



Mark Scheme (Results)

January 2018

Pearson Edexcel IAL Accounting
In Accounting (WAC12)
Paper 01 Corporate and Management Accounting

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

| Question Number | Answer | Mark |
|-----------------|---|-------------|
| 1 (a) | AO1: (8), AO2 (1), AO3 (6) AO1: Four marks for correct calculation of cash inflows. Four marks for correct calculation of net cash flow in years 1 to 4. AO2: One mark for correct calculation of net cash flow in year 5. AO3: Three marks for correct calculation of depreciation. Three marks for correct calculation of running costs. | (15) |

| Question Number | Answer | Mark |
|-----------------|---|------------|
| 1 (b) | AO1: (4), AO2 (3) AO1: Four marks for correct calculations for Years 1 to 4. AO2: Three marks for correct calculations in Years 0 and 5 and total. | (7) |

| Question Number | Answer | Mark |
|-----------------|---|-------------|
| 1 (c) | A02: (12) A02: Twelve marks for correct calculation of Average rate of return. | (12) |

(a)

| | | | | | | | | | |
|----------------------|-----------------|---|-----------------|---|------------------|--------------|------------------|-----|--------------|
| | Sales | | | | Price | Sale | | | |
| Inflows | <u>(tons)</u> | | <u>Weeks</u> | | <u>£-per ton</u> | <u>Value</u> | <u>Total (£)</u> | - | |
| Year 1 | 180 | x | 52 | x | 20 | = | 187 200 | (1) | AO1 |
| Year 2 | 190 | x | 52 | x | 21 | = | 207 480 | (1) | AO1 |
| Year 3 | 190 | x | 52 | x | 21 | = | 207 480 | | Both |
| Year 4 | 170 | x | 52 | x | 22 | = | 194 480 | (1) | AO1 |
| Year 5 | 170 | x | 52 | x | 22 | +1 800 000= | 1 994 480 | (1) | AO1 |
| | | | | | | | 4 marks | | |
| Depreciation | | | | | | | | | |
| | 2 000 000 | - | 1 800 000 | = | <u>200 000</u> | (1) AO3 | = 40 000 | (1) | per year |
| | | | | | 5 | (1) AO3 | 3 marks | | AO3 |
| | | | | | | | | | |
| Running costs | <u>Per week</u> | | <u>weeks</u> | | | | <u>Deprectn</u> | | <u>Total</u> |
| Year 1 | 2 000 | x | 52 | = | 104 000 | - | 40 000 | = | 64 000 |
| Year 2 | 2 000 | x | 52 | = | 104 000 | - | 40 000 | = | 64 000 |
| Year 3 | 2 200 | x | 52 | = | 114 400 | - | 40 000 | = | 74 400 |
| Year 4 | 2 200 | x | 52 | = | 114 400 | - | 40 000 | = | 74 400 |
| Year 5 | 2 500 | x | 52 | = | 130 000 | - | 40 000 | = | 90 000 |
| | | | | | (1) AO3 | | (1of) AO3 | | (1of) AO3 |
| | | | | | Whole column | | Whole column | | Whole column |
| | | | | | | | 3 marks | | |
| Cash Flow | <u>Inflow</u> | | <u>Outflow</u> | | <u>NCF</u> | - | | | |
| Year 1 | 187 200 | - | 64 000 | = | 123 200 | (1of) AO1 | | | |
| Year 2 | 207 480 | - | 64 000 | = | 143 480 | (1of) AO1 | | | |
| Year 3 | 207 480 | - | 74 400 | = | 133 080 | (1of) AO1 | | | |
| Year 4 | 194 480 | - | 74 400 | = | 120 080 | (1of) AO1 | | | |
| Year 5 | 1 994 480 | - | 90 000 | = | 1 904 480 | (1of) AO2 | | | |
| | | | | | | | 5 marks | | |
| | | | | | | | | | 15 marks |
| (b) | | | | | | | | | |
| NPV | | | <u>5%</u> | | | | | | |
| | | | <u>Discount</u> | | | | | | |
| | <u>NCF</u> | | <u>Factor</u> | | | | | | |
| Year 0 | (2 000 000) | x | 1 | = | (2 000 000) | (1) AO2 | | | |
| Year 1 | 123 200 | x | 0.952 | = | 117 286 | (1of) AO1 | | | |
| Year 2 | 143 480 | x | 0.907 | = | 130 136 | (1of) AO1 | | | |
| Year 3 | 133 080 | x | 0.864 | = | 114 981 | (1of) AO1 | | | |
| Year 4 | 120 080 | x | 0.823 | = | 98 826 | (1of) AO1 | | | |
| Year 5 | 1 904 480 | x | 0.784 | = | 1 493 112 | (1of) AO2 | | | |
| | | | | | (45 658) | (1of) AO2 | | | 7 marks |

| | | | | | | | | | |
|---------------------------|----------------|--|------------------|-------------|------------------|-----------|-----------|-------------|--|
| (c) | | | | | | | | | |
| ARR | | | | | | | | | |
| Profit | | | | | | | | | |
| <u>Year</u> | <u>Revenue</u> | | <u>Costs</u> | | <u>Profit</u> | | | | |
| 1 | 187 200 | | 104 000 | | 83 200 | both | | | |
| 2 | 207 480 | | 104 000 | | 103 480 | (1of) AO2 | | | |
| 3 | 207 480 | | 114 400 | | 93 080 | both | | | |
| 4 | 194 480 | | 114 400 | | 80 080 | (1of) AO2 | | | |
| 5 | 194 480 | | 130 000 | | 64 480 | (1of) AO2 | | | |
| | | | Total | | 424 320 | (1of) AO2 | | | |
| Average annual profit | = | | <u>424 320</u> | (1of) AO2 = | 84 864 | (1of) AO2 | | | |
| | | | 5 | (1) AO2 | | | | | |
| Average investment | = | | <u>2 000 000</u> | + | <u>1 800 000</u> | = | 1 900 000 | (1) AO2 | |
| | | | | 2 | | | | | |
| Accounting rate of return | = | | 84 864 | (1of)x | AO2 100 | = | 4.47% | (1of) (1) C | |
| | | | 1 900 000 | (1) AO2 | | | | 2 xAO2 | |
| | | | | | | | | 12 marks | |

| Question Number | Answer | Mark |
|-----------------|---|------|
| 1 (d) | <p>AO1 (4), AO2 (5)</p> <p>AO1: Four marks for correctly stating formula.</p> <p>AO2: Five marks for correct substitution of figures into formula and calculation.</p> | (9) |

Internal rate of Return

= Lower rate (1) + (% difference between rates (1) x NPV using lower % rate) (1) AO1
 AO1 AO1 Difference between NPVs) (1) AO1

$$= 4\% (1) AO2 + (1 (1) AO2 \times \frac{37\ 696}{83\ 354}) (1) AO2$$

$$= 4.45\% (1of) AO2$$

| Question Number | Indicative Content | Mark |
|-----------------|---|---|
| 1 (e) | <p>AO1 (1), AO2 (1), AO3 (4), AO4 (6)</p> <p>Answers may include:</p> <p>Case against investment</p> <p>The net present value at 5% cost of capital is negative £45 658 (o/f), which is not meeting the investment criteria of the company, which is to have a positive NPV. The average rate of return is 4.47% (o/f), which is less than the cost of capital of the company. The internal rate of return is 4.45% (o/f), which is less than the cost of capital of the company. Environmental impact of a quarry, i.e. effect on landscape, wildlife, spoils (excavated soil). Pollution, i.e. noise, dust, inconvenience of excavation, effect on the water table, increased traffic.</p> <p>Case for investment</p> <p>The figures are only estimates. The rates of return are only about 0.5% below (o/f) the cost of capital used in the calculations. Are Barind Stone plc able to obtain capital at a slightly lower rate? This may make the project worthwhile. Perhaps the company could make costs savings to make the project worthwhile. Perhaps the company could increase sales volume, or the selling price, to make the project worthwhile. Creation of jobs and employment opportunities at the quarry and further job creation within the local economy, i.e. use of local services.</p> <p>Other points</p> <p>Are there any other projects that may be invested in? Do these give a better (or worse) return? Does this investment fit the objectives and strategy of the company?</p> <p>Decision</p> <p>The financial information states the project should not go ahead.</p> | (12) |
| Level | Mark | Descriptor |
| | 0 | A completely incorrect response. |
| Level 1 | 1-3 | <p>Isolated elements of knowledge and understanding recall based.</p> <p>Weak or no relevant application to the scenario set.</p> <p>Generic assertions may be present.</p> |

| | | |
|---------|---------|--|
| Level 2 | 4 - 6 | <p>Elements of knowledge and understanding, which are applied to the scenario.</p> <p>Chains of reasoning are present, but may be incomplete or invalid.</p> <p>A generic or superficial assessment is present.</p> |
| Level 3 | 7 - 9 | <p>Accurate and thorough understanding, supported throughout by relevant application to the scenario.</p> <p>Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects.</p> <p>An attempt at an assessment is presented, using financial and non-financial information, in an appropriate format and communicates reasoned explanations.</p> |
| Level 4 | 10 - 12 | <p>Accurate and thorough knowledge and understanding, supported throughout by relevant and effective application to the scenario.</p> <p>A coherent and logical chain of reasoning, showing causes and effects.</p> <p>Assessment is balanced, wide ranging and well contextualised using financial and non-financial information and makes informed recommendations and decisions.</p> |

| Question Number | Answer | Mark |
|-----------------|---|------|
| 2 (a) | <p>AO1 (4), AO2 (17) AO1: Two marks for correct insertion of opening balances. Two marks for correct calculation of closing balances. AO2: Seventeen marks for correct calculation and insertion of figures into statement.</p> <p>Workings for (2): $(750m/5)$ (1)AO2 = 150 (1)AO2 (150×0.14) (1)AO2 = 21 (1)AO2 Workings for (3): $(0.02 \times 750m)$ (1)AO2 = (15) (1)AO2 Workings for (8): (900×0.009) (1)AO2 = (8.1) (1)AO2</p> | (21) |

| 2 (a) Figures are in £ millions | Ordinary Share £1 Capital £m | Share Premium £m | Retained Earnings £m | General Reserve £m | Foreign Exchange Reserve £m | Capital Replacement Reserve £m | Revaluation Reserve £m | Total Equity £m |
|--|---------------------------------|----------------------------|-------------------------|-----------------------|--------------------------------|-----------------------------------|--------------------------------|-----------------------------|
| (1) Balance at 1 January 2017 | 750 | 50 | 17 | 11 | | 7 | | 835 (1all six)AO1 |
| (2) Rights Issue | 150 (2)AO2 | 21 (2)AO2 | | | | | | 171 |
| (3) Final Dividend 2016 | | | (15) (2)AO2 | | | | | (15) |
| (4) Transfer | | | 7 (1)AO2 | | | (7) (1)AO2 | | -- |
| (5) Revaluation | | | | | | | 12 (1)AO2 | 12 |
| (6) Transfer | | | | (10) (1)AO2 | 10 (1)AO2 | | | -- |
| (7) Transfer | | | 1 (1)AO2 | (1) (1)AO2 | | | | -- |
| (8) Interim Dividend 2017 | | | (8.1) (2)AO2 | | | | | (8.1) |
| (9) Loss for the year | | | (2.9) (1)AO2 | | | | | (2.9) |
| (10) Balance at 31 December 2017 | 900 | 71 (1of both)AO1 | (1) (1of)AO2 | 0 | 10 | 0 | 12 (1of all four)AO1 | 992 (1of)AO1 |

| Question Number | Answer | Mark |
|-----------------|---|------|
| 2 (b) | <p>AO1 (2) AO1: Two marks for stating a difference.</p> <p>Revenue reserves are created from undistributed profits (1) AO1. Capital reserves are, for example created by issuing shares above par value (1) AO1.</p> <p>OR revenue reserves are available for redistribution as dividends (1) AO1. Capital reserves are not available for redistribution as dividends (1) AO1.</p> | (2) |

| Question Number | Answer | Mark |
|-----------------|---|------|
| 2 (c)(i) | <p>AO1 (2) AO1: Two marks for correct identification of revenue reserves.</p> <p>Any two from: Retained Earnings AO1 General Reserve AO1 Foreign Exchange Reserve AO1 Capital Replacement Reserve AO1</p> | (2) |

| Question Number | Answer | Mark |
|-----------------|---|------|
| 2 (c)(ii) | <p>AO1 (2) AO1: Two marks for correct identification of capital reserves.</p> <p>Share Premium AO1 Revaluation Reserve AO1</p> | (2) |

| Question Number | Answer | Mark |
|-----------------|--|------|
| 2 (d) | <p>AO1 (4) AO1: Four marks for correct calculation of maximum payable per share</p> <p>Maximum amount payable = $\frac{(-1)(1\text{of}) \text{AO2} + 10 (1\text{of}) \text{AO2}}{900 (1\text{of}) \text{AO2}}$</p> <p>= 1 pence per share AO2 (1of)</p> | (4) |

| Question Number | Answer | Mark |
|-----------------|---|------|
| 2 (e) | <p>AO1 (6) AO1: Three marks for correct identification of reason for a rights issue (one per point), and three marks for development (one per point).</p> <p>The company may have a liquidity problem, AO1 so a share issue will bring in cash to solve this problem. AO1</p> <p>The company may have a small statement of financial position/ may wish to make the statement of financial position look larger. AO1 A share issue will increase the size of the equity section. AO1</p> <p>Shareholders are kept happy. AO1 If the company is doing well, then they have the chance for further investment in a successful company. Or, if they do not wish to take up the offer, they can sell the right/ offer is below market price. AO1 (maximum of 2 marks)</p> <p>A rights issue sees existing shareholders maintain control, AO1 whereas a public issue would see their control diluted. AO1</p> <p>To finance investment AO1 for example acquisition of another company, or purchase of land. AO1</p> | (6) |

| Question Number | Answer | Mark |
|-----------------|---|------|
| 2 (f) | <p>AO3 (6) AO3: Three marks for correct identification of auditor role (one per point), and three marks for development (one per point).</p> <p>Check that the financial statements are free from material misstatements/present a true and fair view AO3 and express their opinion on this matter. AO3</p> <p>Auditors should plan an audit so they have a reasonable expectation AO3 of detecting material misstatements caused by fraud. AO3</p> <p>Auditors may be asked to report on findings concerning a company's compliance AO3 with the UK Corporate Governance Code. AO3</p> <p>Test systems and controls AO3 to eliminate or minimise the risk of fraud. AO3</p> <p>Auditors should ensure that the financial statements, e.g. Statement of Comprehensive Income, AO3 comply with International Accounting Standards or Generally Accepted Accounting Principles. AO3</p> <p>Auditors should state whether the financial statements have been prepared on the basis of the business AO3 being a going concern or not being a going concern. AO3</p> <p>To ensure that the Director's Report is included with the financial statements AO3 and that the contents are factual, correct and disclose all material points. AO3</p> | (6) |

| Question Number | Indicative Content | Mark |
|-----------------|--|------|
| 2 (g) | <p>AO1 (1), AO2 (1), AO3 (4), AO4 (6)</p> <p><u>Ordinary shares</u></p> <p>Ordinary shares would see an inflow of capital that will help the company's liquidity position and therefore help with the future running of the company.</p> <p>Ordinary shares would allow existing shareholders the right to buy more shares in the company. This would ensure there is no dilution of control if they take up the rights. However, ordinary shares could be purchased on issue by outside parties if existing shareholders do not take up their right to buy the newly issued shares. Outside parties could buy these new shares when second-hand, if they are offered on the open market. Outside parties gaining some control of the company could be to the benefit or detriment of the company.</p> <p>Ordinary shares only have to pay a dividend when the company is in a financial position to do so. This would help the company regarding liquidity, cash flow, and maybe stop revenue reserves being drained. It would appear that Kandy Tea plc is not in a healthy financial position – it made a trading loss this year. There is little in the revenue reserves that could be used to finance a large dividend payment.</p> <p>Ordinary shares decrease the gearing ratio and that may make borrowing easier. This would help the company's liquidity position, if it is having problems borrowing, or with liquidity. Decreasing the gearing ratio also reduces risk to company. It is not possible to state the gearing ratio of Kandy Tea plc as no information is given about LT liabilities.</p> <p><u>Preference shares</u></p> <p>Preference shares would see an inflow of capital that will help the company's liquidity position and therefore may help with the running of the company.</p> <p>If the company is finding it difficult to raise finance, it may find preference shares are more likely to be taken up by investors than ordinary shares, who may see a potentially larger return. Preference shares would see the holders expecting a regular payment, probably twice a year, at a fixed rate of interest. This should be paid, even if the company is in a poor financial position. If dividends are not paid, the missed dividend may be carried over to a future period i.e. the dividends may be cumulative. Kandy Tea plc appears to be in a position where they would not want a regular payment of dividends to have to be made.</p> <p>Preference shares increase the gearing ratio that may make future borrowing more difficult for the company.</p> <p>Decision Good decision by the board to issue ordinary shares.</p> | (12) |

| Level | Mark | Descriptor |
|---------|---------|---|
| | 0 | A completely incorrect response. |
| Level 1 | 1-3 | Isolated elements of knowledge and understanding recall based. Weak or no relevant application to the scenario set. Generic assertions may be present. |
| Level 2 | 4 - 6 | Elements of knowledge and understanding, which are applied to the scenario. Chains of reasoning are present, but may be incomplete or invalid. A generic or superficial assessment is present. |
| Level 3 | 7 - 9 | Accurate and thorough understanding, supported throughout by relevant application to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects. An attempt at an assessment is presented, using financial and non-financial information, in an appropriate format and communicates reasoned explanations. |
| Level 4 | 10 - 12 | Accurate and thorough knowledge and understanding, supported throughout by relevant and effective application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and non-financial information and makes informed recommendations and decisions. |

| Question Number | Answer | Mark |
|-----------------|--|------------|
| 3 (a) | AO2 (8) AO2: Eight marks for correct calculation of value of closing inventory. | (8) |

Units in closing inventory (962 000 - 934 000) = **(1) AO2** 28 000 units **(1) AO2**

| | |
|----------------------|----------------------------|
| Direct Labour | 2 693 600 |
| Direct Materials | 1 202 500 |
| Semi- variable costs | 1 106 300 |
| Fixed overheads | <u>1 827 800</u> |
| Total costs | 6 830 200 (1of) AO2 |

Absorption cost per unit $\frac{6\,830\,200}{962\,000}$ **(1of) AO2** = £7.10 **(1of) AO2**
(1) AO2

Value of closing inventory (28 000 x £7.10) **(1of) AO2** = £198 800 **(1of) AO2**

| Question Number | Answer | Mark |
|-----------------|---|------------|
| 3 (b) | AO3 (4) AO3: Four marks for correct calculation of increase in profit. | (4) |

Increase in Inventory value (198 800 of - 137 200) **(1) AO3** = £61 600 **(1of) AO3**

So increase **(1of) AO3** in profit = £61 600 **(1of) AO3**

| Question Number | Answer | Mark |
|-----------------|---|------------|
| 3 (c) | AO1 (4) AO1: Four marks for correct calculation of units in inventory. | (4) |

| 2017 | Quarterly production | Quarterly sales |
|--------------------------|-----------------------------|-----------------------------|
| Quarter 1 : Jan – March | 270 000 | 255 000 |
| Quarter 2 : April – June | 285 000 | 276 000 |
| Quarter 3 : July – Sept | 264 000 | 273 000 |
| Quarter 4 : Oct - Dec | 258 000 | 270 000 |
| Total | 1 077 000 (1) AO1 | 1 074 000 (1) AO1 |

Inventory increases by 3 000 units **(1of)** AO1

Inventory at 31 December 2017 = 28 000 of + 3 000 of = 31 000 units **(1of)**
AO1

| Question Number | Answer | Mark |
|-----------------|--|------------|
| 3 (d) | AO1 (1), A02 (4), A03 (3) AO1: One mark for correct inclusion of opening inventory. AO2: Four marks for correct calculation of production cost and closing inventory. AO3: Three marks for correct calculation of revenue and profit. | (8) |

Revenue per unit = $\frac{8\,826\,300}{934\,000}$ = £9.45 per unit **(1)** AO3

Revenue (£9.45 of x 1 074 000 of)

10 149 300 **(1of)** AO3

Opening Inventory

198 800 **(1of)** AO1

Plus Production cost (1 077 000 x £7.10) **(1of)** AO2

7 646 700 **(1of)** AO2

Less Closing Inventory (31 000 x £7.10) **(1of)** AO2

220 100 **(1of)** AO2

= Cost of Sales

7 625 400

Profit

2 523 900 **(1of)** AO3

| Question Number | Indicative Content | | Mark |
|-----------------|---|---|------|
| 3 (e) | <p>A04 (6)</p> <p>For the statement</p> <p>In the first year of trading, profit will always be higher using absorption costing, as long as there is a closing inventory. This is because some of the overheads for year 1 will be carried forward into year 2.</p> <p>Against the statement</p> <p>If there is no inventory at the end of year 1, then marginal costing and absorption costing will give the same value for profit.</p> <p>For all other years, the profit may be larger or smaller using absorption costing. This will depend upon the relative size and value of the opening and closing inventories.</p> <p>Decision</p> <p>The statement is incorrect. Absorption cost may sometimes give a greater profit, but there are times when it does not.</p> | | (6) |
| Level | Mark | Descriptor | |
| | 0 | A completely incorrect response. | |
| Level 1 | 1-2 | Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set. | |
| Level 2 | 3-4 | Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision. | |
| Level 3 | 5-6 | Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made. | |

| Question Number | Answer | Mark |
|-----------------|---|------|
| 4 (a)(i) | A02 (2) A02: Two marks for correct calculation of percentage of discount received. $\frac{4\,012}{160\,480} \times 100 \text{ (1) A02} = 2.5\% \text{ (1) A02}$ | (2) |

| Question Number | Answer | Mark |
|-----------------|---|------|
| 4 (a)(ii) | A01 (1), A02 (4) A01: One mark for correct calculation of total depreciation on each machine. A02: Four marks for correct calculation of number of machines. Total depreciation per machine = $11\,000 - £500 = £10\,500 \text{ (1) A01}$ Depreciation per year = $\frac{£10\,500}{7} \text{ (1of) A02} = 1\,500 \text{ per year (1of) A02}$ Number of machines = $\frac{24\,000}{£1\,500} \text{ (1) A02} = 16 \text{ machines (1of) A02}$ | (5) |

| Question Number | Answer | Mark |
|-----------------|---|------|
| 4 (a)(iii) | A01 (2) A01: Two marks for correct reasons for inventory increasing. Company are having difficulty selling inventory (1) A01 Company decided to hold a larger inventory (1) A01 Inflation (1) A01 | (2) |

| Question Number | Answer | Mark |
|-----------------|--|------|
| 4 (a)(iv) | <p>A02 (1) A02: One mark for correct calculation of size of warehouse.</p> $\frac{\pounds 147\,888}{\pounds 26} = 5\,688 \text{ square metres (1) A02}$ | (1) |

| Question Number | Answer | Mark |
|-----------------|--|------|
| 4 (a)(v) | <p>A02 (2) A01: Two marks for correct action to reduce bad debts. Stop selling on credit (1) A01 Take firmer action with credit control e.g. be firmer chasing up debts (1) A01</p> | (2) |

| Question Number | Answer | Mark |
|-----------------|--|------|
| 4 (a)(vi) | <p>A02 (2) A02: Two marks for correct reasons for reducing provision for bad debts.</p> <p>Less of the year end trade receivables are thought to be possibly bad (1) A02 Provision is a fixed percentage of year-end trade receivables, and trade receivables at the year-end are lower than last year (1) A02</p> | (2) |

| Question Number | Answer | Mark |
|-----------------|--|------|
| 4 (a)(vii) | <p>A02 (3) A02: Three marks for correct calculation of percentage of interest on debenture.</p> $X \times 5.75\% = £34\,500$ $\text{So } X = \frac{£34\,500}{5.75\%} \text{ (1) A02} = £600\,000 \text{ (1) A02}$ | (3) |

| Question Number | Answer | Mark |
|-----------------|---|------|
| 4 (a)(viii) | <p>A02 (4) A02: Four marks for correct calculation of selling price of share.</p> $\frac{£50\,000}{£1.25} = 40\,000 \text{ shares (1) A03}$ $£50\,000 + £10\,000 \text{ Profit} = \text{Sold for } £60\,000 \text{ (1) A03}$ $\frac{£60\,000}{40\,000 \text{ shares}} \text{ (1) A03} = £1.50 \text{ per share (1) A03}$ | (4) |

| Question Number | Answer | Mark |
|-----------------|--|------|
| 4 (a)(ix) | <p>A03 (3) A03: Three marks for correct calculation of percentage of corporation tax.</p> $£168\,000 - £24\,000 = £144\,000 \text{ (1) A03}$ $\frac{£36\,000}{£144\,000} \times 100 \text{ (1) A03} = 25\% \text{ (1) A03}$ | (3) |

| Question Number | Indicative Content | | Mark |
|-----------------|---|--|------------|
| 4 (b) | <p>AO4 (6)</p> <p>For decision</p> <p>Allows readers of financial statements to understand a given, uniform presentation. Allows readers of financial statements to compare companies. Enables companies to see how various sections of the business are performing i.e. production, distribution, and administration. The subdivisions may be helpful in determining internal decision making e.g. price setting, budget preparation.</p> <p>Against decision</p> <p>May add to the complexity of producing and reading financial statements. There are some items/expenses that may be placed in more than one section, which may make comparisons invalid.</p> <p>Decision</p> <p>Probably a good recommendation to divide up expenses into the given sub-headings.</p> | | (6) |
| Level | Mark | Descriptor | |
| | 0 | A completely incorrect response. | |
| Level 1 | 1-2 | <p>Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.</p> | |
| Level 2 | 3-4 | <p>Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.</p> | |

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| Level 3 | 5-6 | Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made. |
|---------|-----|---|

| Question Number | Answer | Mark |
|-----------------|--|------------|
| 5 (a) (i) | A02 (2), A03 (4) A02: Two marks for correct insertion of debenture and reserves and correct calculation of return on capital employed. A03: Four marks for correct calculation of net profit before interest and tax, and value of share capital. | (6) |

Return on Capital employed = $\frac{\text{Net profit before interest and tax}}{\text{Capital employed}} \times 100$

$$= \frac{\pounds 412\,000 \text{ (1) A03} + \pounds 96\,000 \text{ (1) A03}}{(\pounds 6\,000\,000 \text{ (1) A03} + \pounds 2\,000\,000 \text{ (1) A03} + \pounds 1\,200\,000 + \pounds 800\,000 \text{ (1) A02 both})}$$

$$= \frac{\pounds 508\,000}{\pounds 10\,000\,000} \times 100 = 5.08\% \text{ (1) A02}$$

| Question Number | Answer | Mark |
|-----------------|--|------------|
| 5 (a) (ii) | A02 (2), A03 (3) A02: Two marks for correct calculation of ordinary shares issued and earnings per ordinary share. A03: Three marks for correct calculation of net profit after tax and preference dividends. | (5) |

Earnings per ordinary share = $\frac{\text{Net profit after tax} - \text{preference dividend}}{\text{Issued ordinary shares}}$

$$= \frac{\pounds 412\,000 \text{ (1) A03} - \pounds 92\,000 \text{ (1) A03} - \pounds 120\,000 \text{ (1) A03}}{8\,000\,000 \text{ (1) A02}} = 2.5 \text{ pence per share (1) A02}$$

| Question Number | Answer | Mark |
|-----------------|---|------|
| 5 (a)(iii) | <p>A02 (4) A02: Four marks for correct for correct calculation of dividend paid per ordinary share.</p> <p>Dividend paid per share = $\frac{\text{Total ordinary dividend}}{\text{Issued ordinary shares}}$</p> <p>= $\frac{\pounds 40\,000 \text{ (1) A02} + \pounds 140\,000 \text{ (1) A02}}{8\,000\,000 \text{ (1of) A02}}$</p> <p>= 2.25p per share (1of) A02</p> | (4) |

| Question Number | Answer | Mark |
|-----------------|---|------|
| 5 (a)(iv) | <p>A01 (1), A02 (2) A01: One mark for correct insertion of total ordinary dividend. A02: Two marks for correct for correct insertion of net profit after tax and preference dividends and calculation of dividend cover.</p> <p>Dividend cover = $\frac{\text{Net profit after tax} - \text{preference dividend}}{\text{Total ordinary dividend}}$</p> <p>= $\frac{\pounds 200\,000 \text{ (1of) A02}}{\pounds 180\,000 \text{ (1) A01}} = 1.11 \text{ times (1of) A02}$</p> | (3) |

| Question Number | Answer | Mark |
|-----------------|---|------|
| 5 (a)(v) | <p>A01 (2), A02 (1) A01: Two marks for correct insertion of market price of share and earnings per share. A02: One mark for correct calculation of price/earnings ratio.</p> <p>Price/earnings ratio = $\frac{\text{Market price of share}}{\text{Earnings per share}}$</p> <p>= $\frac{90\text{p} \text{ (1) A01}}{2.5\text{p} \text{ (1of) A01}} = 36 \text{ times (1of) A02}$</p> | (3) |

| Question Number | Answer | Mark |
|-----------------|---|------------|
| 5 (a)(vi) | <p>A01 (2), A02 (1) A01: Two marks for correct insertion of market price of share and dividend per share. A02: One mark for correct calculation of dividend yield.</p> <p>Dividend yield = $\frac{\text{Dividend per share}}{\text{Market price of share}} \times 100$</p> <p>= $\frac{2.25 \text{ p (1of) A01}}{90\text{p (1) A01}} \times 100 = 2.5\% \text{ (1of) A02}$</p> | (3) |

| Question Number | Indicative Content | Mark |
|-----------------|--|---|
| 5 (b) | <p>AO4 (6)</p> <p>Agree with statement</p> <p>Ideally directors would like to reward the shareholders with an ever-increasing dividend per share each year. This would keep shareholders happy. This would probably keep directors in their posts, including when they come up for re-election by shareholders. This may also signify that the company is continually performing increasingly well.</p> <p>Against the statement</p> <p>Directors should only pay what they feel is the appropriate amount in dividends. This may be less than they paid in the previous year. This may be because profits are down in a year, and directors wish to be cautious.</p> <p>It may be that if dividends are to increase in a year, they are greater than the amount in revenue reserves. Or, it may be that dividends are getting too large, and the shareholders returns are starting to be unrealistically high, given the financial position of the company. Or, it may be that the directors wish to keep some funds in reserve in case of a future downturn, or for an investment opportunity, or to replace non-current assets etc.</p> <p>Decision</p> <p>The statement is unrealistic.</p> | (6) |
| Level | Mark | Descriptor |
| | 0 | A completely incorrect response. |
| Level 1 | 1-2 | Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set. |
| Level 2 | 3-4 | Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision. |

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| Level 3 | 5-6 | Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made. |
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| Question Number | Answer | Mark |
|-----------------|---|------|
| 6 (a) | AO1 (3), AO2 (6) AO1: Three marks for calculation of rent, labour and total fixed costs. AO2: Six marks for calculation of remaining fixed costs, total variable costs, contribution and break-even point. | (9) |

| | |
|-------------------------|--|
| Fixed Costs | Rent (£1 290 x 4) = £5 160 (1)AO1 Labour (5 x £115 x 52) = £29 900 (1)AO1 Insurance = £510 Loan Interest (£250 x 12) = £3 000 Other FC (£65 x 12) = £780 (1)AO2 all three Total FC = £39 350 (1of)AO1 |
| Variable Costs per unit | Direct materials = £0.32 Delivery costs = £0.02 Total VC = £0.34 (1)AO2 |
| Contribution per unit | (£1.99 - £0.34) = £1.65 (1of)AO2 |
| Break-even point | $\frac{39\,350}{1.65}$ (1of)AO2 (1of)AO2 |
| | = 23 849 units (1of)AO2 |

| Question Number | Answer | Mark |
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| 6 (b) | AO3 (3) AO3: Three marks for calculation of profit. | (3) |

| | |
|---------------------|---|
| Sales | 31 200 x £1.99 = £62 088 (1)AO3 |
| Less Fixed Costs | = (£39 350) of |
| Less Variable Costs | (31 200 x £0.34) = (£10 608) (1of)AO3 both |
| = Profit | = £12 130 (1of) AO3 |

| Question Number | Answer | Mark |
|-----------------|--|------------|
| 6 (c) | AO1(2), AO2 (6), AO3 (1) AO1: Two marks for calculation of rent and total fixed costs. AO2: Six marks for calculation of three fixed costs, total variable costs, contribution and break-even point. AO3: One mark for correct calculation of depreciation. | (9) |

| | |
|-------------------------|---|
| Fixed Costs | Rent (£425 x 4) = £1 700 (1)AO1 Insurance = £290 Loan Interest (£125 x 12) = £1 500 Other FC (£40 x 12) = £480 (1)AO2 all three Depreciation (5 000 – 400)/8 = <u>£575</u> (1)AO3 Total FC = £4 545 (1of)AO1 |
| Variable Costs per unit | Direct materials = £0.32 Delivery costs = £0.11 Direct labour = <u>£0.75</u> Total VC = £1.18 (1)AO2 |
| Contribution per unit | (£1.49 - £1.18) = £0.31 (1of)AO2 |
| Break-even point | $\frac{4\,545}{£0.31}$ (1of)AO2 (1of)AO2 |
| | = 14 662 units (1of)AO2 |

| Question Number | Answer | Mark |
|-----------------|--|------------|
| 6 (d) | AO3 (3) AO3: Three marks for calculation of profit. | (3) |

| | |
|---------------------|---|
| Sales | 36 400 x £1.49 = £54 236 (1)AO3 |
| Less Fixed Costs | = (£4 545) of |
| Less Variable Costs | (36 400 x £1.18) = (£42 952) (1of)AO3 both |
| = Profit | = £6 739 (1of)AO3 |

| Question Number | Indicative Content | Mark |
|-----------------|--|---|
| 6 (e) | <p>A04 (6)</p> <p>Own figure rule applies</p> <p>Producing in a factory</p> <p>Profit is greater at £12 130 compared to £6 739 using home workers. This is higher by £5 391</p> <p>Output is 31 200 units with labour paid £0.95 per toy.</p> <p>Perhaps it is possible to reduce break-even point by paying labour for every unit produced i.e. make labour a variable cost.</p> <p>Factory premises need to be found, which may be difficult.</p> <p>Producing using home workers</p> <p>Break-even point is less at 14 662 units compared to 23 849 units producing in the factory. This is lower by 9 187 units.</p> <p>Output is 36 400 units with labour paid £0.75 per toy.</p> <p>Costs are lower, and the selling price is lower, but is it possible to increase the selling price?</p> <p>Less capital required to start up the business.</p> <p>Delivering parts and finished products to and from home workers may not be environmentally friendly,</p> <p>Production target may be more difficult to achieve as workers are working unsupervised.</p> <p>Other points</p> <p>Figures are all predictions and may not be as expected.</p> <p>Decision</p> <p>Should produce using the factory, as profit is more important than break-even point.</p> | (6) |
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