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Surname

Other names

**Pearson Edexcel**  
**International**  
**Advanced Level**

Centre Number

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Candidate Number

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# Accounting

**International Advanced Level**

**Paper 2: Corporate and Management Accounting**

Friday 8 June 2018 – Afternoon

**Time: 3 hours**

Paper Reference

**WAC12/01****You do not need any other materials.**

Total Marks

## Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **both** questions in Section A and **three** questions from Section B.
- All calculations must be shown.
- Answer the questions in the spaces provided  
– *there may be more space than you need.*
- Do not return the Source Booklet with the question paper.

## Information

- The total mark for this paper is 200.
- The marks for **each** question are shown in brackets  
– *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.
- The source material for use with Questions 1 to 6 is in the enclosed Source Booklet.

## Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ►

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## SECTION A

Answer BOTH questions in this section.

- 1 The Statements of Financial Position of Kullna Stores plc at 31 March 2017 and 31 March 2018 were as follows:

	31 March 2017	31 March 2018
<b>ASSETS</b>	£	£
<b>Non-current assets</b>		
Intangibles – goodwill	133 000	126 000
Property, plant and equipment at cost	10 856 000	11 414 000
Provision for depreciation	<u>(3 270 000)</u>	<u>(3 652 000)</u>
Property, plant and equipment carry over	<u>7 586 000</u>	<u>7 762 000</u>
	7 719 000	7 888 000
<b>Current assets</b>		
Inventories	2 804 000	2 769 000
Trade receivables	923 000	945 000
Other receivables	57 000	51 000
Cash and cash equivalents	<u>121 000</u>	<u>- - - - -</u>
	3 905 000	3 765 000
<b>Total Assets</b>	<u>11 624 000</u>	<u>11 653 000</u>

<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital – Ordinary shares of £1	8 000 000	8 400 000
5.5% Non-redeemable preference shares of £1	600 000	600 000
Share premium	1 000 000	1 050 000
Retained earnings	<u>534 000</u>	<u>308 000</u>
<b>Total Equity</b>	10 134 000	10 358 000
<b>Non-current liabilities</b>		
6% Bank Loan	<u>400 000</u>	<u>500 000</u>
	400 000	500 000
<b>Current liabilities</b>		
Trade payables	742 000	684 000
Other payables	25 000	27 000
Current Tax payable	323 000	67 000
Cash and cash equivalents	<u>-----</u>	<u>17 000</u>
	1 090 000	795 000
<b>Total Equity and Liabilities</b>	<u>11 624 000</u>	<u>11 653 000</u>

**Additional information**

- Goodwill of £140 000 was paid when purchasing another business in the year ended 31 March 2016. The goodwill is being amortised (depreciated) over 20 years.
- On 8 April 2017 a retail property bought for £1 800 000, with depreciation to date of £720 000, was sold for £970 000.
- On 10 May 2017 a retail property was bought.
- On 19 May 2017 ordinary shareholders received a final dividend for the year ended 31 March 2017 of 1.9 pence (£0.019) per share.
- On 30 August 2017 an issue of 400 000 £1 Ordinary shares at a premium of 12.5 pence (£0.125) per share was made.
- On 1 October 2017 the bank loan was increased.
- On 22 October 2017 all Ordinary shareholders received an interim dividend of 0.5 pence (£0.005) per share.
- Preference shareholders received their dividends in full during the year.
- Profit after interest before tax for the year ended 31 March 2018 was £68 000

**Required**

- (a) Prepare a Statement of Cash Flows for the year ended 31 March 2018 for Kullna Stores plc in accordance with International Accounting Standard (IAS) 7 Statement of Cash Flows (revised).

(43)

The financial statements for the year ended 31 March 2018 were presented to the Directors at a Board meeting in April. The Human Resources Director stated "It looks like Kullna Stores plc must concentrate on profitability rather than liquidity in the next year".

- (b) Evaluate the statement made by the Human Resources Director concerning Kullna Stores plc.

(12)

**(Total for Question 1 = 55 marks)**

Question Number	Answer	Mark
1 (a)	AO1 (16), AO2 (21), AO3 (6)	(43)

<b>Statement of Cash Flow for y/e 31 March 2018</b>			
<b>Cash Flows from operating activities</b>			
Profit after interest before tax	68 000	(1) AO1	
Add interest paid	27 000	W1 (3)	
Add Amortisation of goodwill	7 000	W2 (2)	
Add Depreciation	1 102 000	W3 (5)	
Add Loss on Sale of non-current asset	110 000	W4 (2)	
<b>Operating cash flow before working capital changes</b>	<b>1 314 000</b>	<b>(1of) AO1</b>	
Decrease in inventories	35 000	(1) AO1	
Increase in trade receivables	(22 000)	(1) AO1	23
Decrease in other receivables	6 000	(1) AO1	
Decrease in trade payables	(58 000)	(1) AO1	
Increase in other payables	2 000	(1) AO1	
<b>Cash generated from operations</b>	<b>1 277 000</b>	<b>(1of) AO1</b>	
Less Interest Paid on Bank loan	(27 000)	(1of) AO1	
Less Tax Paid	(323 000)	(1) AO1	
<b>Net Cash from Operating Activities</b>	<b>927 000</b>	<b>(1of) AO1</b>	
<b>Cash Flow from Investing Activities</b>			
Payments to acquire tangible non-current assets	(2 358 000)	W5(5)	
Proceeds from sale of tangible non-current assets	970 000	(1) AO2	7
<b>Net Cash Used in Investing Activities</b>	<b>(1 388 000)</b>	<b>(1of) AO1</b>	
<b>Cash Flow from Financing Activities</b>			
Issue of Ordinary shares (400 000 + 50 000) (1) AO2	450 000	(1) AO2	
Receipt of bank loan	100 000	(1) AO2	
Dividends Paid : Final 2017 (8 000 000 x 1.9p) (1) AO2	(152 000)	(1) AO2	10
Interim 2018 (8 400 000 x 0.5p) (1) AO2	(42 000)	(1) AO2	
Preference (600 000 x 5.5p) (1) AO2	(33 000)	(1) AO2	
<b>Net Cash From Financing Activities</b>	<b>323 000</b>	<b>(1of) AO1</b>	
<b>Net decrease in cash and cash equivalents</b>	<b>(138 000)</b>	<b>(1of) AO1</b>	1
Cash and cash equivalents at the beginning of the year	121 000	(1) AO1	
Cash and cash equivalents at the end of the year	(17 000)	(1) AO1	2
<b>Net decrease in cash and cash equivalents</b>	<b>(138 000)</b>	<b>Total</b>	<b>43 Marks</b>

<b><u>W1 Calculation of interest paid</u></b>		
$(400\,000 \times 6\% \times 0.5) = \text{£}12\,000$ (1) AO2		
$(500\,000 \times 6\% \times 0.5) = \text{£}15\,000$ (1) AO2	Total =	£27 000 (1) AO2
<b><u>W2 Calculation of Goodwill Amortisation</u></b>		
$(\text{£}133\,000 - \text{£}126\,000)$ (1) AO2 = £7 000 (1) AO2		
<b><u>W3 Depreciation calculation</u></b>		
Depreciation at 31 March 2018	3 652 000	(1) AO3
Less depreciation at 31 March 2017	-3 270 000	(1) AO3
	382 000	(1) AO2
Plus depreciation on assets sold	720 000	(1) AO3
Total depreciation for year	1 102 000	(1of) AO2
<b><u>W4 Calculation of Loss on non-current asset</u></b>		
$(\text{£}1\,800\,000 - \text{£}720\,000) - \text{£}970\,000$ (1) AO2 =	£110 000	(1) AO2
<b><u>W5 Calculation of Purchase price of property</u></b>		
PPE at cost 31 March 2018	11 414 000	(1) AO3
Less PPE at cost 31 March 2017	10 856 000	(1) AO3
	558 000	(1) AO2
Plus cost of asset sold	1 800 000	(1) AO3
Purchase price of property	2 358 000	(1of) AO2

Question Number	Indicative Content	Mark
1 (b)	<p><b>AO1 (1), AO2 (1), AO3 (4), AO4 (6)</b></p> <p>Answers may include:</p> <p><u>Profitability</u></p> <p>Profit after interest is very low at only £68 000. The return on capital employed is only 0.67% which is poor. However, over £1.2 million of cash has been generated from operations.</p> <p><u>Liquidity</u></p> <p>Cash and cash equivalents have worsened by £138 000 in the year, which is worrying. The overdraft / cash and cash equivalents is £17 000. This is worrying, given that there was a £0.97 million inflow from the sale of a retail property. Also, the bank loan increased by £100 000, and there was a share issue that raise £0.45 million. However, £2.358 million was spent on purchasing another retail property – this sees a large outflow, but should be used to generate future profits. The dividend policy looks generous, given the profit after interest of only £68 000 – ordinary shareholders received £194 000 in the financial year.</p> <p>Working capital:</p> <p>Increasing</p> <p>2017 - £2 815                      2018 - £2 970</p> <p>Current ratio:</p> <p>2017 - <math>\frac{3\,905}{1\,090} = 3.58:1</math>              2018 - <math>\frac{3\,765}{795} = 4.74:1</math></p> <p>Increasing</p> <p>Acid ratio:</p> <p>2017 - <math>\frac{1\,101}{1\,090} = 1.01:1</math>              2018 - <math>\frac{996}{795} = 1.25:1</math></p> <p>Increasing</p> <p><u>Decision</u></p> <p>The company should probably concentrate on both profitability and liquidity.</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.



- 2 Primoatco plc manufactures a wheat-based breakfast product, the Grainbox, using a production line. For the month of May 2018, the following information was available.

**Budget:**

Production: 512 000 packets of Grainbox.

Each packet of Grainbox contains 200 grams of wheat.

Wheat is to be purchased from suppliers at a rate of 15 pence (£0.15) per kilogram.

The production line will operate for 160 hours in the month and produce 3 200 packets of Grainbox per hour.

The production line is staffed by 16 workers who are each paid £8.00 per hour.

The 16 workers are to work 8 hours per day, five days per week, for four weeks in May.

**Actual:**

Production: 512 000 packets of Grainbox.

104 000 kilograms of wheat were used in production at a total cost of £15 808

The production line operated for 158 hours in the month and the wage bill was £20 856

**Additional Information**

1 000 grams equals 1 kilogram

**Required**

- (a) Calculate the budgeted (standard) cost of producing **one** packet of Grainbox for:

- labour
- materials
- total variable cost.

(8)

- (b) (i) Calculate for the month of May, stating the formula used in each case, for the **total** production of Grainboxes, the:

- labour efficiency variance
- labour rate variance
- total labour variance.

(13)

- (ii) Calculate for the month of May, stating the formula used in each case, for the **total** production of Grainboxes, the:

- material usage variance
- material price variance
- total material variance.

(14)

Primoatco plc is calculating the profit for the month. The following information is available:

- At 30 April 2018, Primoatco plc had 127 000 packets in inventory, valued at 12 pence (£0.12) each.
- Sales for May were 538 000 packets, at 55 pence (£0.55) per packet.
- Fixed costs were £24 775 for the month.

**Required**

(c) Calculate the actual profit for the month of May 2018.

(8)

(d) Evaluate the performance of Primoatco plc for May 2018.

(12)

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**(Total for Question 2 = 55 marks)**

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**TOTAL FOR SECTION A = 110 MARKS**

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Question Number	Answer	Mark
2 (a)	<p><b>AO1 (8)</b>  <b>AO1: Eight marks for correct calculation of production cost.</b></p> <p>Budgeted cost of one packet of Grainbox:</p> <p>Labour = 16 workers paid £8 per hour = £128 per hour</p> <p>= <math>\frac{£128.00}{3\,200}</math> (1) <b>AO1</b> = 4 pence per packet (1) <b>AO1</b></p> <p>Materials: 1 kilogram = 1 000 grams</p> <p>= <math>\frac{1\,000 \text{ grams}}{200 \text{ grams}}</math> (1) <b>AO1</b> = 5 packets per kilogram (1) <b>AO1</b></p> <p>= <math>\frac{15 \text{ pence}}{5}</math> (1) <b>AO1</b> = 3 pence per packet (1) <b>AO1</b></p> <p>Total variable cost of packet = 4 p + 3 p  = 7 pence per packet (1) <b>AO1</b></p>	(8)

Question Number	Answer	Mark
2 (b) (i)	<p><b>AO1 (3), AO2 (10)</b>  <b>AO1: Three marks for correct formula.</b>  <b>AO2: Ten marks for correct calculations of variances.</b></p> <p>Labour Efficiency Variance = (Actual Hours - Standard Hours) x Standard Rate <b>(1) AO1</b></p> <p>= (158 - 160) <b>(1) AO2</b> x £8.00 x 16 <b>(1) AO2</b></p> <p>= £256 Favourable <b>(1of) AO2</b></p> <p>Labour Rate Variance = (Actual Rate - Standard Rate) x Actual Hours <b>(1) AO1</b></p> <p>= <math>\frac{£20\ 856}{(158 \times 16)}</math> <b>(1) AO2</b> - £8.00) <b>(1) AO2</b> x 158 x 16 <b>(1) AO2</b></p> <p>= (£8.25 - £8.00) x 158 x 16</p> <p>= £632 Adverse <b>(1of) AO2</b></p> <p>Total Labour Variance</p> <p>= (Actual Hours x Actual Rate) - (Standard Hours x Standard Rate) <b>(1) AO1</b></p> <p>= (158x16x£8.25) <b>(1of) AO2</b> - (160x16x£8.00) <b>(1) AO2</b></p> <p>= £20 856 - £20 480 = £376 Adverse <b>(1) AO2</b></p>	<b>(13)</b>

Question Number	Answer	Mark
2 (b)(ii)	<p><b>AO1 (3), AO2 (11)</b>  <b>AO1: Three marks for correct formula.</b>  <b>AO2: Eleven marks for correct calculations of variances.</b></p> <p>Material Usage Variance = (Actual Usage - Standard Usage) x Standard Price <b>(1) AO1</b></p> <p>= (104 000 <b>(1) AO2</b> - 102 400 <b>(1) AO2</b>) x £0.15 <b>(1) AO2</b></p> <p>= £240 Adverse <b>(1) AO2</b></p> <p>Materials Price Variance = (Actual Price - Standard Price) x Actual Usage <b>(1) AO1</b></p> <p>= <math>\frac{15\ 808}{104\ 000}</math> <b>(1) AO2</b> - £0.15 <b>(1) AO2</b> x 104 000 <b>(1) AO2</b></p> <p>= (£0.15.2 – £0.15) x 104 000 = £208 Adverse <b>(1) AO2</b></p> <p>Total Material Cost Variance</p> <p>= (Actual Usage x Actual Price) - (Standard Usage x Standard Price) <b>(1) AO1</b></p> <p>= (104 000 x £0.15.2) <b>(1 of) AO2</b> - (102 400 x £0.15) <b>(1) AO2</b></p> <p>= £15 808 - £15 360 = £448 Adverse <b>(1) AO2</b></p>	<b>(14)</b>

Question Number	Answer	Mark
2 (c)	<b>AO1 (2), AO3 (6)</b> <b>AO1: Two marks for correct formula.</b> <b>AO3: Six marks for correct calculations of variances.</b>	(8)

<b>Calculation of Profit</b>			
Revenue (538 000 packets x £0.55)		295 900	(1) AO3
Opening inventory (127 000 packets x £0.12)	15 240		(1) AO3
Materials	15 808	(1) AO3	
Labour	20 856	(1) AO3	
Closing inventory (101 000 (1) AO3 packets x £0.12)	(12 120)		(1) AO3
Cost of Sales		(39 784)	
Gross Profit		256 116	
Fixed costs		(24 775)	(1) AO1
Profit		231 341	(1of) AO1

Question Number	Indicative Content	Mark
2 (d)	<p><b>AO1 (1), AO2 (1), AO3 (4), AO4 (6)</b></p> <p><u>Case for performed well</u></p> <p>Production target of 5 120 000 was met. The production line managed to hit this output figure in only 158 hours, which is 2 hours less than the budgeted hours. i.e. labour efficiency variance was favourable. Possibly the reason was good performance by the production department. Profit of £231 341 was made for the month which is very good. Contribution is high and so is profit margin.</p> <p><u>Case against performing well</u></p> <p>The actual wage rate was £0.25 (o/f) per hour higher than the budget figure i.e. labour rate variance was adverse. The labour cost per packet was actually £20 856 / 512 000, which is 0.4073 pence to packet, which is a higher cost than budgeted. Was this due to poor performance by the HR department, or a strong union etc.?</p> <p>The price paid for materials was above the budget, (15.2 (o/f) pence per kg compared to budgeted 15 pence per kg) i.e. material price variance was adverse. Was this due to a poor performance from the purchasing department? Or was this due to external factors outside the company's control e.g. world price of wheat rising?</p> <p>The quantity of materials used, 104 000 kg, was 1 600 kg above the budget figure of 102 400 kg i.e. material usage was adverse. The actual quantity used per packet was 104 000 / 512 000, which is 203.125 grams per packet. Was this due to a poor performance by the labour on the production line, or dated machinery etc.?</p> <p><u>Decision</u> Should relate to the valid arguments put forward by candidate.</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.
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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.



**SECTION B****Answer THREE questions from this section.**

- 3** Wan Chai plc agreed to purchase North Point plc on 1 April 2018. The directors of Wan Chai plc have agreed to take over all the assets except cash and cash equivalents and trade receivables. Wan Chai plc have agreed to settle all liabilities except tax payable.

The statement of financial position of North Point plc at 31 March 2018 showed:

All assets £140 500 000

All liabilities £105 700 000

Equity and reserves £34 800 000

The following figures and revaluations were agreed by both companies.

- Plant with a value of £2 600 000 was to be worth only a scrap value of £300 000
- Equipment with a book value of £400 000 was to be given a value of zero.
- An exact figure for trade payables was agreed at £11 900 000, down from £12 100 000
- Inventory was reduced in value by £600 000 to its net realisable value.
- The total property value was increased by 20% to a current market value of £19 200 000

**Additional information concerning North Point plc**

- Trade receivables were £15 700 000
- Cash and cash equivalents balance £1 100 000 debit.
- Tax payable £2 400 000
- Retained earnings balance is £9 800 000 credit
- Equity share capital is £25 000 000, consisting of Ordinary shares of 25 pence (£0.25) per share.

For every 5 shares of 25 pence (£0.25) held in North Point plc, each shareholder would receive:

- one 50 pence (£0.50) share in Wan Chai plc at a premium of 42 pence (£0.42) per share
- 48 pence (£0.48) cash.

**Required**

(a) Calculate the:

- |                                                                             |     |
|-----------------------------------------------------------------------------|-----|
| (i) agreed value of assets to be taken over by Wan Chai plc                 | (5) |
| (ii) agreed value of liabilities to be taken over by Wan Chai plc           | (3) |
| (iii) purchase price paid by Wan Chai plc                                   | (4) |
| (iv) value of goodwill paid by Wan Chai plc when acquiring North Point plc. | (4) |

(b) Show the Journal entries to close the following accounts in the books of North Point plc, **before** any revaluations have taken place. Narratives are not required.

- Property
- Trade payables
- Share Capital - 25 pence (£0.25) Ordinary Shares
- Retained earnings

(8)

Shareholders in North Point plc received shares in Wan Chai plc and cash in exchange for their shares.

(c) Evaluate whether it is preferable for shareholders to receive shares or cash during a takeover.

(6)

**(Total for Question 3 = 30 marks)**

Question Number	Answer	Mark
3 (a)(i)	<b>AO1 (2), AO3 (3)</b> <b>AO1: Two marks for asset value in SOFP and value of assets taken over.</b> <b>AO3: Three marks for correct figures for assets not taken over and adjustments.</b>	(5)

<b>Calculation of value of assets taken over</b>		
As per statement of financial position	140 500 000	(1) <b>AO1</b>
Less Trade receivables	(15 700 000)	
Cash and cash equivalents	(1 100 000)	(1) <b>AO3</b> both
Adjustments - Plant	(2 300 000)	
- Equipment	(400 000)	
- Inventory	(600 000)	(1) <b>AO3</b> all three
- Property	3 200 000	(1) <b>AO3</b>
<b>Value of assets taken over</b>	123 600 000	(1of) <b>AO1</b>

Question Number	Answer	Mark
3 (a)(ii)	<b>AO1 (2), AO3 (1)</b> <b>AO1: Two marks for liabilities value in SOFP and value of liabilities taken over.</b> <b>AO3: One mark for correct figures for liability not taken over and adjustment.</b>	(3)

<b>Calculation of value of liabilities taken over</b>		
As per statement of financial position	105 700 000	<b>Both</b>
Less Tax payable	(2 400 000)	(1) <b>AO1</b>
Adjustment – Trade payables	(200 000)	(1) <b>AO3</b>
<b>Value of liabilities taken over</b>	103 100 000	(1of) <b>AO1</b>

Question Number	Answer	Mark
3 (a)(iii)	<b>AO2 (4)</b> <b>AO2: Four marks for calculation of purchase price.</b>	(4)

Calculation of Purchase Price			
No. of Ordinary shares in North Point plc	<u>25 000 000</u>	100 000 000	(1) <b>AO2</b>
	0.25		
Shareholders receive/ Purchase Price			
Wan Chai plc share	£0.50		
Premium	£0.42		
Cash	<u>£0.48</u>		
<u>100 000 000</u> (o/f) = 20 000 000 (o/f)	£1.40		
5	(1) <b>AO2</b>	£28 000 000	(1of) <b>AO2</b>

Question Number	Answer	Mark
3 (a)(iv)	<b>AO1 (1), AO3 (3)</b> <b>AO1: One mark for correct value of assets and liabilities taken over.</b> <b>AO3: Three marks for correct figures for purchase price, agreed value of North Point plc and value of goodwill.</b>	(4)

Calculation of Goodwill			
Purchase Price		28 000 000	(1of) <b>AO3</b>
Value of assets	123 600 000		
Value of liabilities	(103 100 000)	(1of) <b>AO1</b>	
Agreed Value of North Point plc		20 500 000	(1of) <b>AO3</b>
Value of goodwill		7 500 000	(1of) <b>AO3</b>

Question Number	Answer	Mark
3 (b)	<b>AO2 (8)</b> <b>AO2: Eight marks for correct debit entry and credit entry and correct figure.</b>	(8)

Apr 1	Realisation a/c	16 000 000		(1) AO2
	Property a/c		16 000 000	(1) AO2
Apr 1	Trade Payables a/c	12 100 000		(1) AO2
	Realisation a/c		12 100 000	(1) AO2
Apr 1	Ordinary Shares of £0.25 a/c	25 000 000		(1) AO2
	Sundry Shareholders a/c		25 000 000	(1) AO2
Apr1	Retained Earnings	9 800 000		(1) AO2
	Sundry Shareholders a/c		9 800 000	(1) AO2

Question Number	Indicative Content	Mark
3 (c)	<p><b>AO4 (6)</b></p> <p><u>Case for shares</u> The larger company must feel that there are benefits from taking over another company. Therefore, there must be a possibility that the share price will rise in the future. Also, the share may pay out regular dividends in the future. If inflation is high, the value of cash may soon be reduced in real terms.</p> <p><u>Case for cash</u> Cash may be invested, which may give good returns, or returns that are better than those of shares in the company taking over. Cash could be spent straight away to give immediate consumption. If inflation is not high, cash will hold its value in real terms.</p> <p><u>Decision</u> The best option will depend on a number of factors, such as the performance of the larger company, the dividend policy, and inflation.</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.

- 4 Brainboxxe plc is to introduce a new model of a handheld device. Brainboxxe plc will assemble the device using three parts it will buy from suppliers.

The suppliers have informed Brainboxxe plc that they are able to supply the parts up to the following maximum units for **each** of the first four months of production.

Part X – 40 000 units per month

Part Y – 64 000 units in month 1, increasing by 10% in each and every month thereafter.

Part Z – 80 000 units in month 1, increasing by 5 000 units in month 3. The higher level can then be supplied in every future month.

Brainboxxe plc has agreed to purchase the parts in the maximum units for **each** of the first four months.

**Required**

- (a) Prepare, for **each** of the first four months, a Purchases Budget, **in units**, for each of the three parts X, Y, and Z.

(4)

The handheld device will contain the following quantities of each part:

Part X - 2 per device

Part Y - 4 per device

Part Z - 5 per device.

Brainboxxe plc wishes to produce the same amount for each of the first four months of production. This will be the maximum possible amount of production units of the device for month 1.

**Required**

- (b) Calculate, for month 1, the maximum possible amount of production units of the device.

(4)

- (c) Prepare, for **each** of the first four months of production, the inventory budget, in units, for part Y.

(5)

The parts will be purchased at the following prices:

Part X - £6.50 per part

Part Y - £14.25 per part

Part Z - £11.95 per part.

(d) Calculate the total value of the inventory of all **three** parts at the end of month 4. (9)

In month 5, Brainboxxe plc has identified that the number of units of part Z that are available will determine the maximum level of output.

(e) Calculate, for month 5, the maximum possible level of output. (2)

(f) Evaluate whether Brainboxxe plc should be worried about the value of parts in inventory at the end of month 4. (6)

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(Total for Question 4 = 30 marks)



Source material for Question 4 is on pages 10 and 11 of the source booklet.

If you answer Question 4 put a cross in the box ☐ .

- 4 (a) Prepare, for **each** of the first four months, a Purchases Budget, **in units**, for each of the three parts X, Y, and Z.

(4)

Purchases Budget (units)	Month 1	Month 2	Month 3	Month 4

- (b) Calculate, for month 1, the maximum possible amount of production units of the device.

(4)

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- (c) Prepare, for **each** of the first four months of production, the inventory budget, in units, for part Y.

(5)

Part Y Inventory Budget (units)	Month 1	Month 2	Month 3	Month 4

Workings

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Question Number	Answer	Mark
<b>4 (a)</b>	<b>AO1 (4)</b>	<b>(4)</b>

Question Number	Answer	Mark
<b>4 (b)</b>	<b>AO2 (4)</b>	<b>(4)</b>

Question Number	Answer	Mark
<b>4 (c)</b>	<b>AO2 (5)</b>	<b>(5)</b>

Question Number	Answer	Mark
<b>4 (d)</b>	<b>AO1 (1), AO2 (3), AO3 (5)</b>	<b>(9)</b>

Question Number	Answer	Mark
<b>4 (e)</b>	<b>AO3 (2)</b>	<b>(2)</b>

<b>4</b>									
<b>(a) [AO1 4]</b>									
<b>Purchases Budget (units)</b>	<u>Month 1</u>		<u>Month 2</u>		<u>Month 3</u>		<u>Month 4</u>		
X	40 000		40 000		40 000		40 000	(1) AO1	
Y	64 000		70 400	(1) both AO1	77 440		85 184	(1) AO1	
Z	80000		80 000		85 000		85 000	(1) AO1	
								4 marks	
<b>(b) [AO2 4]</b>		<u>Units per</u>							
<b>Possible Production</b>	<u>Supply</u>	<u>device</u>	<u>Production</u>						
X	40 000	2	20 000	(1) AO2					
Y	64 000	4	16 000	(1) AO2					
Z	80 000	5	16 000	(1) AO2					
Maximum production	16000	units per	month	(1) AO2					
					4 marks				
<b>(c) [AO2 5]</b>									
<b>Y Inventory Budget (units)</b>	<u>Month 1</u>		<u>Month 2</u>		<u>Month 3</u>		<u>Month 4</u>		
Opening inventory	0		0		6 400		19 840	(1of) AO2	
Purchased	64 000		70 400		77 440		85 184	(1of) AO2	
Used in Production	(64 000)		(64 000)		(64 000)		(64 000)	(1of) AO2	
Closing inventory	0		6 400	(1) both AO2	19 840		41 024	(1of) AO2	
								5 marks	
<b>(d) [AO1 1] [AO2 3] [AO3 5]</b>	<u>Units</u>		<u>Used in</u>		<u>Inventory</u>				
<b>Inventory Value (£)</b>	<u>Purchased</u>		<u>Production</u>		<u>end mnth 4</u>		<u>Value</u>		
X	160 000		128 000	(1) both AO3	32 000	(1) AO3	6.5	208 000	(1of) AO2
Y					41 024	(1of) AO3	14.25	584 592	(1of) AO2
Z	330 000		320 000	(1) both AO3	10 000	(1) AO3	11.95	119 500	(1of) AO2
								912 092	(1of) AO1
									9 marks
<b>(e) [AO3 2]</b>									
<b>Possible Production</b>	<u>Purchased</u>	<u>In Inventory</u>	<u>Total</u>		<u>per device</u>	<u>Production</u>			
Units of Z	85 000	10 000	95 000	(1of) AO3	5	19 000	(1of) AO3		
							2 marks		

Question Number	Indicative Content		Mark
4 (f)	<p><b>AO4 (6)</b></p> <p><u>Agree with concern</u></p> <p>The value of inventory is over £900 000 (o/f), which is a large amount.  Would there be issues about security? The parts must be small, so may be easily stolen.  A high inventory value means a higher bill for insurance of inventory.  Having over £900 000 (o/f) tied up in inventory does not help cash flow, or the payment of bills.  Would the parts become obsolete due to technology, if left in inventory for some time?</p> <p><u>Against concern</u></p> <p>Are there issues about storage space? Possible not, as they are parts for a hand held device.</p> <p><u>Other points</u></p> <p>We do not know the size of Brainboxxe plc. Is inventory of £900 000 (o/f) a large or small figure for this company?</p> <p><u>Decision</u></p> <p>The company probably should be concerned that the inventory level of parts has reached a value of over £900 000 (o/f) in four months.</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.
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Question Number	Answer	Mark
5 (a)	<b>AO2 (6)</b> <b>AO2: Six marks for correct calculation of figures in statement of changes in equity.</b>  A - 320 (1) <b>AO2</b> B - 506 (1) <b>AO2</b> C - 0 (1) <b>AO2</b> D - 89 (1) <b>AO2</b> E - 122 (1of) <b>AO2</b> F - 572 (1of) <b>AO2</b>	(6)

- 5 The Statement of Changes in Equity of Pontus Transport plc for the year ended 31 March 2018 is shown below.

Figures are in £ millions	Ordinary Share Capital	Share Premium	Retained Earnings	General Reserve	Foreign Exchange Reserve	Revaluation Reserve	Total Equity
	£	£	£	£	£	£	£
Balance at 1 April 2017	A	55	64	27	10	30	B
Dividends Paid			(23)				(23)
Transfer			(8)		8		C
Profit after Tax			D				89
Balance at 31 March 2018	320	55	E	27	18	30	F

### Required

- (a) Complete the Statement of Changes in Equity showing figures calculated for letters A to F in the Question Paper. (6)
- (b) Complete the table showing how the following reserves can be created and give one example of how each can be utilised (used): (9)
- share premium reserve
  - retained earnings
  - general reserve
  - revaluation reserve.
- (c) Prepare Journal entries, including a narrative, for the transfer of the £8 million shown in the Statement of Changes in Equity. (3)



On 13 May 2018, a property with a book value of £18 million was sold for £20 million.

The property had previously been revalued from £11 million to £18 million in the books.

- (d) Prepare the Journal entries, including a narrative, to show the sale of the property on 13 May 2018.

(6)

The financial statements were presented to the shareholders at the Annual General Meeting. One shareholder stated at the meeting "I think the dividend policy of the company is not very generous to the shareholders".

- (e) Evaluate the statement made by the shareholder.

(6)

**(Total for Question 5 = 30 marks)**

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**If you answer Question 5 put a cross in the box ☐ .**

- | Figures are in<br>£ millions   | Ordinary<br>Share<br>Capital | Share<br>Premium | Retained<br>Earnings | General<br>Reserve | Foreign<br>Exchange<br>Reserve | Revaluation<br>Reserve | Total<br>Equity |
|--------------------------------|------------------------------|------------------|----------------------|--------------------|--------------------------------|------------------------|-----------------|
|                                | £                            | £                | £                    | £                  | £                              | £                      | £               |
| Balance<br>at 1 April<br>2017  | A                            | 55               | 64                   | 27                 | 10                             | 30                     | B               |
| Dividends<br>Paid              |                              |                  | (23)                 |                    |                                |                        | (23)            |
| Transfer                       |                              |                  | (8)                  |                    | 8                              |                        | C               |
| Profit after<br>Tax            |                              |                  | D                    |                    |                                |                        | 89              |
| Balance at<br>31 March<br>2018 | 320                          | 55               | E                    | 27                 | 18                             | 30                     | F               |

- (6)

## Workings



(b) Complete the table below showing how the following reserves can be created and give one example of how each can be utilised (used):

- share premium reserve
- retained earnings
- general reserve
- revaluation reserve.

(9)

	Created	Utilised (used)
Share premium reserve		
Retained earnings		
General reserve		
Revaluation reserve		



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
5 (a)	<b>AO2 (6)</b> <b>AO2: Six marks for correct calculation of figures in statement of changes in equity.</b>  A - 320 (1) <b>AO2</b> B - 506 (1) <b>AO2</b> C - 0 (1) <b>AO2</b> D - 89 (1) <b>AO2</b> E - 122 (1of) <b>AO2</b> F - 572 (1of) <b>AO2</b>	(6)

Question Number	Answer	Mark
5 (b)	<p><b>AO1 (3), AO2 (6)</b></p> <p><b>AO1: Three mark for correct reasons for creation of reserve.</b></p> <p><b>AO2: Five marks for correct examples of use of reserve.</b></p> <p><b>One mark for correct reason for creation of revaluation reserve.</b></p>	(9)

	Created	Utilised (Used)
Share premium reserve	<p>Issue of ordinary shares above their nominal value</p> <p><b>(1) AO1</b></p>	<p>Write off preliminary expenses on formation of company or a share issue.</p> <p>OR</p> <p>Pay premium on redemption of shares or debentures</p> <p>OR</p> <p>Issue Bonus Shares <b>(1) AO2</b></p>
Retained earnings	<p>Trading profits built up over past and present years</p> <p><b>(1) AO1</b></p>	<p>Dividends paid to ordinary shareholders</p> <p>OR</p> <p>Used for growth/expansion of company <b>(1) AO2</b></p>
General reserve	<p>Transfer from Retained earnings/ profits</p> <p><b>(1) AO1</b></p>	<p>Any, perhaps unspecified, use.</p> <p>Issue bonus shares</p> <p>OR</p> <p>Transfer back to Retained earnings <b>(1) AO2</b></p>
Revaluation reserve	<p>Upward revaluation of non-current asset.</p> <p><b>(1) AO2</b></p>	<p>When asset is sold <b>(1) AO2</b></p> <p>transferred to Income statement/ retained earnings. <b>(1) AO2</b></p>

Question Number	Answer	Mark
5 (c)	<b>AO1 (1), AO3 (2)</b> <b>AO1: One mark for correct narrative.</b> <b>AO3: Two marks for correct Journal entries</b> <b>The Journal.</b>	(3)

Figures shown in £ millions	Debit	Credit
Retained earnings	8 (1) <b>AO3</b>	
Foreign Exchange reserve		8 (1) <b>AO3</b>
Being transfer from Retained Earnings to Foreign Exchange reserve (1) <b>AO1</b>		

Question Number	Answer	Mark
5 (d)	<b>AO1 (1), AO3 (5)</b> <b>AO1: One mark for correct narrative.</b> <b>AO3: Five marks for correct completion of Journal entries.</b>	(6)

Figures shown in £ millions	Debit	Credit
Bank	20 <b>(1) AO3</b>	
Property		18 <b>(1) AO3</b>
Statement of Comprehensive Income		2 <b>(1) AO3</b>
Revaluation reserve	7 <b>(1) AO3</b>	
Statement of Comprehensive Income		7 <b>(1) AO3</b>
Being entries to record sale of previously revalued property <b>(1) AO1</b>		

Question Number	Indicative Content		Mark
5 (e)	<p><b>AO4 (6)</b></p> <p><u>Case for statement/ i.e. not very generous</u></p> <p>The dividend cover is 3.8. This means about 25% of the profit after tax has been paid as a dividend. Although the dividend per share is about 7 pence, it appears the £1 shares have been issued at a premium. Also, the market price of the share is unknown, so the dividend yield is not clear.</p> <p>The total funds in revenue reserves is £101m at the start of the year and £167m (o/f) at the end of the year, but only £23m is paid out in dividends.</p> <p><u>Case against statement/ i.e. generous dividend policy</u></p> <p>Profit after tax is £89m, of which £23m is paid out in dividends. This represents about 25% of the profit after tax, which could be said to be generous.</p> <p>Profit needs to be retained for expansion, possible future projects, and in case of financial problems in the future.</p> <p>The holder of a £1 share appears to be receiving about 7 pence as a dividend, which looks like a good return.</p> <p><u>Decision</u></p> <p>It is not possible to say exactly if the dividend policy is generous or not, conclusion possibly depends on argument put forward by candidate.</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.
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Question Number	Answer	Mark
6 (a)	<p><b>AO1 (5), AO2 (7)</b>  <b>AO1: 5 marks for calculation of sales revenue and inclusion and calculation of fixed costs.</b>  <b>AO2: 7 marks for calculation of direct labour and direct materials and profit or loss per mine.</b></p> <p>Workings:  <u>Direct materials</u></p> $\frac{29\,760\,000}{32\,000} = 930 \text{ kilos (1) AO2} \times £11\,000 \text{ per kilo}$ $= £10\,230\,000 \text{ (1) AO2}$ <p><u>Fixed Costs</u></p> $\frac{£135\,000\,000}{15} = £9\,000\,000 \text{ per year (1) AO1}$ $+ £5\,880\,000 = £14\,880\,000 \text{ (1) AO1}$	(12)

	<u>Boksville</u>		<u>Igolide</u>		<u>Orange Deep</u>	
Sales Revenue	22 400 000	(1) AO1	17 600 000	(1) AO1	29 760 000	
Direct Labour	17 500 000		8 800 000	(1) AO2	17 670 000	
Direct Materials	7 000 000		3 300 000	(1) AO2	10 230 000	(2) AO2
Fixed Costs	<u>10 500 000</u>		<u>4 400 000</u>		<u>14 880 000</u>	(2) AO1
Total costs	35 000 000		16 500 000		42 780 000	(1of) AO1
Profit (Loss)	(12 600 000)	(1of) AO2	1 100 000	(1of) AO2	(13 020 000)	(1of) AO2



- 6 Wittwater Mining plc carries out regular reviews of its operations. The world price of gold has risen to £32 000 per kilo and is expected to stay at this level. This has resulted in Wittwater Mining plc considering reopening some gold mines that it had previously closed, as they were making a loss. These are the three gold mines in the Eastern Area. Wittwater Mining plc cannot sell at a price above £32 000 per kilo as customers would purchase from other suppliers.

The estimates for 2019 for the three gold mines in the Eastern area are nearing completion.

All production of gold is sold at the world price, of £32 000 per kilo.

The following information is available (some figures are given in total, others are given per kilo):

	Boksville mine	Igolide mine	Orange Deep mine
Revenue	To be calculated	To be calculated	£29 760 000
Direct labour	£17 500 000	£16 000 per kilo	£17 670 000
Direct materials	£7 000 000	£6 000 per kilo	£11 000 per kilo
Fixed costs	£10 500 000	£4 400 000	To be calculated
Production - kilos	700	550	To be calculated

Fixed costs for the Orange Deep mine are made up of the following:

- plant, property and equipment that cost £135 000 000 is being depreciated over 15 years, using the straight line method
- other fixed costs will be £5 880 000

### Required

- (a) Calculate the **total** estimated profit or loss for **each** gold mine for 2019. (12)
- (b) Calculate the estimated contribution, and the estimated profit or loss, made by **each** of the three gold mines, **per kilo produced**, for 2019. (12)
- (c) Evaluate the figures calculated in (b) to make a decision as to the future of **each** of the three gold mines. (6)

(Total for Question 6 = 30 marks)

**TOTAL FOR SECTION B = 90 MARKS**  
**TOTAL FOR PAPER = 200 MARKS**

**If you answer Question 6 put a cross in the box ☐ .**

- 6** (a) Calculate the **total** estimated profit or loss for **each** gold mine for 2019.

(12)

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## Workings

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(12)

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## Workings



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)	<p><b>AO1 (5), AO2 (7)</b>  <b>AO1: 5 marks for calculation of sales revenue and inclusion and calculation of fixed costs.</b>  <b>AO2: 7 marks for calculation of direct labour and direct materials and profit or loss per mine.</b></p> <p>Workings:  <u>Direct materials</u></p> $\frac{29\,760\,000}{32\,000} = 930 \text{ kilos (1) AO2} \times \text{£11 000 per kilo}$ $= \text{£10 230 000 (1) AO2}$ <p><u>Fixed Costs</u></p> $\frac{\text{£135 000 000}}{15} = \text{£9 000 000 per year (1) AO1}$ $+ \text{£5 880 000} = \text{£14 880 000 (1) AO1}$	(12)

	<u><b>Boksville</b></u>		<u><b>Igolide</b></u>		<u><b>Orange Deep</b></u>	
Sales Revenue	22 400 000	(1) AO1	17 600 000	(1) AO1	29 760 000	
Direct Labour	17 500 000		8 800 000	(1) AO2	17 670 000	
Direct Materials	7 000 000		3 300 000	(1) AO2	10 230 000	(2) AO2
Fixed Costs	<u>10 500 000</u>		<u>4 400 000</u>		<u>14 880 000</u>	(2) AO1
Total costs	35 000 000		16 500 000		42 780 000	(1of) AO1
Profit (Loss)	(12 600 000)	(1of) AO2	1 100 000	(1of) AO2	(13 020 000)	(1of) AO2

Question Number	Answer	Mark
6 (b)	<p><b>AO2 (5), AO3 (7)</b>  <b>AO2: 5 marks for calculation of direct labour, direct materials, and profit or loss per unit.</b>  <b>AO3: 7 marks for calculation of sales revenue, contribution and fixed costs per unit.</b></p>	(12)

Per kilo	<u>Boksville</u>		<u>Igolide</u>		<u>Orange Deep</u>	
Sales Revenue	32 000		32 000		32 000	(1) <b>AO3</b>
						all three
Direct Labour	25 000	both	16 000		19 000	(1) <b>AO2</b>
Direct Materials	10 000	(1) <b>AO2</b>	6 000		11 000	
				all three		both
Contribution	(3 000)	(1of) <b>AO3</b>	10 000	(1of) <b>AO3</b>	2 000	(1of) <b>AO3</b>
Fixed Costs	15 000	(1) <b>AO3</b>	8 000	(1) <b>AO3</b>	16 000	(1) <b>AO3</b>
Profit (Loss)	(18 000)	(1of) <b>AO2</b>	2 000	(1of) <b>AO2</b>	(14 000)	(1of) <b>AO2</b>

Question Number	Indicative Content		Mark
<b>6 (c)</b>	<b>AO4 (6)</b>  Boksville  Makes a negative contribution (o/f), so should not be reopened, even in the short term. Also makes a loss (o/f)  Igolide  Makes a positive contribution (o/f), so should be reopened. Makes a profit (o/f), so should stay open in the long term.  Orange Deep  Makes a positive contribution (o/f), so could be reopened. However, makes an overall loss (o/f), so should not stay open in the long term.		<b>(6)</b>
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.	