GradeMax



Mark Scheme (Results)

Summer 2017

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



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General marking guidance

- All candidates must receive the same treatment. Examiners must mark the last candidate in exactly the same way as they mark the first.

- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than be penalised for omissions.

- Examiners should mark according to the mark scheme – not according to their perception of where the grade boundaries may lie.

- 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/indicative content will not be exhaustive.

- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, a senior examiner must be consulted before a mark is given.

- Crossed-out work should be marked unless the candidate has replaced it with an alternative response.

Question Number	Answer	Mark
1 (a)(i)	**AO1 (10), AO2 (16), AO3 (1)** **AO1: Ten marks for Direct labour and materials, opening and closing inventory, marketing and trade fairs, discount allowed and motor vehicle running expenses, delivery costs and sales commission, sales and delivery staff wages, auditors fees and bad debts written off, head office expenses and staff, corporation tax,** **AO2: Sixteen marks for factory and machinery depreciation, factory power, warehouse rent, depreciation on motor vans, warehouse, shops and head office power, bank loan and debenture interest, revenue and cost of sales, gross profit, other income and distribution costs, administration expenses and financial cost, profit on ordinary activities before and after tax.** **AO3: One mark for Increase in Bad debt provision**	**(27)**

			W1 Cost of Sales			
[10 AO1] [16 AO2] [1 AO3]			Direct factory labour	1890000		
Statement of Comprehensive Income for			Direct Materials	2150000	AO1	both
Brama Sun plc for y/e 31 March 2017			Less Discount Received	-43000	AO1	
			Factory Depreciation	92000	AO2	
Revenue	9864000		Machinery Depreciation	43900	AO2	
		both	Opening Inventory	772000		
Cost of sales	(4601900)	AO2 o/f	Less Closing Inventory	-779000	AO1	both
			Factory power	476000	AO2	
Gross profit	5262100	AO2 o/f		**4601900**		**6**
			W2 Distribution Costs			
Other Income	1000		Marketing	324000		
		any 2	Trade fairs and exhibitions	110000	AO1	both
Distribution costs	o/f (2448330)	AO2	Discount Allowed	87000		
			Motor vehicle running expenses	43000	AO1	both
Administrative expenses	o/f (1470920)		Rent on warehouse	257000	AO2	

		any 2	Depreciation on motor vans	76800	AO2	
Financial cost	o/f (102000)	AO2	Sales Commission	94530		
			Delivery costs	178000	AO1	both
Profit on ordinary activities before tax	o/f 1241850	AO2	Sales staff wages	632000		
			Delivery staff wages	476000	AO1	both
Corporation tax	(218000)	AO1	Warehouse power	68000	AO2	
			Shops power	102000	AO2	
Profit on ordinary activities after tax	o/f 1023850	AO2		**2448330**		**8**
			W3Administrative Expenses			
Total 27 marks		**7**	Auditors fees	18500		
			Bad Debts Written Off	26000	AO1	both
			Increase in Bad Debt provision	1420	AO3	
			Head office expenses	510000		
			Head office staff	881000	AO1	both
			Head office power	34000	AO2	
				1470920		**4**
			W5 Financial cost			
			Bank loan interest	12000	AO2	
			Debenture interest	90000	AO2	**2**
				102000		

Question Number	Answer	Mark
1 (a)(ii)	**AO1 (6), AO2 (5), AO3 (5)** **AO1: Six marks for goodwill, bank and cash, general reserve, debenture, trade payables and bank loan.** **AO2: Five marks for factory, machinery, motor vans, debenture and bank interest.** **AO3: Five marks for trade and other receivables, retained earnings, other payables and corporation tax**	**(16)**

Statement of Financial Position of			
Brama Sun plc at 31 March 2017	**£**	**£**	**£**
ASSETS			
Non-current assets			
Property, plant and equipment			
Factory	3 588 000	**(1)** o/f AO2	
Machinery	395 100	**(1)** o/fAO2	
Motor vans	131 200	**(1)** o/f AO2	
		4 114 300	
Goodwill	90 000		
		90 000	
			4 204 300
Current assets			
Inventories	779 000	**(1)** AO1 both	
Trade and other receivables			
Trade receivables	821 000		
Less allowance for doubtful debts	(16 420)		
	804 580	**(1)** AO3	
Other receivables	23 000	**(1)** AO3	

		827 580	
Cash and cash equivalents			
Bank and cash	175 000	**(1)** AO1	
		175 000	
			1 781 580
Total assets			**5 985 880**
EQUITY AND LIABILITIES			
Equity			
Share Capital			
Ordinary shares of £0.50	3 700 000	both	
General reserve	56 000	**(1)** AO1	
Retained earnings	399 380	**(1)** AO3 o/f	
			4 155 380
Non-current liabilities			
7.5% debenture	1 200 000	**(1)** AO1	
			1 200 000
Current liabilities			
Trade payables	175 000	**(1)** AO1	
Other payables	17 500	both	
	24 000	**(1)** AO3	
Debenture interest	45 000	**(1)** AO2	
Bank interest	1 000	**(1)** AO2	
Bank loan – must be current	150 000	**(1)** AO1	
Corporation tax payable	218 000	**(1)** AO3	
			630 500
Total equity and liabilities			**5 985 880**

Question Number	Answer	Mark
1 (b)	**AO1(1), AO2 (1), AO3 (4), AO4 (6)** <u>For Importance</u> • Auditors are independent scrutineers of the financial statements of the company who report that the financial statements have been prepared "correctly" in accordance with International Accounting Standards and give a true and fair view (or do not). The senior partner will sign the Auditors Report found in the Annual Report, giving the auditors opinion of the financial statements of the company. • Auditors are reporting on how directors have used the funds invested by shareholders. The auditors duty is to the shareholders of the company. • Auditors may report on corporate governance under the following headings: - Leadership – e.g. is there a clear definition of roles - Effectiveness – e.g. does the board have the appropriate skills, experience, knowledge - Accountability – e.g. is the board clear that it is responsible for risk management - Remuneration – e.g. is the pay to board members appropriate - Relations with shareholders – e.g. is a satisfactory dialogue with shareholders taking place • Auditors may give tax authorities more confidence that the tax computation of the company is correct. • Professional supervisory bodies exist to give guidelines to auditors, e.g. Auditing Practices Board. • Auditors should be professionally qualified e.g. Chartered Accountants.	**(12)**

	<u>Against Importance</u> • Auditors may not be very independent, going along with the wishes of clients, in order to keep their custom, which may include non-audit work. • Auditors could be misled by the directors of the company and provide an inaccurate Report. • Auditors do not guarantee that material fraud has not occurred. <u>Conclusion</u> Auditors role in limited companies is important.	

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1 - 3	Isolated elements of knowledge and understanding which are 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 may be 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 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 maybe non-financial information and makes an informed decision.

Question Number	Answer	Mark
2 (a)	**AO1 (5)** **AO1 Five marks for a correct row for each continent**	**(5)**

Sales Budget (number of cars)	October	November	December		
Asia	12 000	12 000	12 000	**(1)**	AO1
Europe	2 000	2 200	2 420	**(1)**	AO1
America	6 000	5 100	4 335	**(1)**	AO1
Australia	4 000	1 200	1 440	**(1)**	AO1
Total Sales	24 000	20 500	20 195	**(1)** o/f	AO1

Question Number	Answer	Mark
2 (b)(i)	**AO1 (1), AO2 (6)** **AO2 Six marks for each full row for each continent, but two marks for Europe** **AO1 One mark for totals for all months**	**(7)**

Production Budget (number of cars)	August	September	October		November	December	
Asia			12 000		12 000	12 000	**(1)** AO2
Europe	2 000	2 200	2 420	**(1)** AO2 o/f	2 662	2 928	**(1)** AO2 o/f
America		6 000	5 100		4 335	3 685	**(1)** AO2 o/f
Australia		4 000	1 200		1 440	1 728	**(1)** AO2 o/f
Inventory	____	_____	500		500	500	**(1)** AO2
Total Production	2 000	12 200	21 220		20 937	20 841	**(1)** AO1 o/f

Question Number	Answer	Mark
2 (b)(ii)	**AO1 (3)** **AO1: One mark for every month for production, and two marks for total row**	**(3)**

Inventory Budget (number of cars)	October	November	December
From production	500	500	500 **(1)** AO1
Total	500	1 000 **(1)** AO1	1 500 **(1)** AO1

Question Number	Answer	Mark
2 (c)	**AO2 (5)** **AO2: Five marks each monthly total**	**(5)**

Reworking budget (£)	August	September	October	November	December
Production	100	610	1 061	1046.85	1042.05
Cost per car	£19.00	£19.00	£19.00	£19.00	£19.00
Total cost	£1,900 **(1)** AO2 o/f	£11,590 **(1)** AO2 o/f	£20,159 **(1)** AO2 o/f	£19,890 **(1)** AO2 o/f	£19,799 **(1)** AO2 o/f

Question Number	Answer	Mark
2 (d)	**AO1(3), AO2 (7)** **AO1: Three marks for cost row, and total purchases** **AO2: Seven marks for all other calculations in purchases budget**	**(10)**

Purchases Budget (£)	July	August	September	October	November
Cost	£2,150	£2,150	£2,150	£2,150	£2,150 **(1)** AO1
Advance Purchases	200	1 220	2 122	2 094	2 085 **(1)** AO2 o/f
Amount	£430,000	£2,623,000	£4,562,300 **(1)** AO2 o/f	£4,502,100	£4,482,750 **(1)** AO2 o/f
Same month purchases		£3,870,000 **(1)** AO2 o/f	£23,607,000 **(1)** AO2 o/f	£41,060,700 **(1)** AO2 o/f	£40,513,095 **(1)** AO2 o/f
Total purchases	£430,000	£6,493,000	£28,169,300 **(1)** AO1 o/f	£45,562,800	£44,995,845 **(1)** AO1 o/f

Question Number	Answer	Mark
2 (e)	**AO1(4), AO2 (3), AO3 (6)** **AO1: Four marks for Option 3 total and Total Cash Received row** **AO2: Three marks for Option 2 row, and Option 3 monthly totals** **AO3: Six marks for Option 1 row, and Option 3 deposits row**	**(13)**

Cash Received Budget	October		November		December	
Sales	4000		1200		1440	
Option 1	£15,840,000	(1) AO3 o/f	£4,752,000	(1) AO3 o/f	£5,702,400	(1) AO3 o/f
Option 2	£140,000		£42,000		£50,400	(1) AO2 o/f
Option 3 deposits	£990,000	(1) AO3 o/f	£297,000	(1) AO3 o/f	£356,400	(1) AO3 o/f
Option 3 monthly	£0		£300,000	(1) AO2 o/f	£390,000	(1) AO2 o/f
Total Option 3	£990,000		£597,000		£746,400	(1) AO1 o/f
Total Cash Received	£16,970,000	(1) AO1 o/f	£5,391,000	(1) AO1 o/f	£6,499,200	(1) AO1 o/f

Question Number	Answer	Mark
2 (f)	**AO1(1) , AO2(1), AO3(4), AO4 (6)** <u>Option 1</u> Advantages • Brings in a large amount of cash on the day of the sale. • No need to wait for any payment. Disadvantages • May not be helpful in generating sales volume, as many customers cannot afford the £9 900. • The total amount of cash from a sale is less than option 3. <u>Option 2</u> Advantages • May be helpful in generating sales volume, as many customers can afford the £100 to put down. Disadvantages • Does not bring in a large amount of cash on the day of the sale. Company has to wait 18 months for nearly all of the payment, which only totals £9 900. No interest is charged. • It is possible that some of the debts will turn bad before payment is made. If the car has to be repossessed in 18 months time, it will have depreciated in value by then, and the amount owing may not be fully recovered. • The total amount of cash from a sale is less than option 3. <u>Option 3</u> Advantages • May be helpful in generating sales volume, as many customers can afford the deposit of £990. • Brings in some cash on the day of the sale. • The total amount received from each customer is the most using this option ie £11 790. This is £1890 more than the other two options. This is equal to about 6% interest.	**(12)**

	Disadvantages • Does not bring in a large amount of cash on the day of the sale. • Company has to wait for payment over 36 months. <u>Conclusion</u> Option 3 brings in the most cash per sale, although company must wait 3 years to collect all of it. It may be argued that option 1 is the best, as company receive cash on the day of the sale and as 40% of customers use it.	

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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 maybe 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 maybe non-financial information and makes informed recommendations and decision(s).

Question Number	Answer	Mark
3 (a)	**[5 AO1] [12 AO2] [7 AO3]** **AO1: Five marks for totals and sub-totals** **AO2: Twelve marks for profit on sale of non-current asset, working capital changes, investing activities entries, financing activity entries, and cash and cash equivalents entries** **AO3: Seven marks for profit from operations, depreciation calculation, interest paid and tax paid**	**(24)**

Statement of Cash Flows for Kericho Builders plc for y/e 31 March 2017			
Cash Flows from operating activities			
Profit from operations (-43500 AO3 + 1500 AO3)	(42 000)	(2)	
Add depreciation	21 000	(3)	
Less profit on sale of non-current asset	(102 000)	AO2	
Operating cash flow before working capital changes	(123 000)	AO1 o/f	
Increase in inventories	(6 000)	AO2	
Decrease in trade receivables	3 000	AO2	
Increase in trade payables	7 000	AO2	
Cash generated from operations	(119 000)	AO1 o/f	
Less interest paid: debenture	(1 500)	AO3	
Less tax paid	(16 000)	AO3	
Net cash used in operating activities	(136 500)	AO1 o/f	**14**
Cash flow from investing activities			
Payments to acquire tangible non-current assets	(48 000)	AO2	
Proceeds from sale of tangible non-current assets	228 000	AO2	
Net cash from investing activities	180 000	AO1 o/f	**3**
Cash flow from financing activities			
Repayment of debenture	(50 000)	AO2	
Dividends paid : final 2016	(3 750)	AO2	
interim 2017	(1 750)	AO2	
Net cash used in financing activities	(55 500)	AO1 o/f	**4**
Net decrease in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year	11000	AO2	
Cash and cash equivalents at the end of the year	(1000)	AO2	
Net decrease in cash and cash equivalents	(12000)	AO2	**3**
Depreciation calculation:			
(218000 - 209000) AO3 - 30000 AO3 = 21000 AO3			

Question Number	Indicative Content	Mark

3 (b)	**AO4 (6)** Case for handled well • Current ratio has improved from 1.8:1 to 1.87:1 • Been able to have the funds to redeem the debenture • Raised £228 000 from sale of a property – this was £72 000 more than was paid for the property • Have had the funds to be able to pay a final and interim dividend to shareholders, and purchase machinery for the business, and pay the tax bill due. Case for handled poorly • Acid test ratio has reduced from 0.92:1 to 0.74:1 • Were unable to generate an inflow from operating activities • Sold property – was this to raise funds? How important was the property to the business? Has the company now had to rent premises? Raising cash by selling off assets is not "quality" cash unless the assets are surplus. Conclusion Overall, cash and cash equivalents have reduced by £12 000, so it could be said that liquidity has not been handled well.	**(6)**

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Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

Question Number	Answer	Mark
4 (a)	**AO1(3), AO2 (3)** **AO1: Three marks for all returns and total.** **AO2: Three marks for WACC calculation**	**(6)**

	£ million	Interest Rate	Interest £m	
Ordinary shares	90	3.00	2.7	
Preference shares	20	4.00	0.8	(1) both AO1
Debenture	70	7.00	4.9	
Bank loan	80	5.75	4.6	(1) both AO1
Total	260		13	(1) o/f AO1

WACC = 13 (1) AO2 o/f x 100 = 5% o/f (1) AO2
260 (1) AO2

Question Number	Answer	Mark
4 (b)	**AO1 (2), AO2 (9), AO3 (7)** **AO1: Two marks figures in Year 1 calculation (excluding total)** **AO2: Nine marks for ARR calculations, Year 2 interest, and totals column, and profit calculations** **AO3: Seven marks for Year 2 figures, and ARR calculation**	**(18)**

Average Rate of Return

				000		£000	
Income	Weeks	Cost		Customers		Total	
Year 1	52	£2.00		900		93600	
Year 2	52	£2.00		945		98280	(1) both AO2
Year 3	52	£2.10		945		103194	
Year 4	52	£2.10		990		108108	(1)both AO2
Year 5	52	£2.25		990		115830	(1) AO2
						519012	
	£000	£000		£000		£000	
Costs	Operating	Deprctn	AO1	Interest	AO1	Total	
Year 1	20800	52000	(1) fig	13000	(1) fig	85800	both
Year 2	21840	52000	(1) AO3	13000	(1) AO2	86840	(1) o/f AO2
Year 3	21840	52000		13000		86840	both
Year 4	22880	52000		13000		87880	(1) o/f AO2
Year 5	22880	52000		13000		87880	(1) o/f AO2
						435240	

	£000		£000		£000			
Profit	Income		Costs		Profit			
Year 1	93600		85800		7800			
Year 2	98280		86840		11440			
Year 3	103194		86840		16354			
Year 4	108108		87880		20228			
Year 5	115830		87880		27950			
Total	519012		435240	(1) AO2 o/f both				
			Total		83772	(1) o/f AO2		

Average Annual Return = £83 772 000 / 5 years o/f (1) AO3 (1) AO3 = £16 754 400 per year o/f (1) AO3

Accounting rate of return = £16 754 400 / £260 000 000 o/f (1) AO3 (1) AO3 x 100 = 6.44% o/f (1) AO3

Other formulas are accepted

Question Number	Indicative Content	Mark
4 (c)	**AO4 (6)** Answers may include: <u>Against Investment</u> • ARR may be a limited method of appraisal as it does not take account of the falling value of money over time. <u>For Investment</u> • ARR states invest as project meets expected company percentage return figure of 6% (o/f) • Project is profitable overall having total profit over 5 years of £83 772 000 (o/f) <u>Other Relevant Points:</u> • How realistic is the 6% return target of the company? It is higher than the returns given to the company's weighted average cost of capital. • How accurate are the predictions? • There may be better investment projects available • What are the objectives and what is the strategy of the company? • What happens after 5 years? – is there any chance of a renewal of the contract? • Will this project lead to any other/further business?	**(6)**

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

	Question Number	Answer	Mark
	5 (a)	**AO2 (2), AO3 (4)** **AO2: Two marks for ordinary shares/bank entry with at least one date.** **AO3: Four marks for share premium entry and CRR entry** **The Journal**	**(6)**

		Debit	Credit
8 July 2016	£1 Ordinary share capital	1 000 000 AO2	
	Bank		1 000 000 AO2
	Share premium	3 000 000 AO3	
	Bank		3 000 000 AO3
	Retained earnings	4 000 000 AO3	
	Capital redemption reserve		4 000 000 AO3

Question Number	Answer	Mark
5 (b)	**AO1(5), AO2 (10), AO3 (3)** **AO1: Five marks for Revaluation Reserve and Total Equity headings and and closing balance, and Opening Total balance.** **AO2: Ten marks for Retained Earnings entries, Ordinary Shares, General Reserve, Foreign Exchange reserve and Revaluation entries** **AO3: Three marks for Share redemption entries**	**(18)**

Statement of Changes in Equity for y/e 31 March 2017

Figures are in £ millions	£1 Ordinary share capital £m	Share premium £m	Retained earnings £m	General reserve £m	Foreign Exchange reserve £m	Capital redemption reserve £m	Revaluation reserve £m AO1(all 7 headings)	Total equity £m AO1
Balance at 1 April 2016	12	36	8.65	0.75	2			59.4 AO1 (all 6 entries)
(i) Final 2016 dividend paid in year			(0.48) AO2					(0.48)
(ii) Transfer			(0.9) AO2	0.9 AO2				---
(iii)Redemption of shares	(1)o/f AO2	(3) o/f AO3	(4) o/f AO3			4 o/f AO3		(4)
(iv) Interim dividend			(0.121) AO2					(0.121)
(v)Revaluation of property							1.15 AO2	1.15
(vi) Transfer			0.9 AO2		(0.9) AO2			---
(vii) Compre-hensive income for the year			2.45 AO2					2.45
Balance at 31 March 2017	11	33	6.499 o/f AO2	1.65	1.1	4	1.15 AO1(all 6 totals) o/f	58.399 o/f AO1

Question Number	Indicative Content	Mark
5 (c)	**AO4 (6)** Answers may include: <u>Case For:</u> • Redemption of shares will improve the figure for return on capital employed – a key ratio on which performance of the business is judged. • Future dividends /cash leaving the company may be reduced. • Company may have surplus funds / excess working capital etc so may afford / be in a position to redeem shares. <u>Case Against:</u> • Worsens the gearing ratio. • Company may not have surplus funds / excess working capital etc so may not be in an appropriate liquidity position. Working capital is reduced. • May upset shareholders who will receive lower future dividends. Also, shareholders appear to be receiving the same amount that they paid for the share, so have made no capital gain. Unhappy shareholders are not usually good for the company. <u>Conclusion</u> Redemption of shares may/ may not be beneficial for the company	**(6)**

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

Question Number	Answer	Mark
6 (a)	**AO1(2), AO2 (12), AO3 (4)** **AO1: Two marks for sales and direct materials** **AO2: Twelve marks for calculation of closing inventory, direct labour, semi-variable costs, fixed overheads, opening and marginal closing inventory, and profit.** **AO3: Four marks for calculation of closing inventory using absorption costing**	**(18)**

Statement of profit or loss and other comprehensive Income

	Opening inventory		Production	Sales units		Closing Inventory	
Calculation of Closing inventory	850		33 000	**(1)** AO2 32 750	**(1)** AO2	1 100	**(1)** AO2
	(i)Marginal		(ii)Absorption				
Sales	2 096 000		2 096 000	**(1)** AO1 both			
Less							
Direct materials	651 750		651 750	**(1)** AO1 both			
Direct labour	207 900		207 900	**(1)** AO2 both			
Semi-variable costs	96 000		96 000	**(1)** AO2 both			
	46 200		46 200	**(1)** AO2 both			
Fixed overheads	153 150		153 150	**(1)** AO2 both			
	1 155 000		1 155 000				
Opening inventory	21 250		27 200	**(1)** AO2 both			
Closing inventory	(30 195)		(38 500)				
Profit	949 945	**(1)** AO2 o/f	952 300	**(1)** AO2 o/f			
Calculation of closing inventory							
Marginal	(19.75+6.30+1.40)	**(1)** AO2	27.45	1 100		30 195	**(1)** AO2
Absorption	1 155 000	**(1)** AO3 o/f	35	**(1)** AO3 o/f 1 100		38 500	**(1)** AO3 o/f
	33 000	**(1)** AO3					

Question Number	Answer	Mark
6 (b)	**AO1(3) , AO3 (3)** **AO1: 1 mark for each point made.** **AO3: 1 mark for each development.** (i) <u>Advantages of absorption costing (Maximum of 2 points)</u> • All are costs allocated to products. This could be useful for management when fixing prices. • If used financial statements would give a true and fair view and be signed off by auditors. Recommended by IAS 2. • This follows the matching concept. Here the revenues of a product are matched against the costs of the product. **(4)** (ii) <u>Disadvantage of absorption costing (Maximum of 1 point)</u> • All costs are not allocated to the time period in which they are incurred. So it may be argued that profit for that time period is not accurate as external accounts are drawn up on the basis of a time period. • Does not follow the prudence concept. The closing inventory and the profit figures are higher than in marginal costing. • Absorption costing is not suitable for decision making in the short term. .In the long term fixed costs need to be covered so absorption costing is suitable for long term decision making only. **(2)**	**(6)**

Question Number	Indicative content	Mark
6 (c)	**AO4 (6)** <u>For accepting order</u> • The order could be accepted on the grounds that £30 is greater than the marginal cost of £27.45 (o/f). A positive contribution of £2.55 per item would be made. • New customer may result in more orders in the future, perhaps at a higher price. <u>For rejecting order</u> • However in the long term, selling at £30 would result in a Net Loss/ not all costs are covered. • Existing customers would be unhappy to hear of this low price on offer. <u>Conclusion</u> Marginal costing states order should be accepted	**(6)**

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding that 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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