



Mark Scheme (Results)

Summer 2016

Pearson Edexcel IAL in Accounting (WAC02)
Paper 01 Corporate and Management
Accounting

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.

1 (c)

	<u>Advantage</u>	<u>Disadvantage</u>
Option 1	Monthly cash flow will soon be positive ✓ Possibility of passing trade ✓ Higher profile/ helps advertise business ✓	Negative monthly cash flow at present ✓o/f Higher costs at start and per month ✓ Staff are not active in trying to sell policies ✓ Basic pay only gives no incentive to sell ✓
Option 2	Commission gives incentive to sell ✓ Staff are actively trying to sell policies ✓ Monthly cash flow is positive for month 3 and continues positive ✓o/f Lower costs at start and per month ✓	Negative monthly cash flow for first two months ✓o/f No possibility of passing trade ✓

Maximum of 4 ✓'s per box. Maximum of 10 ticks for all boxes.

General points:

Figures are only predictions, may not be actual figures. ✓

Conclusion

Option 2 is the best option ✓✓

(12)

Total for Question 1 = 52 Marks

2 (c) Possible answers could include:

For Merger

Style should enjoy benefits of horizontal/vertical integration ✓ as in same line of business ✓

New company could enjoy economies of scale ✓ eg bulk buying ✓

New company should be able to reduce costs ✓ eg reduce staff ✓ or close some branches ✓

Red Sun Department Stores plc is a similar size company ✓ eg assets and liabilities ✓ and shareholders are receiving a similar price for the company. ✓

Shareholders are receiving a profit on realisation ✓ and goodwill ✓ in the merger.

New firm may enjoy increased market share /power ✓

Against Merger

Dilution of ownership ✓ and voting power ✓

We do not know what the market price of Style plc shares is likely to settle at ✓ It is quite possible it will not settle at £1.40 ✓

Possible culture clash ✓ leading to demotivation etc ✓

Dividends may decrease in the future as more shareholders ✓

(Maximum of 8 marks for argument if candidate argues only one side of argument)

Conclusion

Should conclude and relate to points made above. ✓✓

(12)

3 (a)

Ordinary Share Capital Account

			Apr 1 2015	Balance b/d	600✓
			June 10	Applctn & Allotmnt	96✓
			July 30	Applctn & Allotmnt	8✓
Mar31	Balance c/d	<u>760</u>	Dec 30	First & Final Call	<u>56</u> ✓
		<u>760</u>			<u>760</u>
			Apr 1 2016	Balance b/d	760

+ ✓ if balanced off correctly

(5)

Share Premium Account

			Apr 1	Balance b/d	150✓
Mar31	Balance c/d	<u>190</u>	Jul 30	Applctn & Allotment	<u>40</u> ✓
		<u>190</u>			<u>190</u>
			Apr 1	Balance b/d	190

+ ✓ if balanced off correctly

(3)

Application and Allotment Account

June 10	Ordinary Share Capital	96✓	June 10	Bank	111✓
June 20	Bank	3✓	July 30	Bank	36✓✓
July 30	Ordinary Share Capital	8✓✓			
	Share Premium	<u>40</u> ✓			
		<u>147</u>			<u>147</u>

+ ✓ if balanced off correctly

(9)

First and Final Call Account

	Ordinary Share Capital	<u>56</u> ✓	Dec 30	Bank	<u>56</u> ✓
		<u>56</u>			<u>56</u>

+ ✓ if balanced off correctly

(3)

(total 20)

3 (b)

Profit after interest = 43 ✓ – 40 ✓ – 44 ✓ – 9 ✓ = £50m loss ✓ of

(5)

Case for Debentures / Against Conversion

- Interest is allowable for tax, ✓ so company may be able to retain more funds than if paying dividends. ✓
- Keeping debenture sees no dilution of ownership ✓ for existing shareholders. ✓
- Debenture issuer may bring expertise and experience to company, ✓ and maybe Board. ✓
- Cost of share issue ✓ eg fees etc ✓
- The Memorandum of Association may have to be changed ✓
- There may be a fall in dividends per share ✓
- Share price may fall ✓

Maximum of 8 marks for arguing one side

Conclusion

Should relate to above points made.

Conversion will benefit Mashariki Railways plc ✓✓

(12)

Total for Question 3 = 52 marks

(d)

Answers may include : (Maximum of 4 ✓ 's for one side of argument).

For Marginal Costing

Allows seeing whether a contribution is made ✓ to paying off fixed costs. ✓

Can be used in situations when deciding whether to accept an offer ✓ or make or buy ✓ or to continue or discontinue production. ✓ find the optimal production mix when there is a shortage of an input ✓

Useful for short term decision making ✓

Complies with the prudence concept ✓

Allocates all costs to the time period ✓

Against Marginal Costing

Does not give the whole picture ie overall profit or loss ✓ as only considers variable costs/fixed costs need to be taken into account ✓

Not suitable for long term decision making ✓ eg fixing prices, ✓ when all costs need to be taken into account. ✓

Conclusion (✓✓)

Marginal costing is useful for short term decision making.

(8)

Total for Question 4 = 32 marks

(5) (b) (v)

$$\begin{aligned}
 \text{Dividend cover} &= \frac{\text{Net profit after interest and tax}}{\text{Total ordinary dividend}} \\
 &= \frac{\pounds 3\,360\,000}{\pounds 2\,625\,000} = 1.28 \text{ times} \\
 &\quad \checkmark \quad \checkmark
 \end{aligned}$$

(3)

(5) (b) (vi)

$$\begin{aligned}
 \text{Dividend yield} &= \frac{\text{Dividend per share}}{\text{Market price of share}} \times 100 \\
 &= \frac{3.125\text{p}}{132\text{p}} \times 100 = 2.37\% \\
 &\quad \checkmark \quad \checkmark \quad \checkmark
 \end{aligned}$$

(4)

(5) (c)

For selecting own shares

Her choice of share has risen by 3% points \checkmark o/f more than the market average over the year. \checkmark

She has selected a share that has a lower dividend cover, \checkmark by 0.72 times \checkmark o/f which means they give out a higher percentage of profit as dividends. \checkmark

Stockbroker will charge commission \checkmark for advice \checkmark which is likely to be higher than what she pays at the moment for buying shares. \checkmark

For visiting a stockbroker

Her choice of share has a lower ROCE \checkmark by 2% points. \checkmark o/f

Her choice of share has a lower dividend yield \checkmark by 3% points. \checkmark o/f

Stockbroker will have more experience \checkmark and a greater knowledge of the market. \checkmark

Maximum of 4 marks for arguing one side

Conclusion

Yasmin should choose shares herself / visit a stockbroker $\checkmark \checkmark$

(8)

Total for Question 5 = 32 marks

(6) (c)For the statement

May have given lower price/discount ✓ in order to obtain future orders ✓ possibly at a higher price ✓

The profit margin is very large ✓ at about 50% ✓ so there is room for flexibility on prices ✓ or the variance is very small ✓

Budget maybe inaccurate ✓

Against the statement

Lower price may be due to competition in the market ✓ which means market price may be falling ✓

May have accepted lower price in order to meet sales units target ✓ or ensure sales are made to earn commission. ✓

Sales staff may be demotivated ✓

Maximum of 4 marks for arguing one side only

Conclusion

Adverse variance may not be all bad ✓✓ or is bad ✓✓

(8)**Total for Question 6 = 32 marks**

(7) (b)

Answers may include :

For investment

NPV method states invest as company policy is met ✓ as NPV is positive after 5 years ✓

Net cash flow is positive each year ✓

NPV method takes account of the falling value of money over time/uses a discount factor ✓

Other Relevant Points – could be For or Against investment.

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

Are there other possible investment projects available at present? ✓ Are these more or less profitable? ✓

What are the objectives/strategy of company? ✓ Is this investment in line with objectives? ✓

Which other methods of investment appraisal could be used ✓ e.g. payback method and internal rate of return ✓

Maximum for arguing one side only is 4 marks

Overall Conclusion - 2 marks

Company should invest in project. ✓✓

(8)