td>240,000</td><td>(1)</td></tr>
<tr><td>Gross Profit</td><td></td><td>360,000</td><td></td></tr>
<tr><td>Expenses</td><td></td><td>120,000</td><td>(1)</td></tr>
<tr><td>Net Profit</td><td></td><td>240,000</td><td>(1)</td></tr>
</table>
Morton Ltd
Trading and Profit and Loss Account for the year ended 31 March 2016
<table>
<tr><td>Sales</td><td></td><td>750,000</td><td></td></tr>
<tr><td>Opening stock</td><td>54,000</td><td></td><td></td></tr>
<tr><td>Purchases</td><td>460,000</td><td></td><td></td></tr>
<tr><td></td><td>514,000</td><td></td><td></td></tr>
<tr><td>Closing stock</td><td>64,000</td><td></td><td></td></tr>
<tr><td>Cost of sales</td><td></td><td>450,000</td><td>(1)</td></tr>
<tr><td>Gross Profit</td><td></td><td>300,000</td><td></td></tr>
<tr><td>Expenses</td><td></td><td>75,000</td><td>(1)</td></tr>
<tr><td>Net Profit</td><td></td><td>225,000</td><td>(1)</td></tr>
</table>
</td><td>6</td><td>Marks for correct value with narrative.</td></tr>
</table>

<table>
<tr><th colspan="3">Question</th><th>Answer</th><th>Mark</th><th>Guidance</th></tr>
<tr><td></td><td>(b)</td><td></td><td>
<table>
<tr><th></th><th colspan="3">Atherton Ltd</th><th colspan="3">Morton Ltd</th></tr>
<tr><td>Gross profit % of sales</td><td>$\frac{360,000}{600,000}$</td><td>= 60%</td><td>(1)</td><td>$\frac{300,000}{750,000}$</td><td>= 40%</td><td>(1)</td></tr>
<tr><td>Net profit % of sales</td><td>$\frac{240,000}{600,000}$</td><td>= 40%</td><td>(1)</td><td>$\frac{225,000}{750,000}$</td><td>= 30%</td><td>(1)</td></tr>
<tr><td>Stock turnover</td><td>$\frac{240,000}{35,000}$</td><td>= 6.86 times</td><td>(1)</td><td>$\frac{450,000}{59,000}$</td><td>= 7.63 times</td><td>(1)</td></tr>
<tr><td>ROCE</td><td>$\frac{240,000}{2,400,000}$</td><td>= 10%</td><td>(1)</td><td>$\frac{225,000}{1,000,000}$</td><td>= 22.5%</td><td>(1)</td></tr>
<tr><td>Current ratio</td><td>$\frac{70,000}{96,000}$</td><td>= 0.73:1</td><td>(1)</td><td>$\frac{104,000}{37,000}$</td><td>= 2.81:1</td><td>(1)</td></tr>
<tr><td>Liquid ratio</td><td>$\frac{40,000}{96,000}$</td><td>= 0.42:1</td><td>(1)</td><td>$\frac{40,000}{37,000}$</td><td>=1.08:1</td><td>(1)</td></tr>
</table>
</td><td>12</td><td>Marks for correct value with expression.</td></tr>
</table>

Question			Answer	Mark	Guidance
	(c)*		The gross profit percentage is significantly higher for Atherton than for Morton the reason for this could be because Atherton have a lower cost of sales or a higher selling price. The net profit percentage is higher for Atherton than it is for Morton, however Atherton's expenses are significantly higher than those of Morton this could be because Atherton are not managing their expenses as well as Morton. Stock turnover for Morton is higher than that of Atherton this means that Morton are selling their stock quicker than Atherton this may be due to Morton having a lower selling price. Return on capital employed for Morton is significantly higher than that of Atherton. This shows that Morton are making more efficient use of the capital invested. This ratio could be compared to the current bank interest rate as an alternative form of investment. The current ratio of Morton is above the generally accepted ratio of 2:1 meaning that Morton can comfortably pay their current liabilities, however that of Atherton is below the generally accepted ratio which could mean that they may have problems paying their debts. The acid test ratio of Morton is almost at the accepted ratio of 1:1 however the ratio for Atherton is only 0.42:1 this indicates that Atherton have poor liquidity and could have difficulty paying their debts, this can be seen by the high creditors and bank overdraft. Morton may have a lower gross and net profit ratios than Atherton, but their ROCE ratio which is a significant ratio is more than double that of Atherton. Morton's liquidity ratios are better than Atherton's in fact Atherton appears to have cash flow problems and may have difficulty paying their debts. **QWC (2)** **(6 x 2 marks)** **(1 mark for point plus 1 for development)**	**14**	Marks are for evaluation and not for repeating data and stating differences.

Question	Answer	Mark	Guidance
4 (a)	Zara and Clarke Appropriation Account for the year ended 31 March 2016	**8**	Marks for correct value with narrative.

Net Profit			226,000
Interest on drawings:			
	Zara	795**(2)**	
	Clarke	525**(2)**	
			1,320
			227,320
Interest on capital:			
	Zara	25,600**(1)**	
	Clarke	24,000**(1)**	
			49,600
			177,720
Salary	Zara	20,000**(1 both)**	
	Clarke	42,000	
			62,000
			115,720
Share of profits:			
	Zara	69,432**(1 both)**	
	Clarke	46,288	
			115,720

Question	Answer	Mark	Guidance
(b)	Current Accounts	**7**	Narrative marks must be on correct side. Accept Bal c/d or Bal c/f. Do not accept without c/d or c/f.

	Zara	Clarke		Zara	Clarke
Drawings**(1)**	44,000	30,000	Balance b/d	6,000	29,000
Int on drawings**(1)**	795	525	Salaries**(1)**	20,000	42,000
Balance c/d	76,237**(1)**	110,763**(1)**	Int on capital**(1)**	25,600	24,000
		.	Share of profits**(1)**	69,432	46,288
	121,032	141,288		121,032	141,288

<table>
<tr><th colspan="3">Question</th><th>Answer</th><th>Mark</th><th>Guidance</th></tr>
<tr><td></td><td>**(c)**</td><td></td><td>
Capital Accounts
<table>
<tr><th></th><th>Zara</th><th>Clarke</th><th>James</th><th></th><th>Zara</th><th>Clarke</th><th>James</th></tr>
<tr><td>Goodwill</td><td>27,200**(1)**</td><td>27,200</td><td>13,600**(1)**</td><td>Bal b/d</td><td>640,000**(1)**</td><td>600,000</td><td></td></tr>
<tr><td>Bal c/d</td><td>767,600**(1)**</td><td>676,000**(1)**</td><td>266,400**(1)**</td><td>Bank</td><td></td><td></td><td>280,000**(1)**</td></tr>
<tr><td></td><td></td><td></td><td></td><td>Reval</td><td>114,000**(2)**</td><td>76,000**(2)**</td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td>Goodwill</td><td>40,800</td><td>27,200</td><td></td></tr>
<tr><td></td><td>794,800</td><td>703,200</td><td>280,000</td><td></td><td>794,800</td><td>703,200</td><td>280,000</td></tr>
</table>
Goodwill net
Zara 13,600 cr **(1)**
Clarke nil
James 13,600 dr **(1)**
</td><td>**11**</td><td>Marks for correct value with narrative.
Accept goodwill net.
Accept Bal c/d or Bal c/f. Do not accept without c/d or c/f.</td></tr>
</table>

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