Oxford Cambridge and RSA

GCE

Accounting

Unit **F013:** Company Accounts and Interpretation

Advanced GCE

Mark Scheme for June 2015

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

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.

OCR will not enter into any discussion or correspondence in connection with this mark scheme.

Annotations

1	?	281	?	Unclear
2	BOD	31	BOD	Benefit of doubt
3	✗	21	Cross	Cross
4	OFR	721	OFR	Own figure rule
5	REP	271	REP	Repeat
6	SEEN	811	SEEN	Noted but no credit given
7	✓	11	Tick	Tick
8	L1		L1	Level 1
9	L2		L2	Level 2
10	L3		L3	Level 3
11	L4		L4	Level 4

Subject-specific Marking Instructions

Levels of Response for *Numerical* Questions

Level	Mark	Description
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 adhered 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			Answer	Marks	Guidance
1	(a)		Andrew plc Profit and Loss Account for the year ended 31 December 2014	19	

Turnover		982,100 **(1)**
Cost of sales		514,000 **(2)**
Gross profit		468,100
Distribution costs	243,200 **(4)**	
Administrative expenses	134,970 **(6)**	378,170
Operating profit		89,930
Other income		27,200 **(2)**
Interest payable		13,000 **(1)**
Profit on ordinary activities before tax		104,130
Corporation tax		42,500 **(1)**
Profit after tax		61,630
Ordinary dividends paid		40,000 **(1)**
Retained profit		21,630 **(1)**

QWC 2

[21]

Distribution costs
114,500 + 2,800 + 103,200 + 21,200 + 1,500

Administrative expenses
89,000 – 1,200 + 9,000 – 5,000 + 17,000 + 25,800 + 370

Question			Answer	Marks	Guidance
	(b)		A rights issue will generate a cash inflow for the company. A rights issue gives the existing shareholders an opportunity to increase their shareholding and potential earnings for future dividends A rights issue is an alternative to raising finance from a bank with a loan which would increase the gearing of the company The goodwill of the company increases for the existing shareholders. The cost of a rights issue of such shares will also be lower than a full issue of shares. If the rights issue of shares is taken up by existing shareholders it shows that the financial position of the company is good. The company could borrow at lower rate of interest **Maximum 4 marks** **(1 for point plus 1 for development)** A bonus issue is a book entry and will not generate a cash inflow. A bonus issue could be made when a company is not in a position to distribute a dividend in cash because of a liquidity problem. A bonus issue could be made to satisfy the shareholders and maintain the confidence of the shareholders. If the market value of a company's share is very high, it may not appeal to small investors. By issuing bonus shares the share price will be diluted and trading in the shares of the company will increase	8	Up to four marks for each of a rights issue and bonus issue. Maximum eight marks.

Question			Answer	Marks	Guidance
			Maximum 4 marks **(1 for point plus 1 for development)**		
			Total	**29**	

Question			Answer	Marks	Guidance
2	(a)	(i)	Earnings per share $\frac{432,000\ \mathbf{(1)}}{1,200,000\ \mathbf{(1)}}$ = 36 pence **(1)**	3	
		(ii)	P/E ratio $\frac{0.75\ \mathbf{(1)}}{0.36\ \mathbf{(1)}}$ = 2.08 times or years **(1)**	3	
		(iii)	Dividend cover $\frac{432,000\ \mathbf{(1)}}{180,000\ \mathbf{(1)}}$ = 2.4 times **(1)**	3	
		(iv)	Interest cover $\frac{500,000\ \mathbf{(1)}}{48,000\ \mathbf{(1)}}$ = 10.42 times **(1)**	3	
		(v)	Return on capital employed $\frac{500,000\ \mathbf{(1)}}{1,500,000\ \mathbf{(1)}}$ = 33.33% **(1)**	3	

Question			Answer	Marks	Guidance
2	(b)		The present gearing ratio for Ceri Ltd is high. If the extra £700,000 is borrowed, this would increase the gearing ratio of Ceri Ltd The further borrowing would increase capital and the new investment could increase profitability for the shareholders. The shareholders could benefit from an increase in the market value of the shares and a higher earnings per share. If profitability did not increase because of the extra capital invested this may be detrimental to the shareholders of the company. The shareholders could see the market price of the shares fall and a reduced earnings per share The interest cover may reduce because of the further amount of interest that would have to be paid. Which would put the shareholders at risk and reduce the possibility of dividends. The earnings per share would fall and dividend payments would be lower or might not be paid out to shareholders. A fall in profitability and dividend payments could result in a reduction in the market price of the shares which would reduce the shareholders' capital worth **Maximum 10 marks** **(1 for point plus 1 for development)**	10 2 QWC [12]	
			Total	**27**	

Question			Answer	Marks	Guidance
3	(a)		Lisvane Ltd Schedule of fixed assets for year ended 31 December 2014	18	

	Land and buildings	Motor vehicles	Machinery
Cost at 1 January	600,000	340,000	220,000 **(1)**
Additions		30,000	15,000 **(1)**
Disposals		(18,000)	(50,000) **(1)**
Revaluations	110,000 **(1)**		
Cost at 31 December	710,000	352,000	185,000 **(1)**
Total depreciation 1 January	80,000	150,000	75,000 **(1)**
Disposals		(7,056)**(2)**	(7,500) **(2)**
Profit and loss	15,000 **(2)**	37,772 **(2)**	17,750 **(2)**
Total depreciation 31 December	95,000	180,716	85,250 **(1)**
Net book value 31 December	615,000	171,284	99,750 **(1)**

Question			Answer	Marks	Guidance
	(b)		Development costs can be treated as an expense for the financial year and shown in the profit and loss account. This will reduce the operating profit for the year An amount of the development costs could be amortised each year and this would be treated as an expense in the profit and loss account each year. The asset would reduce each year on the balance sheet. . All the Development costs can be shown as a fixed asset on a balance sheet of the company providing the product can generate future economic benefits for the company **Maximum 6 marks** **(1 for point plus 2 for development**	6	
			Total	**24**	

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