GradeMax



Mark Scheme (Results)

Summer 2016

Pearson Edexcel IAL in Accounting (WAC02) 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.

Section A

1 (a)

Capital Budget							
Shares to family	27000	√					
Bank Loan	36000	√					
Chong + Mei - Shares	18000	√					
Chong + Mei - Loan	9000	√					
	90000						**(4)**
1 (b)							
Cash Budget							
Option 1							
Inflow	Month 1		Month 2		Month 3		
Sales	1440	√	2880	√	4320	√	
Outflow							
Initial costs	30000						
Shop lease	10000						
Furniture	4000						
Computers	2500	√	(all 4)				
Rent	500		500		500	√	(all 3)
Staff wages	6000		6000		6000	√	(all 3)
Other expenses	1800		1800		1800	√	(all 3)
Total expenses	54800		8300		8300	√o/f	(all 3)
Monthly net cash flow	-53360	√of	-5420	√of	-3980	√o/f	
Balance b/f	90000	√	36640	√of	31220	√o/f	
Balance c/f	36640	√of	31220	√of	27240	√o/f	**(17)**
Option 2							
Inflow	Month 1		Month 2		Month 3		
Sales	2880	√	5760	√	8640	√	
Outflow							
Initial costs	30000						
Furniture	3000						
Computers	2000	√	(all 3)				
Rent	400		400		400	√	(all 3)
Staff wages	4000		4000		4000	√	(all 3)
Commission	720	√	1440	√	2160	√	
Other expenses	1600		1600		1600	√	(all 3)
Total expenses	41720		7440		8160	√o/f	(all 3)
Monthly net cash flow	-38840	√of	-1680	√of	480	√o/f	
Balance b/f	90000		51160	√of	49480	√o/f	
Balance c/f	51160	√of	49480	√of	49960	√o/f	**(19)**

1 (c)

	Advantage	Disadvantage
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 (a) (i) Calculation of Purchase price for Bangla Homes Furnishings plc

	£m
Buildings	27
Fixtures and Fittings	4
Computer system	2
Vehicles	1 √ (all NCA)
Inventories	12
Trade receivables	3 √ (any 2)
Bank	2
Cash	1 √ (all other CA)
Goodwill	3 √
Bank Loan	(8)
Trade payables	(5) √ (all Liab)
Purchase Price	42 √ o/f √ C

(7)

2 (a) (ii)

Purchase Price £42 000 000 √ o/f = 30 000 000 shares √ o/f √ C
£1.40 √

(4)

2 (b) (i)

Bangla Homes Furnishings plc Realisation Account

Buildings	22	Bank loan	8
Fixtures and Fittings	5	Trade payables	5 √ (all 2)
Computer systems	3	Style plc (Purchase Consideration) √	42 √o/f
Vehicles	1 √ (all NCA)		
Inventories	12		
Trade receivables	4		
Bank	2		
Cash	1 √ (all CA)		
Sundry Shareholders (Profit on Realisation) √	5 √ o/f √C		
	55		55

(8)

2 (b) (ii)

Bangla Homes Furnishings plc Sundry Shareholders Account

Style plc (Purchase Consideration) √	42 √o/f	Share Capital	20 √
		Share Premium	12 √
		Retained Earnings	5 √
		(Profit on Realisation) √	5 √o/f
	42		42

(7)

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)

2 (d)

Statement of Financial Position of Style plc as at April 1st 2016

ASSETS		
Non-Current Assets		
Buildings	57 √	
Fixtures and fittings	9 √	
Computer systems	4 √	
Vehicles	2 √	
Goodwill	5 √	
		77
Current Assets		
Inventories	23 √	
Trade receivables	6 √	
Bank	2	
Cash	2 √ (both)	
		33
Total Assets		**110**
Equity and Liabilities		
Ordinary shares of £1 each (30√ o/f +30√)	60 √√	
Share premium (12√ o/f +12 √)	24 √√	
Total Equity		84
Non-Current Liabilities		
Bank loan	13 √	
		13
Current Liabilities		
Trade payables	9	
Overdraft	4 √ (both)	
		13
Total Equity and Liabilities		**110**

(14)

Total for Question 2 = 52 marks

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	760	Dec 30	First & Final Call	56 √
		760			760
			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	190	Jul 30	Applictn & Allotment	40√
		190			190
			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	40 √			
		147			147

\+ √ if balanced off correctly

(9)

First and Final Call Account

	Ordinary Share Capital	56√	Dec 30	Bank	56√
		56			56

\+ √ if balanced off correctly

(3)

(total 20)

3 (b)

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

(5)

3 (c)

The Journal

		Dr	Cr
April 1 2016 √	8% Debenture 2022 √	500	
	£1 Ordinary shares √		500 √both
	Conversion of 8% Debenture 2022 into £1 Ordinary shares √		

(5)

3 (d) Gearing ratio = Prior charge capital √ x 100
Capital employed √

$$= \frac{400\surd + 100\surd}{(760+500)\surd + 190\surd + (170)\surd + 20\surd + (400 + 100)\surd} \times 100$$

$$= \frac{500}{1800} \times 100 = 27.77\% \surd$$

(10)

3 (e) Answers may include:

Case for Ordinary shares/ For Conversion

- Shareholders do not have to be paid dividends, √ useful when short of funds. √
- No interest has to be paid, √ so profits of company higher (or smaller losses) √ which will result in share price rising √
- Assets no longer offered as security, √ so no claims on assets by debenture holders, if debenture not repaid, or company fails. √
- Share issue reduces gearing √ and therefore risk √ Very important here as gearing goes from above benchmark 50% √ to below 50% √
- OR Debenture results in higher gearing √ which increases risk to company √ (and may affect credit rating √)
- No "outside" parties (ie debenture holders) having any influence on running of company √ eg place on Board √
- Statement of financial position will look stronger √ and may attract investors √

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

Section B

(4) (a)

Revenue	2 975 000 √
Direct Materials	962 000 √
Direct Labour	936 000 √
Semi-Variable Costs	327 600 √
Fixed Overheads	312 000 √
Less Closing inventories	(97 600) √√√√√
Cost of Sales	2 440 000
Profit	535 000√o/f √C

Calculation of Inventories ie 5 √√√√ √ shown above

Valuation of Closing Inventories $\frac{2,\ 537\ 600}{520\ 000}$ √ o/f = £4.88 per unit √o/f

(£4.88 o/f x 20 000) √ = £97 600 √ o/f

(12)

(4) (b)
The marginal cost of producing the units
= (£0.45 + £1.85 √ + £1.80 √) = £4.10 √ o/f

So, the 20 000 batteries should be sold√ as there is a positive contribution√ of £0.65 per battery.√

(6)

(4)(c)

Option 1 The marginal cost of producing another 30 000 is
(£0.45 + £1.85 + £2.20) = £4.50 √ o/f
Therefore the units should be produced using option 1.√
as there is a contribution.√ of £0.25 per unit. √ o/f

Option 2 Offer to supply from other firm using option 2 should be rejected√
as a profit of only £0.15 per unit can be made √

Reject the order The order should not be rejected√ because options 1 & 2 have a (positive) contribution√

Max **(6)**

(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)(a)

Profit percentage = $\frac{\text{Increase in share price}}{\text{Share price when bought}} \times 100$

= $\frac{12}{120}$ x 100 √ = 10% √

(3)

(5) (b) (i)

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

= $\frac{£5\ 160\ 000}{£172\ 000\ 000}$ x 100 √ = 3% √ √

(4)

(5) (b) (ii)

Earnings per ordinary share = $\frac{\text{Net profit after interest and tax}}{\text{Issued ordinary shares}}$

= $\frac{£3\ 360\ 000}{84\ 000\ 000}$ √ √ = 4p √

(3)

(5) (b) (iii)

Price/earnings ratio = $\frac{\text{Market price of share at year end}}{\text{Earnings per share}}$

= $\frac{132p}{4p\ o/f}$ √ = 33 times o/f √ √

(3)

(5) (b) (iv)

Dividend paid per share = $\frac{\text{Total ordinary dividend}}{\text{Issued ordinary shares}}$

= $\frac{£2\ 625\ 000}{84\ 000\ 000}$ √ √ = 3.125p per share √

(4)

(5) (b) (v)

Dividend cover = $\frac{\text{Net profit after interest and tax}}{\text{Total ordinary dividend}}$

= $\frac{£3\ 360\ 000}{£2\ 625\ 000}$ √ √ = 1.28 times √

(3)

(5) (b) (vi)

Dividend yield = $\frac{\text{Dividend per share}}{\text{Market price of share}}$ x100

= $\frac{3.125p}{132p}$ o/f x 100 √ √ = 2.37% o/f √

(4)

(5) (c)

For selecting own shares

Her choice of share has risen by 3% points √o/f more than the market average over the year. √
She has selected a share that has a lower dividend cover, √
by 0.72 times√ o/f which means they give out a higher percentage of profit as dividends. √
Stockbroker will charge commission √ for advice √ which is likely to be higher than what she pays at the moment for buying shares. √

For visiting a stockbroker

Her choice of share has a lower ROCE √ by 2% points. √ o/f
Her choice of share has a lower dividend yield √ by 3% points. √ o/f
Stockbroker will have more experience √ and a greater knowledge of the market. √

Maximum of 4 marks for arguing one side

Conclusion
Yasmin should choose shares herself / visit a stockbroker √√

(8)

Total for Question 5 = 32 marks

(6) (a)

	BUDGET £	ACTUAL £	VARIANCE £
Revenue	76 800	A 75 300 √	1 500 ADV
Less			
Material Costs	8 928	B 8 688 √	C 240 FAV √ o/f
Labour Costs	10 120	D 10 208 √	88 ADV
Variable Overheads	3 080	E 2 924 √	156 FAV
= Cost of Sales	22 128	F 21 820 √ o/f	G 308 FAV √ o/f
Gross Profit	54 672	H 53 480 √ o/f	I 1192 ADV √ o/f
Less Fixed Overheads	17 575	J 17 380 √	195 FAV
Net Profit	37 097	K 36 100 √ o/f	L 997 ADV √ o/f

(12)

(6) (b) (i)

Material usage variance = [(1600 x 9) √ – (14 550 √ – 70 √)] x £0.62 √

= (14 400 – 14 480) x £0.62

= £49.60 Adverse √

(5)

(6) (b)(ii)

Material price variance = [(£0.62 √ -£0.60 √) x 1600] x $\frac{14\,480\surd}{1\,600\surd}$

= (£992 - £960) x 9.05

= £289.60 Favourable √

(5)

(6) (b)(iii)

Total material cost variance = (£49.60 Adv + £289.60 Fav) √

= £240 Fav √ o/f

(2)

(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)(a)				Occupancy		Price		
Sales	Floors	Rooms	weeks	Rate	Rooms sold	per Room	**Inflow**	
Year 1	5	16	52	0.6	2496√	£225	£561,600	√
Years 2 + 3	5	16	52	0.8	3328√	£230	£765,440	√
Years 4 + 5	5	16	52	0.9	3744√	£235	£879,840	√
Running costs	Rooms	Cost	Total	Depreciatn	**Outflow**			
Year 1	2496	£135	£336,960√	£250,000	£86,960	√ o/f		
Year 2	3328	£135	£449,280√	£250,000	£199,280	√ o/f		
Year 3	3328	£140	£465,920√	£250,000	£215,920	√ o/f		
Year 4	3744	£140	£524,160√	£250,000	£274,160	√ o/f		
Year 5	3744	£145	£542,880√	£250,000	£292,880	√ o/f		
NPV			Net	Discount	**Discounted**			
	Inflow	Outflow	Cash flow	Factor	**Net CF**			
Year 0		£2,000,000		8%	-£2,000,000	√		
Year 1	£561,600	£86,960	£474,640	0.926	£439,517	√ o/f		
Year 2	£765,440	£199,280	£566,160	0.857	£485,199	√ o/f		
Year 3	£765,440	£215,920	£549,520	0.794	£436,319	√ o/f		
Year 4	£879,840	£274,160	£605,680	0.735	£445,175	√ o/f		
Year 5	£879,840	£292,880	£586,960	0.681	£399,720	√ o/f		
				NPV	£205,929	√o/f √C		

(24)

(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)

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