



# Mark Scheme (Results)

January 2015

International A Level Accounting

WACO2

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**WAC02/01 – January 2015****Mark scheme****Q1.**

(a)

$$(i) \quad \text{Gearing ratio} = \frac{\text{Prior charge capital}}{\text{Capital employed}} \times 100 \quad \checkmark$$

$$= \frac{1\,000\,000 + 4\,000\,000 + 5\,500\,000 \checkmark \text{ any 2 } \checkmark \text{ 3rd}}{1\,000\,000 + 4\,000\,000 + 5\,500\,000 + 5\,000\,000 + 78\,000 \checkmark \text{ any 3 } \checkmark \text{ next 2}} \times 100 = 67.4\% \checkmark$$

Other formulae for gearing are acceptable

**6 marks**

$$(ii) \quad \text{Return on Capital employed} = \frac{\text{Net profit before interest and tax}}{\text{Capital employed}} \times 100 \quad \checkmark$$

$$= \frac{£650\,000 \checkmark}{£15\,578\,000 \checkmark} \times 100 = 4.17\% \checkmark$$

**4 marks**

$$(iii) \quad \text{Earnings per ordinary share} = \frac{\text{Net profit after interest and tax less preference dividend}}{\text{Issued ordinary shares}} \quad \checkmark$$

$$= \frac{£90\,000 - £70\,000 \checkmark}{5\,000\,000 \checkmark} = 0.4 \text{ pence per share } \checkmark$$

**4 marks**

$$(iv) \quad \text{Price/earnings ratio} = \frac{\text{Market price of ordinary share}}{\text{Earnings per ordinary share}} \quad \checkmark$$

$$= \frac{74 \text{ p } \checkmark}{0.4 \text{ p o/f } \checkmark} = 185 \text{ times o/f } \checkmark$$

**4 marks**

$$(v) \quad \text{Dividend paid per share} = \frac{\text{Total ordinary dividend paid}}{\text{Number of Issued ordinary shares}} \quad \checkmark$$

$$= \frac{£280\,000 \checkmark}{5\,000\,000 \checkmark} = 5.6 \text{ pence per share } \checkmark$$

**4 marks**

$$(vi) \quad \text{Dividend cover} = \frac{\text{Net profit after interest and tax less preference dividend}}{\text{Total ordinary dividend paid}} \quad \checkmark$$

$$= \frac{£90\,000 - 70\,000 \checkmark}{£280\,000 \checkmark} = 0.07 \text{ times } \checkmark$$

**4 marks**

$$\begin{aligned}
 \text{(vii) Dividend yield} &= \frac{\text{Ordinary dividend per share}}{\text{Market price of ordinary share}} \times 100 \quad \checkmark \\
 &= \frac{5.6 \text{ p o/f}}{74 \text{ p}} \times 100 = 7.57 \% \text{ o/f} \quad \checkmark
 \end{aligned}$$

4 marks

**(b) Own figure rule applies****Strengths**

Net profit before interest and tax is a good figure.  $\checkmark$

ROCE could be said to be quite good (in present financial situation)  $\checkmark$  possibly more than any returns in bank deposit accounts.  $\checkmark$

Price/earnings very high (which means market has confidence in company)  $\checkmark$  which may mean shareholders will not sell shares held.  $\checkmark$

Dividend per share is high (which keeps shareholders happy)  $\checkmark$  a better return than many other investments.  $\checkmark$

Dividend yield is high (which keeps shareholders happy)  $\checkmark$  they get a better return than many other investments.  $\checkmark$

**Weaknesses**

Net profit after interest and tax is **much** lower than before interest and tax  $\checkmark$  because there are very high interest payments (of 530 000)  $\checkmark$  and tax payments (of 30 000).  $\checkmark$

ROCE could be said to be quite poor  $\checkmark$  possibly less than any returns in bank deposit accounts.  $\checkmark$

Gearing ratio is high  $\checkmark$  which means risk is high  $\checkmark$  Appear to have been borrowing fairly regularly  $\checkmark$  taking out a debenture in 2009 and a bank loan in 2014.  $\checkmark$

EPS is very low, so poor return for investors in ordinary shares.  $\checkmark$

Price/earnings very high (so may discourage future investors in ordinary shares)  $\checkmark$  as it would take a very long time to get money back/recover investment made.  $\checkmark$

Dividend per share is high (which means funds are leaving the company)  $\checkmark$  which may give future problems eg repaying loans  $\checkmark$  future expansion etc.  $\checkmark$

Dividend cover is very low  $\checkmark$ , meaning company cannot afford to pay this level of dividend.  $\checkmark$

Dividend yield is high (which means company is paying out more than it needs to)  $\checkmark$  probably more than many other companies.  $\checkmark$

Maximum of 8 marks for arguing one side

**Conclusion 2 marks**

Company has some serious problems  $\checkmark\checkmark$

OR profitability is a problem  $\checkmark$  and gearing  $\checkmark$

12 marks

**(c) Possible answer**

(i) Reduce gearing ratio by issuing more ordinary shares ✓ it is possible to issue £5 m more shares ✓  
(on existing authorised share capital)  
Payback loans ✓ and debentures ✓ and preference shares ✓ (any 2)

**2 marks****(ii) Possible answers**

Family could keep control if they bought the new shares ✓ Or it may result in outside expertise coming to the company if outside parties buy shares ✓ Could use share issue to pay off bank loan ✓  
This would reduce interest payments ✓  
Paying back loans means a large cash outflow ✓ which worsens liquidity ✓

**2 marks****(d) Possible answers**

Improve ROCE by making higher profits ✓ by reducing costs or increasing revenue. ✓

Improve EPS by making higher profits. ✓ but difficult if a new share issue has been made. ✓

Increase dividend per share by increasing profits ✓ and/or redeeming ordinary shares ✓  
OR Reduce dividend per share ✓ to retain funds in company to pay interest etc. ✓

Improve dividend cover by paying smaller dividends ✓ or making higher profits. ✓

Keep dividend yield high by making healthy profits ✓ to maintain confidence of market in company shares. ✓

**6 marks****Total 52 marks**

**Q2a****Statement of Comprehensive Income for****Gulf Furnishings plc for y/e 31st December 2014** ✓

Revenue 4482800 ✓

Cost of sales (2276824) ✓ o/f

Gross profit 2205976 ✓ o/f

Other Income 150025 ✓ o/f

Distribution costs (1349333) ✓ o/f

Administrative expenses (604114) ✓ o/f

Financial cost (55192) ✓ o/f

Profit on ordinary activities before tax 347362 ✓ o/f

Corporation tax (55000) ✓

Profit on ordinary activities after tax 292362 ✓ o/f ✓ C

**12 x** ✓**W5 Financial cost****2 x** ✓

Interest on bank loan 48000 ✓

Interest on bank balance 7192 ✓

55192

**TOTAL 40 marks****W1 Cost of Sales**

Direct Materials 843216

Less closing Inventory (4897) both ✓

Less Discount Received (41753) ✓

Factory Depreciation 47000 ✓

Machinery Depreciation 277500 ✓ **9 x** ✓

Factory Fuel 36441 ✓

Factory Power 211948 ✓

Machinery maintenance 27542 ✓

Factory staff 828750

Production Manager 55000 both ✓

Stock Adjustment Finished Goods (3923) ✓

2276824

**W2 Distribution Costs**

Commission on sales 67242 ✓

Sales Manager 50000

Transport Manager 45000 both ✓

Fuel 182205 ✓ **8 x** ✓

Motor lorries depreciation 112800 ✓

Advertising and Marketing 155043 ✓

Shop premises depreciation 123750 ✓

Running cost of vehicles 88543 ✓

Shop staff wages 435790

Delivery staff wages 88960 both ✓

1349333

**W3 Administrative Expenses**

Bad Debts Written Off 12255 ✓

Finance manager 59000 ✓ **7 x** ✓

Discount allowed 16548 ✓

Hire of photocopiers 3120 ✓

Accountancy staff wages 212870

Office staff wages 202130 both ✓

Office premises rent 45204 ✓

Office power 52987 ✓

604114

**W4 Other Income**

Canteen sales 122767 ✓

Dividends received 27258 ✓ **2 x** ✓

150025

(b)

Answers could include

IAS1 states additional line items in the Statement of comprehensive income, may be required when necessary ✓ to explain elements of financial performance. ✓

Treatment is required by law ✓ (Companies Act validates IAS)

When items are material ✓ they should be disclosed separately either on the face of the accounts, or in the notes. ✓

The items need to be disclosed by virtue of their size, ✓ or incidence ✓

### Benefits

This will benefit users of accounts because they can see that the expense or revenue ✓ of the Exceptional Item will not be expected to be repeated regularly in the future. ✓✓

Although in the normal line of business ✓ the Exceptional Item should be disclosed because of its size. ✓

This allows the reader to predict more accurately ✓ future expected performance. ✓

This may help future potential investors / shareholders ✓ trade payables ✓ banks ✓ (maximum of 2) with decision making. ✓

Should be beneficial if required to be shown by IAS / FRS ✓

### Disadvantages

Adds more figures and details to the accounts ✓ so makes them more difficult to understand. ✓

More time and money spent producing accounts ✓

Competitors may gain an advantage if they see this detail in the accounts. ✓

Maximum for arguing only one side  $8 \times \checkmark = 4$  marks

### Evaluation

Should conclude that it is beneficial to disclose Exceptional Items. ✓✓

**12 marks**

**TOTAL 52 Marks**

**Q3****(a)**

$$(i) \text{ Standard labour cost} = (5 \times 40 \times £5.90) \checkmark = £1\,180 \checkmark \quad (2)$$

$$(ii) \text{ Actual labour cost} = (200 \times £5.90) \checkmark + (7 \times £8.10) \checkmark = £1\,180 + £56.70 = £1\,236.70 \checkmark \quad (3)$$

$$(iii) \text{ Labour efficiency variance} = (\text{Actual hours} - \text{Standard hours}) \times \text{Standard rate} \\ = (207 \checkmark - 200 \checkmark) \times 5.90 \checkmark = £41.30 \text{ Adv } \checkmark \quad (4)$$

$$(iv) \text{ Labour rate variance} = (\text{Actual rate} - \text{standard rate}) \times \text{Actual hours} \\ = \left( \frac{1236.70 \checkmark}{207} - £5.90 \checkmark \right) \times 207 \checkmark \\ = (£5.974 - £5.90) \times 207 = £15.32 \text{ (£15.40) Adv } \checkmark \quad (4)$$

$$(v) \text{ Total labour variance} = \text{Actual labour cost} - \text{Standard labour cost} \\ = (£1\,236.70 - £1\,180) \checkmark \text{ o/f} = £56.70 \text{ Adv } \checkmark \text{ o/f}$$

O/f applies if a(iii) and a(iv) are added together (2)

**(b)**

$$\text{Actual purchase price of material per square metre} = \frac{£604.80 \checkmark}{2\,160 \checkmark} \text{ (OR } \frac{£201.60 \checkmark}{720 \checkmark}) = £0.28 \checkmark \quad (3)$$

**(c)**

$$(i) \text{ Actual material cost of production} \\ = (220 \times £0.28) \checkmark + (1700 \times £0.28) \checkmark = £537.60 \checkmark \quad (3)$$

$$(ii) \text{ Standard material cost of production} = (£0.26 \times 3 \times 600) \checkmark = £468 \checkmark \quad (2)$$

$$(iii) \text{ Material usage variance} = (\text{Actual usage} - \text{Standard usage}) \times \text{Standard price} \\ = ((220 + 720 + 720 + 720 - 460) - 1800) \times £0.26 \\ = (1\,920 \checkmark - 1800 \checkmark) \times £0.26 \checkmark = £31.20 \text{ Adv } \checkmark \quad (4)$$

$$(iv) \text{ Material price variance} = (\text{Actual Price} - \text{Standard price}) \times \text{Actual usage} \\ = (£0.28 \checkmark \text{ o/f} - £0.26 \checkmark) \times 1920 \checkmark = £38.40 \text{ Adv } \checkmark \quad (4)$$

$$(v) \text{ Material cost variance} = \text{Actual material cost} - \text{Standard material cost} \\ = (£537.60 - £468) \checkmark \text{ o/f} = £69.60 \text{ Adverse } \checkmark \text{ o/f}$$

O/f applies if c(iii) and c(iv) are added (2)



**(d)**

(i) Total standard cost = standard labour + standard material

$$= (£1\,180 + £468) \checkmark \text{ o/f } = £1\,648 \checkmark$$

O/f applies if a(i) and c(ii) are added

**(2)**

(ii) Total actual cost = actual labour + actual material

$$= (£1\,236.70 + £537.60) \checkmark \text{ o/f } = £1\,774.30 \checkmark \text{ o/f }$$

O/f applies if a(ii) and c(i) are added together

**(2)****(e)** Maximum of three marks for answers concerning individualsSusmita is not efficient, and needs overtime to fulfil quota so suggest reduce overtime.  $\checkmark$ Zahir is inefficient – does overtime and still cannot meet quota, suggest reduce overtime.  $\checkmark$ Mohon is inefficient – does not meet target, do not give overtime to him.  $\checkmark$ Chadni is very efficient, surpasses quota in normal time, suggest give overtime to her.  $\checkmark$ Rubia meets deadline so is efficient – can be given overtime  $\checkmark$ 

Maximum of 2 marks if candidate argues in general terms, not mentioning individual workers.

Eg no or little overtime is permitted  $\checkmark$  which may make all workers more efficient  $\checkmark$ **(3)****(f)****Performed poorly**Variances are adverse  $\checkmark$  maximum of 2 ticks for reasons eg inefficient labour  $\checkmark$  or expensive material  $\checkmark$ Labour efficiency – could improve training,  $\checkmark$  especially to Mohon, Susmita, and Zahir. Any 2.  $\checkmark$ Labour rate – perhaps pay overtime at standard rate,  $\checkmark$  especially if 120 target not met  $\checkmark$ Material usage – better training of staff,  $\checkmark$  or buy better quality material  $\checkmark$  or new machinery.  $\checkmark$ Material price – look for alternative suppliers  $\checkmark$  or negotiate better prices  $\checkmark$  or pay quickly to ensure discounts.  $\checkmark$ **Performed well**Section may be efficient,  $\checkmark$  it is just that the standards set are unrealistic.  $\checkmark$  maybe they are not reviewed regularly  $\checkmark$  in which case review and change standards  $\checkmark$ Some workers are efficient and meet or surpass targets  $\checkmark$  ie Rubia and Chadni.  $\checkmark$ Overall, the department has met its production target.  $\checkmark$ 

Maximum of 8 marks if argued one side only.

Conclusion 2 marks

Blouse section has probably performed poorly.  $\checkmark\checkmark$ **(12)****Total 52 marks**

**Q4.**

(a) (i) Goodwill is a sum paid in excess of the fair / agreed value ✓ of net assets acquired when purchasing a business ✓.

**2 marks**

(ii) Any two from

Existing customer base ✓ Supply channels set up ✓ Suitable location ✓ Skilled workers ✓  
 Reputation of business ✓ Brand awareness ✓ Loyal staff ✓ Profitable business ✓

**2 marks****(b)**

Calculation of Purchase Price			
Property, plant and equipment	+ 1 200 000 ✓ - 165 000 ✓ - 352 000 ✓	79 778 000	✓
Intangibles		525 000	
Inventories		863 000	✓ both
Trade and Other Receivables	- 56 000	504 000	✓
Bank Loan		(10 000 000)	
Trade and Other Payables		(230 000)	✓ both
Current tax payable		(210 000)	✓
Goodwill		4 000 000	✓
Purchase price		75 230 000	✓ o/f

**10 marks****(c)**

Shares issued =  $\frac{75\,230\,000 \text{ ✓ o/f}}{\pounds 2.50 \text{ ✓}} = 30\,092\,000 \text{ shares } \checkmark \text{ o/f}$

**4 marks****(d)**

<b>Acquisition account</b>							
Jan 1	Property, Plant, + Equipment	79 778 000	both	Jan 1	Bank loan	10 000 000	both
	Intangibles	525 000	✓ o/f		Trade Payables	230 000	✓ o/f
	Inventories	863 000	both		Current Tax payable	210 000	all 3
	Trade Receivables	504 000	✓ o/f		Purchase price		
	Goodwill	4 000 000	✓ o/f		£1 Ordinary shares	30 092 000	o/f
					Share premium	<u>45 138 000</u>	✓ o/f
		<u>85 670 000</u>				<u>85 670 000</u>	✓ o/f

**6 marks**

(e)

For financing using shares

Does not require any use of cash ✓ which would be a drain on liquid resources. ✓

If the market thinks the deal is a good one ✓ the value of all shares in buying company will rise, ✓ keeping shareholders happy. ✓

Improves gearing ratio ✓

No need to payback shareholders ✓

No capital repayment required unlike loans ✓

Dividends only need to be paid when profits are healthy ✓ unlike interest payments on loans that must take place ✓

No need to offer collateral ✓

Against financing using shares

If the market thinks the deal is a bad one ✓ the value of all shares in buying company will fall, ✓ making shareholders unhappy. ✓

Memorandum of Association ✓ may mean it is not possible to issue more shares, ✓ or may need to get approval from Stock Exchange Council ✓ to alter Memorandum and issue more shares. ✓

Number of shareholders in buyer rises ✓ so dilution of powers of existing shareholders. ✓

More dividends will be paid to a greater number of shareholders ✓ which may result in lower dividends per share ✓

Issuing of shares results in extra costs etc ✓

Maximum of 4 marks for arguing one side only

Conclusion – 2 marks

Financing purchase of another company is good/ not good idea.

**8 marks**

**Total 32 marks**

**Q5.**

(a)

Fixed Costs - per year

Rent	£9 300
Depreciation	£2 800 ✓ both
Electricity	£3 740
Insurance	£1 420 ✓ both
Manager	£12 000
Loan	£2 700 ✓ both
Total FC	£31 960 ✓ o/f

Variable costs per unit

$$(0.25 + 0.02 + 0.16 + 0.40) \checkmark$$

$$\text{Total } £0.83 \text{ per unit } \checkmark$$

Contribution per unit

$$(£1.30 - £0.83 \text{ o/f}) \checkmark = £0.47 \checkmark \text{ o/f}$$

$$\text{Break Even Point} = \frac{£31\,960 \text{ o/f } \checkmark}{£0.47 \text{ o/f } \checkmark} = 68\,000 \text{ ice creams o/f } \checkmark$$

**11 marks**

(b) Margin of safety =  $184\,800 \checkmark - 68\,000 \checkmark \text{ o/f} = 116\,800 \text{ units } \checkmark \text{ o/f}$

**3 marks**

(c) Profit for 2014

$$\begin{aligned} \text{Sales} &= 1400 \times 12 \times 11 = 184\,800 \text{ units } \checkmark \\ \text{Sales revenue} &= 184\,800 \times 1.30 = £240\,240 \checkmark \\ \text{Less VC} &= 184\,800 \times 0.83 \text{ o/f} = £153\,384 \checkmark \text{ o/f} \\ \text{Less FC} &= £31\,960 \checkmark \text{ o/f} \\ \text{Profit} &= £54\,896 \checkmark \text{ o/f} \end{aligned}$$

**5 marks**

(d) New profit =  $£54\,896 \times 1.05 = £57\,640.80 \text{ o/f } \checkmark$

$$\text{Increase in profit} = £2\,744.80 \text{ o/f } \checkmark$$

$$\text{Increase in rent} = £25 \times 12 = £300 \checkmark$$

$$\text{So managers pay must fall by } £3\,044.80 \text{ o/f } \checkmark$$

$$\text{So new pay must be } £12\,000 - £3\,044.80 = £8\,955.20 \text{ o/f } \checkmark$$

**5 marks**

(e)

**If moved to the variable rate**

**For**

Business has profit target ✓ and has to take action to achieve these targets. ✓

May not possible to decrease other costs, ✓ especially if fixed eg loan repayment, rent etc ✓

May not be possible to increase selling price to increase profit, ✓ as will result in reduced sales ✓

Manager may be motivated and improve performance / increase output ✓ eg train staff better to increase sales ✓ which may result in increased market share ✓ also in higher profits for business ✓ and higher pay for the manager ✓

**Against**

Manager is concerned only with output so quality may suffer ✓ and there may be more accidents ✓ and manager may put workers under more pressure which demotivates ✓

Budgeting for the managers salary maybe more difficult ✓ due to fluctuations in sales and output ✓

A rise in variable costs may raise the break even point ✓ (but remember fixed costs will rise ✓)

**If stays on the fixed rate.**

**For**

Managers are professionals and are usually paid a salary ✓ and changing to payment by linking to production may demotivate ✓

**Against**

Manager will be de-motivated ✓ if forced to take pay cut ✓

This is likely to effect running of the business ✓ in a negative way ✓

Could try to reduce other costs instead ✓ eg shop around for lower insurance. ✓

A reduction in fixed costs may lower the break even point ✓ (but remember variable costs will rise ✓)

Maximum of 4 ticks for arguing one side – for or against variable rate/fixed rate.

**Conclusion** - Two ✓✓

It is a good/bad idea to move to variable rate.

**8 marks**

**Total 32 marks**

**Q6****6a**

<b>Sales</b>	Users	Charge					
Year 1	125000	13500000	√				
Year 2	225000	24300000	√				
Year 3	275000	29700000	√				
Year 4	325000	35100000	√				
Year 5	375000	40500000	√				
<b>Running costs</b>			<u>Connectns</u>		<u>Other</u>	<u>Total</u>	
Year 1	125000	50	6250000		5000000	11250000	√
Year 2	100000	50	5000000	√(2)	11000000	16000000	√
Year 3	50000	50	2500000		14000000	16500000	√
Year 4	50000	50	2500000		16000000	18500000	√
Year 5	50000	50	2500000	√(3)	17000000	19500000	√
<b>NPV</b>			<u>Net</u>		<u>Discount</u>	<u>Discounted</u>	
	<u>Inflow</u>	<u>Outflow</u>	<u>Cash Flow</u>		<u>Factor</u>	<u>Net Cash Flow</u>	
		-					
Year 0		(50000000)			1	(50000000)	√
Year 1	13500000	(11250000)	2250000	√ o/f	0.926	2083500	√ o/f
Year 2	24300000	(16000000)	8300000	√ o/f	0.857	7113100	√ o/f
Year 3	29700000	(16500000)	13200000	√ o/f	0.794	10480800	√ o/f
Year 4	35100000	(18500000)	16600000	√ o/f	0.735	12201000	√ o/f
Year 5	40500000	(19500000)	21000000	√ o/f	0.681	14301000	√ o/f
						(3820600)	√ o/f

**24 marks**

**6(b) Evaluation**

Answers may include:

**Own figure rule applies**

**Case for Project**

Net cash flow is positive from year 1/every year. ✓

NPV will be positive very soon /Year 6 ✓

Users will probably continue to rise in future ✓

**Case Against Project**

NPV method states do not invest ✓ as NPV is negative ✓ o/f

NPV is a good method to use ✓ as it includes falling value of money over time ✓

**Other Relevant Points**

Other investment appraisal methods should be used ✓ eg payback or average rate of return ✓

How accurate are the predictions ✓ for costs, cost of capital, and revenues? ✓

Is the 5 year payback time period appropriate? ✓ for a project such as this where users build up over the years ✓

Other possible investment projects available at present? ✓ More or less profitable? ✓

Objectives/strategy of company? ✓ Is this investment in line with objectives? ✓

Asia telecoms may face competition ✓ which may limit expansion ✓

Maximum of 4 marks for arguing one side

**Conclusion** - 2 marks

Company should not invest ✓ because of negative NPV after 5 years ✓

OR company should invest ✓ because NPV is likely to be positive after more than 5 years ✓

**8 marks**  
**Total 32 marks**

## Q7.

<b>a)</b>	<u>Shoes</u>		<u>Boots</u>		<u>Trainers</u>		<u>Sandals</u>	
Sales Revenue	150000		70000	√	312000		54000	√
				(2)				(2)
Direct Labour	65000		32000		96000		24000	
Direct Materials	50000		36000		72000		27000	
Semi-VC Variable	25000		4000	√	32000		3000	√
Fixed Costs	35000		6000	(all 8)	40000		6000	(all 8)
Profit (Loss)	-25000	√ o/f	-8000	√ o/f	72000	√ o/f	-6000	√ o/f
							<b>8 marks</b>	
Production	5000		2000		8000		3000	
<b>b) Per Unit</b>	<u>Shoes</u>		<u>Boots</u>		<u>Trainers</u>		<u>Sandals</u>	
Sales Revenue	30		35		39		18	
Direct Labour	13	√	16	√	12	√	8	√
Direct Materials	10		18		9		9	
Semi-VC Variable	5	√	2	√	4	√	1	√
Fixed Costs	7		3		5		2	
Profit (Loss)	-5	√ o/f	-4	√ o/f	9	√ o/f	-2	√ o/f
Contribution	2	√ o/f	-1	√ o/f	14	√ o/f	0	√ o/f
							<b>16 marks</b>	
<b>c) o/f rule applies</b>	<u>*Shoes</u>		<u>Boots</u>		<u>Trainers</u>		<u>*Sandals</u>	
Short Term	Continue	√	Stop		Continue		Stop/Continue	√
			ST or LT	√	ST or LT	√		
Long Term	Stop	√	Stop		Continue		Stop	√

\*Shoes and Sandals must make mention to time period (ST or LT) for √

Plus two possible extra marks:

Maximum of 1 √ if correct mention made of positive contribution / or negative contribution anywhere

OR correct mention of marginal costing anywhere √

√ if reason given for supporting decision in ST for Sandals eg expect costs to increase or decrease in future.

If one department closes √ fixed costs may have to be reallocated to other departments √ which may mean that department/ whole business makes a loss. √

Footprint Ltd should use resources to increase production of trainers √

**8 marks**

**Total 32 marks**





