GCE

Accounting

Advanced GCE

Unit **F013:** Company Accounts and Interpretation

Mark Scheme for January 2011

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Question	Expected Answer					Marks	Additional Guidance
1*							
	Net profit			287,000	(1)		
	Bal b/d			70,000	(1)		
	Proposed dividends			65,000	(1)		
	Interim dividend			60,000	(1)		
	Tax			56,000	(1)		
	Transfer to reserves			50,000	(1)		
	Retained profit			126,000	(1)		
	Net cash flow from operating activities						
	Net profit for the year			287,000			
	Depreciation			195,000	(2)		
	Loss on sale			15,700	(1)		
	Increase in stock			(22,500)	(1)		
	Increase in debtors			(18,500)	(1)		
	Increase in creditors			30,500	(1)		
				487,200	(1)		
	Godfrey plc						
	Cash Flow Statement for the year ended 31 December 2010						
	Net cash flow from operating activities			487,200			
	Taxation						
	Corporation tax			(47,500)	**(1)**		
	Capital expenditure						
	Purchase of fixed assets	(665,000)	**(2)**				
	Proceeds of sale	22,300	**(1)**	(642,700)			
	Equity dividends paid			(110,000)	**(2)**		
				313,000			
	Financing						
	Issue of shares			300,000	**(2)**	**[23]**	
	Decrease in cash			(13,000)	**(1)**	**QWC [2]**	
	Total marks					**[25]**	

Question			Expected Answer	Marks	Additional Guidance
2	(a)	(i)	*27,500 / 497,500* ***(1)*** *x 100 = 5.53%* ***(1)*** *or* 55,000 / 497,500 x 100 = 11.06%	[2]	
		(ii)	300,000 / 497,500 **(1)** **=** 0.60 times **(1)** or 60.3% **(1)**	[2]	
		(iii)	40,000 / 102,500 **(1)** **=** 0.39: 1 **(1)**	[2]	
		(iv)	140,000 / 80,000 **(1)** **=** 1.75 times **(1)** **(1)**	[3]	
		(v)	1 / 1.25 **(1)** x 25% **(1) =** 20% **(1)**	[3]	

Question	Expected Answer	Marks	Additional Guidance
(b)*	Ratio analysis can only be used if Bolt plc is compared with firms **(1)** of the same type and operating in the same type of market **(1).** Figures used in ratios and the ratio calculation should only be used to compare if they have been compiled on a similar basis **(1).** For example, the profit figures for Bolt plc may have been calculated using different methods of depreciation **(1)** and what profit does Bolt plc use it could use profit before tax or after tax **(1).** The ratios calculated for Bolt plc use historic costs **(1)**; for example the market value of the shares could be much higher or lower at the current value **(1).** Bolt plc could window dress its accounts to make it look as if it is performing better than it actually is. **(1)** The actual accounts and the notes to the accounts should be analysed to find out more about the results **(1)** Concentrating on the financial data of Bolt plc means that it ignores important non-financial factors **(1),** such the training level of the workface and management problems **(1).** In considering trends from ratios, problems may arise during a period of price increases **(1)**. The financial position of Bolt plc may have changed and calculating ratios on the historic cost data could give a misleading picture of the financial stability of Bolt plc **(1)**. **Maximum 8 marks**	**(8)** **QWC (2)** **[10]**	

Question	Expected Answer	Marks	Additional Guidance
(c)	The sale of surplus fixed assets would increase the cash reserves of Bolt plc **(1)** and improve the liquidity position of Bolt plc **(1)**. The present gearing position of Bolt plc is 60% **(1)** which shows that it has 60 pence of debt for every £ of capital invested **(1)**. By using the £80,000 to reduce the debenture debt it would lower the gearing ratio of Bolt plc **(1)**. The new gearing ratio would now be 53% **(1)**. **Maximum 4 marks**	**[4]**	
	Total marks	**[26]**	

<table>
<tr><th>Question</th><th>Expected Answer</th><th>Marks</th><th>Additional Guidance</th></tr>
<tr><td>3 (a) (i)</td><td>
<u>Application and Allotment</u>
<table>
<tr><td>Bank</td><td>120,000</td><td>(1)</td><td>Bank</td><td>225,000</td><td>(1)</td></tr>
<tr><td>Share premium</td><td>500,000</td><td>(1)</td><td>Bank</td><td>195,000</td><td>(1)</td></tr>
<tr><td>Share capital</td><td>400,000</td><td>(1)</td><td>Bank</td><td>480,000</td><td>(1)</td></tr>
<tr><td></td><td></td><td></td><td>Bank</td><td>120,000</td><td>(1)</td></tr>
<tr><td></td><td>1,020,000</td><td></td><td></td><td>1,020,000</td><td></td></tr>
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</td><td>[7]</td><td></td></tr>
<tr><td>(ii)</td><td>
<u>Ordinary Share Capital</u>
<table>
<tr><td>Bal c/d</td><td>1,300,000</td><td>(1)</td><td>Bal b/d</td><td>900,000</td><td>(1)</td></tr>
<tr><td></td><td></td><td></td><td>Application and allotment</td><td>400,000</td><td>(1)</td></tr>
<tr><td></td><td>1,300,000</td><td></td><td></td><td>1,300,000</td><td></td></tr>
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</td><td>[3]</td><td></td></tr>
<tr><td>(iii)</td><td>
<u>Share Premium</u>
<table>
<tr><td>Bal c/d</td><td>950,000</td><td>(1)</td><td>Bal b/d</td><td>450,000</td><td>(1)</td></tr>
<tr><td></td><td></td><td></td><td>Application and allotment (1)</td><td>500,000</td><td>(1)</td></tr>
<tr><td></td><td>950,000</td><td></td><td></td><td>950,000</td><td></td></tr>
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</td><td>[4]</td><td></td></tr>
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Question	Expected Answer	Marks	Additional Guidance
(b)	Non-Cumulative preference shares **(1)** where a fixed dividend is paid each year to the preference shareholders **(1).** If the company has not earned the profit to cover the then the preference shareholders will not receive a dividend. **(1)** Cumulative preference shares **(1)** where the dividend can be carried forward to the next year **(1)** when the company has not earned enough profit in the year to cover the dividend. **(1)** Participating preference shares **(1)** where the preference shareholder also has a share of the ordinary dividend **(1)** and will also receive a preference dividend. **(1)** Redeemable Preference Shares **(1)** where the company may issue the shares on the condition that it will repay the amount of share capital to the holders of the shares **(1)** after a fixed period or even earlier at the discretion of the company **(1)**. **(Maximum 9 marks)**	**[9]**	
(c)	The dividends on the preference share will have to be paid before the ordinary shareholders of Flintoft plc receive a dividend **(1)** and this could mean that the ordinary shareholders receive smaller dividend or no dividend **(1)**. The preference shareholders have a higher priority over the ordinary shareholders **(1)** if the company goes into liquidation **(1)**. If Flintoft plc issued cumulative preference shares and the profit was not enough to pay the dividend, then the unpaid amount is added to next year's dividend **(1)** which will reduce the amount available in dividends for the ordinary shareholders **(1)**. An issue of preference shares will increase the amount of cash available for Flintoft plc **(1)** and this will allow Flintoft plc to make new investments **(1)** which could increase the capital employed and may benefit the ordinary shareholders **(1)** with an increase in earnings per share **(1)**. **Maximum 6 marks**	**[6]**	
	Total marks	**[29]**	

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