



OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced Subsidiary GCE

ACCOUNTING

F012

Unit F012: Accounting Applications

Specimen Mark Scheme

The maximum mark for this paper is 120.

SPECIMEN

INSTRUCTIONS TO EXAMINERS**Own Figure Rule ('of')**

Where 'of' is indicated, a figure which is incorrect solely because of an error in an earlier part of the question may be awarded the appropriate marks as if it were correct.

Quality of Written Communication

The rubric states:

**In these two questions/sub-questions, you will be assessed on the quality of your written communication. In one of these questions, the focus will be on your ability to present numerical information legibly and in an appropriate accounting format. In the other, you will be assessed on the legibility and style of writing, the clarity and coherence of your arguments and the accuracy of your spelling, punctuation and grammar.*

4% of the paper marks are available for rewarding *Quality of Written Communication*, as follows:

Levels of Response for Numerical Questions

Level	Mark	Description
3	3	All account headings, terms and balances are included appropriately and in line with accounting conventions. All figures are legible with effective use made of columns and sub-totals. All accounts are ruled off as appropriate.
2	2	Almost all account headings, terms and balances are included appropriately and in line with accounting conventions. Figures are legible with effective use made of columns and sub-totals. Accounts are ruled off as appropriate.
1	1	Some account headings, terms and balances are included though not always adhering to accounting conventions. Most figures are legible. Some appropriate use is made of columns and sub-totals. Some accounts are ruled off as appropriate.
–	0	Responses which fail to achieve the standard required for Level 1.

Levels of Response for Narrative Questions

Level	Mark	Description
2	2	Ideas, some complex, are expressed clearly and quite fluently, using an appropriate style of writing. Arguments made are generally relevant and are constructed in a logical and coherent manner. There are few errors of spelling, punctuation and grammar, and those that are made are not intrusive and do not obscure meaning.
1	1	Relatively straightforward or simple ideas are expressed in a generally appropriate style of writing which sometimes lacks clarity or fluency. Arguments have some limited coherence and structure, occasionally showing relevance to the main focus of the question. There are errors of spelling, punctuation and grammar which are noticeable and sometimes intrusive but do not totally obscure meaning.
–	0	Responses which fail to achieve the standard required for Level 1.

Question Number	Answer	Max Mark																																																																														
1(a)	<p><u>Almond and Barley</u> <u>Appropriation Account for the year ended 31 December 2006</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;">Net Profit</td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> <td style="width: 15%; text-align: right;">36,940</td> </tr> <tr> <td>Interest on Drawings</td> <td>Almond</td> <td>2,000</td> <td>[1]</td> <td></td> <td></td> </tr> <tr> <td></td> <td>Barley</td> <td><u>1,500</u></td> <td>[1]</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: right;">3,500</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>40,440</u></td> <td></td> </tr> <tr> <td>Salary</td> <td>Almond</td> <td>10,000</td> <td>[1]</td> <td></td> <td></td> </tr> <tr> <td>Interest on Capital</td> <td>Almond</td> <td>1,400</td> <td>[1]</td> <td></td> <td></td> </tr> <tr> <td></td> <td>Barley</td> <td><u>1,000</u></td> <td>[1]</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: right;">12,440</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>28,000</u></td> <td></td> </tr> <tr> <td>Share of Profit</td> <td>Almond</td> <td>14,000</td> <td>[1]</td> <td></td> <td></td> </tr> <tr> <td></td> <td>Barley</td> <td><u>14,000</u></td> <td>[1]</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>28,000</u></td> <td></td> </tr> </table>	Net Profit					36,940	Interest on Drawings	Almond	2,000	[1]				Barley	<u>1,500</u>	[1]							3,500						<u>40,440</u>		Salary	Almond	10,000	[1]			Interest on Capital	Almond	1,400	[1]				Barley	<u>1,000</u>	[1]							12,440						<u>28,000</u>		Share of Profit	Almond	14,000	[1]				Barley	<u>14,000</u>	[1]							<u>28,000</u>		[7]
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1(c)	<p>It is goodwill that has been generated internally and has not been purchased, and is difficult to value objectively.</p> <p>Internally generated goodwill should not be capitalised (shown as an asset on the balance sheet), and should be written off at the earliest opportunity.</p> <p>Only goodwill that has been purchased is shown on the balance sheet. Prudent not to do so.</p> <p><i>(2 x 2 marks)</i> <i>(1 for point plus 1 for development)</i></p>	<p>[4] [29]</p> <p style="text-align: right;">Total Marks</p>																																																						
2(a)*	<p><u>Peter Green</u> <u>Trading and Profit and Loss Account for the year ended 31 December 2006</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Sales (83,000 + 8,200 – 3,500)</td> <td style="width: 20%; text-align: right;">87,700</td> <td style="width: 20%; text-align: right;">[2]</td> </tr> <tr> <td>Opening Stock</td> <td style="text-align: right;">6,000</td> <td></td> </tr> <tr> <td>Purchases (29,000 + 5,700 + 1,500 – 4,300)</td> <td style="text-align: right;">31,900</td> <td style="text-align: right;">[3]</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">37,900</td> <td></td> </tr> <tr> <td>Closing stock</td> <td style="text-align: right;">(5,500)</td> <td></td> </tr> <tr> <td>Cost of sales</td> <td style="text-align: right;">32,400</td> <td></td> </tr> <tr> <td>Gross Profit</td> <td style="text-align: right;">55,300</td> <td></td> </tr> <tr> <td>Discounts received</td> <td style="text-align: right;">1,500</td> <td style="text-align: right;">[1]</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">56,800</td> <td></td> </tr> <tr> <td>Interest</td> <td style="text-align: right;">320</td> <td style="text-align: right;">[2]</td> </tr> <tr> <td>Motor expenses (4,200 + 900 – 500)</td> <td style="text-align: right;">4,600</td> <td style="text-align: right;">[2]</td> </tr> <tr> <td>Rent (4,000 + 1,000 – 1,500)</td> <td style="text-align: right;">3,500</td> <td style="text-align: right;">[2]</td> </tr> <tr> <td>Rates</td> <td style="text-align: right;">2,000</td> <td style="text-align: right;">[1]</td> </tr> <tr> <td>General expenses</td> <td style="text-align: right;">12,000</td> <td></td> </tr> <tr> <td>Wages</td> <td style="text-align: right;">15,000</td> <td></td> </tr> <tr> <td>Depreciation on van</td> <td style="text-align: right;">1,200</td> <td style="text-align: right;">[1]</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">38,620</td> <td></td> </tr> <tr> <td>Net Profit</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">18,180</td> <td style="text-align: right;">[1]</td> </tr> </table>	Sales (83,000 + 8,200 – 3,500)	87,700	[2]	Opening Stock	6,000		Purchases (29,000 + 5,700 + 1,500 – 4,300)	31,900	[3]		37,900		Closing stock	(5,500)		Cost of sales	32,400		Gross Profit	55,300		Discounts received	1,500	[1]		56,800		Interest	320	[2]	Motor expenses (4,200 + 900 – 500)	4,600	[2]	Rent (4,000 + 1,000 – 1,500)	3,500	[2]	Rates	2,000	[1]	General expenses	12,000		Wages	15,000		Depreciation on van	1,200	[1]		38,620		Net Profit	18,180	[1]	
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2(a)* cont'd	<u>Balance Sheet as at 31 December 2006</u>	
	<u>Fixed Assets</u>	
	Delivery van 6,800 [1]	
	<u>Current Assets</u>	
	Stock 5,500	
	Debtors 8,200	
	Prepaid rent 1,500 [1]	
	Bank 12,800 [1]	
	<u>28,000</u>	
	<u>Current Liabilities</u>	
	Creditors 5,700	
	Accruals (900 + 320) <u>1,220 [2]</u>	
	<u>6,920</u>	
	Working capital <u>21,080</u>	
	<u>Long term liabilities</u>	
	Long-term loan <u>(8,000) [1]</u>	
	<u>19,880</u>	
<u>Financed by</u>		
Capital 16,700 [2]		
Additional capital <u>3,000 [1]</u>		
19,700		
Net Profit <u>18,180 [1]</u>		
37,880		
Drawings <u>(18,000) [1]</u>		
<u>19,880</u>		
NB Up to an additional three marks can be awarded for the candidate's quality of written communication (numerical responses)		

[29]

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<p>2(b)</p>	<p>Advantages:</p> <ul style="list-style-type: none"> • Share the risks with the new partners. • Share workloads, flexible working. • Management cover in times of illness. • Introduction of new capital to expand the business. • Make use of any specialist skills the new partners may have. • Consolidate the market share. <p><i>3 x 1 marks</i></p> <p>Disadvantages:</p> <ul style="list-style-type: none"> • Cost of setting up new business, legal costs. • Profit sharing agreement. • The decision making process. • What effect it would have on the customers. • Liability for acts of partners. <p><i>(3 x 1 marks)</i></p> <p style="text-align: right;">Total Marks</p>	<p>[6]</p> <p>[35]</p>																																										
<p>3(a)</p> <p>(i)</p> <p>(ii)</p> <p>(iii)</p> <p>(iv)</p> <p>(v)</p> <p>(vi)</p> <p>3(b)</p>	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 15%; text-align: center;">Stone</th> <th style="width: 10%;"></th> <th style="width: 15%; text-align: center;">Rose</th> <th style="width: 10%;"></th> <th style="width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>Gross profit to sales</td> <td style="text-align: center;">50%</td> <td style="text-align: center;">[1]</td> <td style="text-align: center;">60%</td> <td style="text-align: center;">[1]</td> <td></td> </tr> <tr> <td>Net profit to sales</td> <td style="text-align: center;">25%</td> <td style="text-align: center;">[1]</td> <td style="text-align: center;">40%</td> <td style="text-align: center;">[1]</td> <td></td> </tr> <tr> <td>Return on capital employed</td> <td style="text-align: center;">30%</td> <td style="text-align: center;">[1]</td> <td style="text-align: center;">48%</td> <td style="text-align: center;">[1]</td> <td></td> </tr> <tr> <td>Current ratio</td> <td style="text-align: center;">3.6:1</td> <td style="text-align: center;">[1]</td> <td style="text-align: center;">1:1</td> <td style="text-align: center;">[1]</td> <td></td> </tr> <tr> <td>Liquid ratio</td> <td style="text-align: center;">3:1</td> <td style="text-align: center;">[1]</td> <td style="text-align: center;">0.75:1</td> <td style="text-align: center;">[1]</td> <td></td> </tr> <tr> <td>Stock turnover</td> <td style="text-align: center;">12 times</td> <td style="text-align: center;">[2]</td> <td style="text-align: center;">5 times</td> <td style="text-align: center;">[2]</td> <td></td> </tr> </tbody> </table> <p>Liquidity:</p> <ul style="list-style-type: none"> • Stock turnover of Rye is low, stock levels are nearly twice those of Stone. • Current ratio of Stone is high with probable idle funds, Rye's ratio is low with poor credit control. • Liquid ratio of Stone is high with substantial cash available, Rye's ratio is again low with an overdraft and substantial debts uncollected. <p>Profitability:</p> <ul style="list-style-type: none"> • Gross profit % of Rye is greater than Stone possible higher mark up. • Net profit % of Rye is greater than Stone as expenses have been maintained at a lower level for the same turnover for both businesses. • Return on capital employed is acceptable for both businesses but particularly high for Rye. <p><i>(4 x 2 marks)</i> <i>(1 for point plus 1 for development)</i> <i>Maximum of 4 marks for liquidity and 4 marks for profitability.</i></p>		Stone		Rose			Gross profit to sales	50%	[1]	60%	[1]		Net profit to sales	25%	[1]	40%	[1]		Return on capital employed	30%	[1]	48%	[1]		Current ratio	3.6:1	[1]	1:1	[1]		Liquid ratio	3:1	[1]	0.75:1	[1]		Stock turnover	12 times	[2]	5 times	[2]		<p>[2]</p> <p>[2]</p> <p>[2]</p> <p>[2]</p> <p>[2]</p> <p>[2]</p> <p>[4]</p> <p>[8]</p>
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3(c)	<p>Advice to management of Stone:</p> <ul style="list-style-type: none"> Stone should seek to reduce its expenses. Stone should consider investing some of its cash which is at present 'idle'. Stone's stock level has increased from £20 000 to £30 000 in one year and should therefore be reviewed. <p>Advice to management of Rye:</p> <ul style="list-style-type: none"> Rye should seek to reduce its stock level and improve its stock turnover. Rye should institute better credit control to reduce its debtors to fund the elimination of the bank overdraft. Rye should seek to improve its current ratio and liquid ratio. <p>(4 x 2 marks) (1 for point plus 1 for development) Maximum of 4 marks for Stone and 4 marks for Rye</p> <p style="text-align: right;">Total Marks</p>	<p>[8] [30]</p>																																																																																																		
4(a)	<p><u>Amber Ltd</u> <u>Cash Budget for the three months ending 31 March 2007</u></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;"><u>Jan</u></th> <th></th> <th style="text-align: center;"><u>Feb</u></th> <th></th> <th style="text-align: center;"><u>Mar</u></th> <th></th> </tr> </thead> <tbody> <tr> <td colspan="7"><u>Receipts</u></td> </tr> <tr> <td>Sales</td> <td style="text-align: right;">488,000</td> <td style="text-align: center;">[1]</td> <td style="text-align: right;">508,000</td> <td style="text-align: center;">[1]</td> <td style="text-align: right;">508,000</td> <td style="text-align: center;">[1]</td> </tr> <tr> <td>Equipment</td> <td></td> <td></td> <td style="text-align: right;">1,000</td> <td style="text-align: center;">[1]</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">488,000</td> <td></td> <td style="text-align: right; border-top: 1px solid black;">509,000</td> <td></td> <td style="text-align: right; border-top: 1px solid black;">508,000</td> <td></td> </tr> <tr> <td colspan="7"><u>Payments</u></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">300,000</td> <td style="text-align: center;">[1]</td> <td style="text-align: right;">320,000</td> <td style="text-align: center;">[1]</td> <td style="text-align: right;">380,000</td> <td style="text-align: center;">[1]</td> </tr> <tr> <td>Wages</td> <td style="text-align: right;">48,000</td> <td style="text-align: center;">[1]</td> <td style="text-align: right;">51,000</td> <td style="text-align: center;">[1]</td> <td style="text-align: right;">55,000</td> <td style="text-align: center;">[1]</td> </tr> <tr> <td>Equipment</td> <td style="text-align: right;">3,000</td> <td style="text-align: center;">[1]</td> <td></td> <td></td> <td style="text-align: right;">27,000</td> <td style="text-align: center;">[1]</td> </tr> <tr> <td>General expenses</td> <td style="text-align: right;">88,000</td> <td></td> <td style="text-align: right;">88,000</td> <td></td> <td style="text-align: right;">88,000</td> <td style="text-align: center;">[1 line]</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">439,000</td> <td></td> <td style="text-align: right; border-top: 1px solid black;">459,000</td> <td></td> <td style="text-align: right; border-top: 1px solid black;">550,000</td> <td></td> </tr> <tr> <td>Net cash flow</td> <td style="text-align: right;">49,000</td> <td></td> <td style="text-align: right;">50,000</td> <td></td> <td style="text-align: right;">(42,000)</td> <td></td> </tr> <tr> <td>Opening balance</td> <td style="text-align: right;">48,000</td> <td style="text-align: center;">[1]</td> <td style="text-align: right;">97,000</td> <td></td> <td style="text-align: right;">147,000</td> <td></td> </tr> <tr> <td>Closing balance</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">97,000</td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">147,000</td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">105,000</td> <td style="text-align: center;">[1]</td> </tr> </tbody> </table>		<u>Jan</u>		<u>Feb</u>		<u>Mar</u>		<u>Receipts</u>							Sales	488,000	[1]	508,000	[1]	508,000	[1]	Equipment			1,000	[1]				488,000		509,000		508,000		<u>Payments</u>							Purchases	300,000	[1]	320,000	[1]	380,000	[1]	Wages	48,000	[1]	51,000	[1]	55,000	[1]	Equipment	3,000	[1]			27,000	[1]	General expenses	88,000		88,000		88,000	[1 line]		439,000		459,000		550,000		Net cash flow	49,000		50,000		(42,000)		Opening balance	48,000	[1]	97,000		147,000		Closing balance	97,000		147,000		105,000	[1]	<p>[15]</p>
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Question Number	Answer	Max Mark
4(b)*	<p>The necessary examination of costs usually results in improved efficiency. Weaknesses become apparent and action can be taken.</p> <p>Managers will become more aware of financial matters and the importance of cost control. Output can be measured in financial terms rather than just units.</p> <p>Cash budgets will show a future cash surplus/deficit. A surplus will enable investment plans to be made, whilst warning of a deficit will enable remedial action to be taken.</p> <p>Preparation of departmental budgets facilitates responsibility accounting. The department manager is responsible for keeping to budget, which should present an achievable target.</p> <p><i>(3 x 3 marks)</i> <i>(1 for point plus up to 2 for development)</i></p> <p>NB Up to an additional two marks can be awarded for the candidate's quality of written communication (narrative responses)</p>	[11]
	Total Marks	[26]
	Paper Total	120

Assessment Objectives Grid (includes QWC)

Question	AO1	AO2	AO3	Total
1(a)	4	3	0	7
1(b)	6	12	0	18
1(c)	0	2	2	4
2(a)*	13	16	0	29
2(b)	0	0	6	6
3(a)	6	8	0	14
3(b)	0	4	4	8
3(c)	0	0	8	8
4(a)	7	8	0	15
4(b)*	0	0	11	11
Totals	36	53	31	120

* includes QWC