

GCE

Accounting

Unit **F013**: Company Accounts and Interpretation

Advanced GCE

Mark Scheme for June 2018

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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.

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Question	Answer	Mark	Guidance																																													
1 (a)*	<p><u>Hilgerson plc</u></p> <p><u>Profit and Loss Account for the year ended 31 December 2017</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Turnover</td> <td style="width: 20%;"></td> <td style="width: 20%; text-align: right;">1,746 000 (1)</td> </tr> <tr> <td>Cost of sales</td> <td></td> <td style="text-align: right;"><u>896,000</u> (2)</td> </tr> <tr> <td>Gross Profit</td> <td></td> <td style="text-align: right;">850 000</td> </tr> <tr> <td>Distribution costs</td> <td style="text-align: right;">363,175 (4)</td> <td></td> </tr> <tr> <td>Administrative expenses</td> <td style="text-align: right;"><u>223,675</u> (6)</td> <td style="text-align: right;"><u>586,850</u></td> </tr> <tr> <td>Operating profit</td> <td></td> <td style="text-align: right;">263,150</td> </tr> <tr> <td>Other income</td> <td></td> <td style="text-align: right;"><u>22,500</u> (1)</td> </tr> <tr> <td>Profit on ordinary activities before tax</td> <td></td> <td style="text-align: right;">285,650</td> </tr> <tr> <td>Corporation tax</td> <td></td> <td style="text-align: right;"><u>76,000</u></td> </tr> <tr> <td>Profit after tax</td> <td></td> <td style="text-align: right;">209,650 (1)</td> </tr> <tr> <td>Profit and Loss b/f</td> <td></td> <td style="text-align: right;"><u>18,000</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">227,650</td> </tr> <tr> <td>Dividends</td> <td style="text-align: right;">50,000 (1)</td> <td></td> </tr> <tr> <td>Reserves</td> <td style="text-align: right;"><u>38,000</u></td> <td style="text-align: right;"><u>88,000</u></td> </tr> <tr> <td>Retained profit</td> <td></td> <td style="text-align: right;"><u>139,650</u></td> </tr> </table> <p><u>Distribution costs</u> 200,000 +4,800 +128,000 + 21,000 + 9,375</p> <p><u>Administrative expenses</u> 185,000- 7,400 + 10,000 – 4,000 + 32,000 – 1,300 + 9,375</p>	Turnover		1,746 000 (1)	Cost of sales		<u>896,000</u> (2)	Gross Profit		850 000	Distribution costs	363,175 (4)		Administrative expenses	<u>223,675</u> (6)	<u>586,850</u>	Operating profit		263,150	Other income		<u>22,500</u> (1)	Profit on ordinary activities before tax		285,650	Corporation tax		<u>76,000</u>	Profit after tax		209,650 (1)	Profit and Loss b/f		<u>18,000</u>			227,650	Dividends	50,000 (1)		Reserves	<u>38,000</u>	<u>88,000</u>	Retained profit		<u>139,650</u>	28	
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	<p><u>Balance Sheet as at 31 December 2017</u></p> <p><u>Fixed Assets</u></p> <p>Land and buildings 750,000</p> <p>Equipment 86,250</p> <p>Delivery Vehicles <u>84,000</u></p> <p>920,250 (1)</p> <p><u>Current Assets</u></p> <p>Stock 58,000</p> <p>Debtors 57,300 (2)</p> <p>Prepaid 7,400 (1)</p> <p>Bank <u>134,000</u></p> <p>256,700</p> <p><u>Creditors amounts falling due within one year</u></p> <p>Creditors 83,000</p> <p>Accruals 34,800 (1)</p> <p>Rent paid in advance 7 500 (1)</p> <p>Taxation <u>76,000</u> (1)</p> <p>201,300</p> <p>Net current assets <u>55,400</u></p> <p><u>975,650</u></p> <p><u>Capital and Reserves</u></p> <p>Ordinary share capital 500,000</p> <p>Share premium 100,000 (1)</p> <p>Revaluation reserve 158,000 (1)</p> <p>General reserve 78,000 (1)</p> <p>Retained profit <u>139,650</u></p> <p><u>975,650</u></p> <p>QWC 2</p>		

Question	Answer	Mark	Guidance
1 (b)	<p>Share Premium is a capital reserve and is created when the company issues shares above the nominal value.</p> <p>The amount of the premium is credited to the Share Premium Account and is not allowed to be used for the payment of cash dividends to shareholder.</p> <p>General reserve is a revenue reserve and is created by the retention of profit in the company.</p> <p>It is the property of the ordinary shareholders and can be used for the payment of cash dividends.</p> <p>(2 x 2 marks) (1 for point plus 1 for development)</p>	4	

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2 (a)	<p><u>Sowerby plc</u></p> <p><u>Schedule of Fixed Assets for year ended 31 December 2017</u></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 20%; text-align: center;"><u>Land and buildings</u></th> <th style="width: 20%; text-align: center;"><u>Machinery</u></th> <th style="width: 30%; text-align: center;"><u>Office equipment</u></th> </tr> </thead> <tbody> <tr> <td>Cost at 1 Jan</td> <td style="text-align: right;">700,000</td> <td style="text-align: right;">360,000</td> <td style="text-align: right;">240,000 (1) line</td> </tr> <tr> <td>Additions</td> <td></td> <td style="text-align: right;">22,000 (1)</td> <td style="text-align: right;">25,000 (1)</td> </tr> <tr> <td>Disposals</td> <td></td> <td></td> <td style="text-align: right;">(20,000) (1)</td> </tr> <tr> <td>Revaluations</td> <td style="text-align: right;">50,000 (1)</td> <td></td> <td></td> </tr> <tr> <td>Cost at 31 Dec</td> <td style="text-align: right; border-top: 1px solid black;">750,000</td> <td style="text-align: right; border-top: 1px solid black;">382,000</td> <td style="text-align: right; border-top: 1px solid black;">245,000 (1)</td> </tr> <tr> <td> </td> <td></td> <td></td> <td></td> </tr> <tr> <td>Total depreciation 1 Jan</td> <td style="text-align: right;">80,000</td> <td style="text-align: right;">165,000</td> <td style="text-align: right;">90,000 (1) line</td> </tr> <tr> <td>Disposals</td> <td></td> <td></td> <td style="text-align: right;">(8,000) (2)</td> </tr> <tr> <td>Profit and loss</td> <td style="text-align: right;">8,000 (2)</td> <td style="text-align: right;">43,400 (2)</td> <td style="text-align: right;">36,750 (2)</td> </tr> <tr> <td>Total depreciation 31 Dec</td> <td style="text-align: right; border-top: 1px solid black;">88,000</td> <td style="text-align: right; border-top: 1px solid black;">208,400</td> <td style="text-align: right; border-top: 1px solid black;">118,750 (1) line</td> </tr> <tr> <td> </td> <td></td> <td></td> <td></td> </tr> <tr> <td>Net book value 31 Dec</td> <td style="text-align: right;">662,000</td> <td style="text-align: right;">173,600</td> <td style="text-align: right;">126,250 (1) line</td> </tr> </tbody> </table>		<u>Land and buildings</u>	<u>Machinery</u>	<u>Office equipment</u>	Cost at 1 Jan	700,000	360,000	240,000 (1) line	Additions		22,000 (1)	25,000 (1)	Disposals			(20,000) (1)	Revaluations	50,000 (1)			Cost at 31 Dec	750,000	382,000	245,000 (1)	 				Total depreciation 1 Jan	80,000	165,000	90,000 (1) line	Disposals			(8,000) (2)	Profit and loss	8,000 (2)	43,400 (2)	36,750 (2)	Total depreciation 31 Dec	88,000	208,400	118,750 (1) line	 				Net book value 31 Dec	662,000	173,600	126,250 (1) line	17	
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2 (b)	<p>Land will increase in value over a period of time due to market forces.</p> <p>If Land is shown in the balance sheet at the historic cost this would not reflect the fair value of Sowerby plc as at 31 December 2017.</p> <p>A revaluation will increase the net asset value of the business and this must be shown as an increase to the reserves.</p> <p>A capital reserve called the Revaluation Reserve should be created in the accounts of the company and the capital reserve is part of the shareholders equity.</p> <p>(2 x 2 marks) (1 for point plus 1 for development)</p>	4																																																					

Question		Answer		Mark	Guidance		
3	(a)		Dr	Cr	17		
		Bank	1,250,000 (1)				
		Application and allotment		1,250,000 (1)			
		Application and allotment	150,000 (1)				
		Bank		150,000 (1)			
		Bank	1,100,000 (1)				
		Application and allotment		1,100,000 (1)			
		Application and allotment	1,000,000 (2)				
		Share premium		1,000,000 (2)			
		Application and allotment	1,200,000 (1)				
Share capital		1,200,000 (1)					
Bank	298,500 (1)						
First and final call		298,500 (2)					
First and final call	300,000 (1)						
Share capital		300,000 (1)					
<p>Issuing bonus shares will reduce the amount of cash outflows in dividend payments and would improve the liquidity of the company.</p> <p>The ordinary shares do not reflect the asset value of the company and the capital and revenue reserves can be used to create extra shares this would increase the number of equity shares on the balance sheet of the company.</p> <p>If the company issues more ordinary shares this will dilute the market share price of the share. The price of the share may be more attractive to the investor. The market in the shares could be increased because of the lower price.</p>							
3	(b)	<p>Shareholders regard a bonus issue as a strong indication that the prospects of the company have brightened and they can reasonably look for an increase in total dividend.</p> <p>It may improve the prospects of raising additional funds from banks in the form of loans</p> <p>(1 for point plus up to 2 for development)</p>		10			
		QWC 2					

