GradeMax



Mark Scheme (Results)

October 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 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.

Question Number	Answer	Mark
1 (a)(i)	**AO1 (4)** **AO1: Four marks for correct identification and calculation of costs to arrive at standard cost.** Standard cost of one pair of trousers = (0.75 hours x £7.20) + (2.5 sq m x £3.46) + (£17 000 / 20 000) = £5.40 (1) AO1 + £8.65 (1) AO1 + £0.85 (1) AO1 = £14.90 (1) o/f AO1	**(4)**

Question Number	Answer	Mark
1 (a)(ii)	**AO1 (6), A02 (3), A03 (1)** **AO1: Six marks for calculations to find cost totals and overall cost.** **AO2: Three marks for application of knowledge in calculations.** **AO3: One mark analysis of pay rise.** Actual cost of 20 000 pairs of trousers = Labour (£7.20 x 0.75) (1) AO2 x 20 000 = 108 000 (1) AO1 Plus (850 x £7.20) = 6 120 (1) AO1 Plus (0.25 hour x £7.20(1) AO2 x 10 000 x 0.05 (1)) AO3 = 900 (1) AO1 115 020 Material (£8.65 x 15 000) = 129 750 (1) AO1 Plus (£8.9 x 5 000) = 44 500 (1) AO2 174 250 Fixed overheads = 15 730 (1) AO1 305 000 (1) o/f AO1	**(10)**

Question Number	Answer	Mark
1 (a)(iii)	**AO1 (3)** **AO1: Three marks for correct identification of figures and calculation to arrive at actual cost.** Actual cost of one pair of trousers = £305 000 (1) o/f AO1 = £15.25 (1) o/f AO1 20 000 (1) AO1	**(3)**

Question Number	Answer	Mark
1 (b)(i)	**AO2 (3), AO3 (2)** **AO2: Three marks for correct application of data and calculation of labour rate variance.** **AO3: Two marks for correct analysis of data and use in calculation of labour rate variance.** Labour rate variance = (£7.20 (1) AO2 - 115 020) (1) o/f AO3 x 15 850 (1) AO2 15 850)(1) AO3 = (£7.20 - £7.2568) x 15 850 = £900 Adv (1) o/f AO2	**(5)**

Question Number	Answer	Mark
1 (b)(ii)	**AO2 (4)** **AO2: Four marks for application of data to calculate labour efficiency variance.** Labour efficiency variance = (15 000 (1) AO2 – 15 850(1)) AO2 x £7.20 (1) AO2 = £6 120 Adverse (1) AO2	**(4)**

Question Number	Answer	Mark
1 (b)(iii)	**AO2 (3)** **AO2: Three marks for application of data to calculate labour rate variance.** Total labour rate variance = (£900 Adv (1) o/f AO2 + £6 120 Adv(1) o/f) AO2 = £7 020 Adverse (1) o/f AO2	**(3)**

Question Number	Answer	Mark
1 (b)(iv)	**AO2 (2), AO3 (3)** **AO2: Two marks for correct application of data and calculation of material price variance.** **AO3: Three marks for correct analysis of data and use in calculation of material price variance.** Material price variance = (£3.46 (1) AO2 - £174 250) (1) o/f AO3 X 50 000 (1) AO3 50 000) (1) AO3 = £1 250 Adverse (1) o/f AO2	**(5)**

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>1 (c)</td><td>AO2 (6)
AO2: Six marks for correct identification and calculation of costs and variances to complete reconciliation

<u>Reconciliation Statement for September 2017</u>

<table>
<tr><th></th><th>£</th></tr>
<tr><td>Budgeted Cost of Output</td><td>298 000 (1) o/f AO2</td></tr>
<tr><td>Labour variance</td><td>7 020 Adv (1) o/f AO2</td></tr>
<tr><td>Material variance</td><td>1 250 Adv (1) o/f AO2</td></tr>
<tr><td>Overhead Variance</td><td>1 270 Fav (1) AO2</td></tr>
<tr><td>Variances Total</td><td>7 000 Adv (1) o/f AO2</td></tr>
<tr><td>Actual Cost of Output</td><td>305 000 (1) o/f AO2</td></tr>
</table>
</td><td>(6)</td></tr>
</table>

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>1(d)</td><td>AO1 (3)
AO1: Three marks for correct identification and of reasons.

Reasons for fixed overheads being below budget:
- reduction in rent payable (1) AO1
- reduction in managers salaries (1) AO1
- reduction in depreciation (1) AO1
- reduction in heating costs (1) AO1
- incorrect budget setting (1) AO1
- any other suitable reason</td><td>(3)</td></tr>
</table>

Question Number	Indicative content	Mark
1 (e)	**A01 (1), A02 (1), A03 (4), A04 (6)** <u>For Keeping 50% mark up</u> • Need to maintain profit margin, cannot keep same selling price for ever. • Customers may be quite willing to pay the higher price. The market may be able to carry this level of mark-up. • New price may still be below that of rival firms. • The increase in costs is £0.35, so this would mean an increase of £0.52 pence in the sales price. The selling price would rise from £22.35 to £22.87. Would customers notice this increase? • Profit would rise to £7.62 per item from £7.45 per item. <u>Against</u> • Passing on the increase in production cost. • Could absorb rising costs by increasing efficiency. Some areas are becoming more efficient - there seems to have been some reduction in costs in overheads. • Customers could be unhappy and go to a rival supplier. The market may be very competitive. • New price could price make firm's price higher than rivals. • The increase in costs is £0.35, so this would mean an increase of £0.52 pence in the sales price to £22.87. Would customers find this too much? • Some of the increased costs were because of the problems with the electricity supply – is it fair that customers should carry the burden of this problem? • The cutting department has been awarded a 5% wage rise but not the sewing department. This might cause dissent and a claim for a higher wage by sewing staff, thus leading to a rise in labour wages. <u>Decision</u> Candidates may argue for or against continuation of a mark-up of 50%. The decision should be supported by reference to key points of their argument.	**(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 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
2 (a)	**A01 (6)** **AO1: Six marks for correct values and calculation to arrive at value.** Calculation of Purchase price for Homesales plc	**(6)**

	Homesales plc (£000)
Buildings	20 000
Computers	4 000 (1) AO1 (any 2 NCA)
Fixtures and Fittings	1 400
Vehicles	700 (1) AO1 (next two NCA)
Inventory	340
Trade receivables	2 110 (1) AO1 (any 2 CA)
Cash and Cash equivalents	565 (1) AO1
Bank loan	(3100)
Trade payables	(770)
Other payables	(110) (1) AO1 (all 3 Liabs)
Value of Homesales plc	25 135 (1) o/f AO1

Question Number	Answer	Mark
2 (b)	**A02 (2), A03 (2)** **AO2: Two marks for correct application and calculation to arrive at value of offer.** **AO3: Two marks for correct analysis of offer and decision.** The offer values Homesales plc at (10 m x £2.50) (1) AO2 = £25 million (1) AO2 This is less than the value of Homesales plc which is £25.135 (1) AO3 There is no goodwill / goodwill is negative (1) AO3	**(4)**

Question Number	Answer	Mark
2 (c)	**A01 (1), A02 (3)** **AO1: One mark for correct value of new offer.** **AO1: Three marks for analysis of offer and calculation of goodwill.** New offer is (10m x £3) (1) AO2 = £30 million (1) AO1 Less Value of Homesales at (£25.135) million (1) o/f AO2 Goodwill = £4.865 million (1) o/f AO2	**(4)**

Question Number	Answer	Mark
2 (d)(i)	**A01 (1), A02 (7)** **AO1: One mark for correct balancing off account.** **AO1: Seven marks for correct entries into the account.**	**(8)**

Digital Estates plc Realisation Account

	£ 000's		£ 000's
Buildings	22 000	Bank loan	5 500
Computers	5 600	Trade payables	1 050
Fixtures and Fittings	1 900	Other payables	250 (1) AO2 all three
Motor vehicles	1 200 (1) AO2 all four	Redbricks plc AO2 (Purchase Consideration) (1)	42 000 (1) AO2
Inventory	420		
Trade receivables	2 950		
Cash and Cash equivalents	870(1) AO2 all three		
Sundry Shareholders AO2 (Profit on Realisation) (1)	13 860 (1) o/f AO2		
	48 800		48 800 (1) AO1

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>2 (d)(ii)</td><td>
A01 (1), A02 (7)
AO1: One mark for correct balancing off account.
AO1: Seven marks for correct entries into the account.

Digital Estates plc Sundry Shareholders

Account
<table>
<tr><td></td><td>£ 000's</td><td></td><td>£ 000's</td></tr>
<tr><td>Redbricks plc AO2 (Purchase Consideration) (1)</td><td>42 000 (1) AO2</td><td>Share Capital</td><td>20 000 (1) AO2</td></tr>
<tr><td></td><td></td><td>Share Premium</td><td>4 000 (1) AO2</td></tr>
<tr><td></td><td></td><td>Retained Earnings</td><td>4 140 (1) AO2</td></tr>
<tr><td></td><td></td><td>Realisation A/c (1) (Profit on realisation) AO2</td><td>13 860 (1) o/f AO2</td></tr>
<tr><td></td><td>42 000</td><td></td><td>42 000 (1) AO1</td></tr>
</table>
</td><td>(8)</td></tr>
</table>

Question Number	Answer	Mark
2 (e)	**A01 (7), A02 (2), A03 (4)** **AO1: Seven marks for correct tangible non-current assets, current assets, liabilities, and balancing statement.** **AO2: Two marks for correct labels of goodwill and share premium.** **AO3: Four marks for correct figures for goodwill, shares and share premium.**	**(13)**

Statement of Financial Position of Redbricks plc at 1 October 2017

	£ 000's	£ 000's
Assets		
Non-current assets		
Buildings	45 000	
Computers	9 000 (1) AO1 both	
Fixtures and Fittings	3 100	
Motor vehicles	1 800 (1) AO1 both	
Goodwill (1) AO2– Homes	4 865 (1) o/f AO3	
Digital Estates	11 780 (1) AO3	
		75 545
Current assets		
Inventory	740	
Trade receivables	5 060 (1) AO1 both	
Cash and Cash equivalents	1 435 (1) AO1	
		7 235
		82 780
Equity and Liabilities		
Equity		
Ordinary Shares of £1 each	24 000 (1) AO3	
Share Premium (1) AO2	48 000 (1) AO3	
		72 000
Non-current liabilities		
Bank loan	8 600 (1) AO1	
		8 600
Current Liabilities		
Trade payables	1 820	
Other payables	360 (1) AO1 both	
		2 180
		82 780 (1) o/f AO1

Question Number	Indicative content	Mark
2 (f)	**AO1(1), AO2 (1), AO3 (4), AO4 (6)** Possible answers could include: Goodwill is the difference between the value of a business as a whole, and the fair value of its net assets. The value of the business could be said to be the price that a buyer agrees to pay for the business. The fair value of the business is agreed after the possible revaluation of assets and liabilities. The correct treatment of the goodwill paid, or purchased, would be to amortize the goodwill over its useful economic life. <u>For this treatment</u> The buyer is likely to derive benefits from the expenditure over a number of years, so spreading the cost of this expenditure over a number of years agrees with the matching concept and gives a true and fair view of the accounts. This treatment is in line with recommended practice. i.e. FRS102 / IAS 38 To write the goodwill off immediately may make profit unrealistically low, and the tax charge on profits would be unfairly low. <u>Case against this treatment</u> If goodwill were to be written off immediately against reserves, the prudence concept is followed. It is difficult to estimate the number of years the buyer will benefit from the purchase of the business assets. Thus, the annual amortisation charge in the accounts may be unrealistic. <u>Decision</u> Writing off over a number of years is recommended and beneficial as it gives a true and fair view of the accounts. The decision should be supported by reference to key points of their argument.	**(12)**

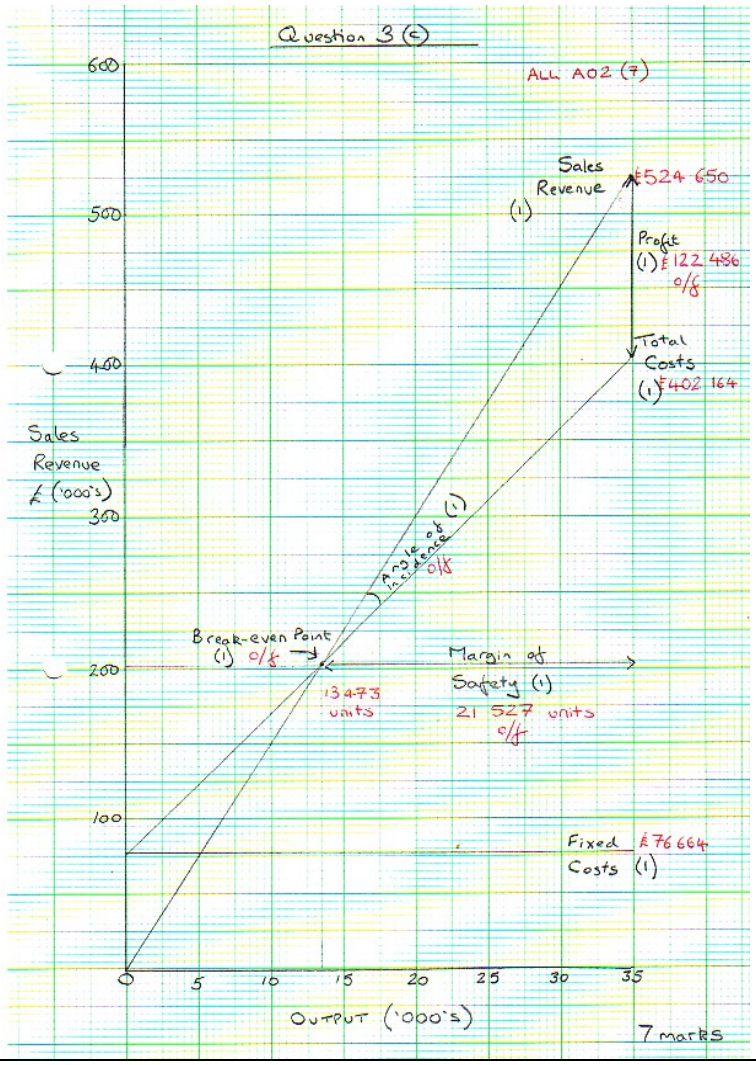
Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1- 3	Isolated elements of knowledge and understanding which are recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
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Level 4	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant 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(s).

Question Number	Answer	Mark
3 (a)(i)	**AO1(4), AO2 (1), AO3 (3)** **AO1: Four marks for correct calculation of fixed and variable costs.** **AO2: One mark for correct calculation of contribution.** **AO3: Three marks for correct calculation of break-even point.** Fixed Costs Rent £29 100 Electricity £6 500 (1) AO1 Insurance £2 640 Other FC £35 760 (1) AO1 Total FC £74 000 (1) o/f AO1 Variable costs per unit £3.85 + £5.35 + £0.03 = £9.23 (1) AO1 Contribution per unit £14.99 - £9.23 o/f = £5.76 (1) o/f AO2 Break Even Point = £74 000 o/f (1) AO3 = 12 848 units (1) o/f AO3 £5.76 o/f (1) AO3	**(8)**

Question Number	Answer	Mark
3 (a)(ii)	**AO2 (2)** **AO2: Two marks for correct calculation of break-even point in sales revenue.** Break even point (£) = (12 848 o/f x 14.99) (1) AO2 = £192 591.52 (1) o/f AO2	**(2)**

Question Number	Answer	Mark
3 (b)(i)	**AO1(1), AO3 (2)** **AO1: One mark for correct calculation of margin of safety.** **AO3: Two marks for analysis of data to help calculation of margin of safety.** Margin of safety = (35 000 x 14.99) (1) AO3 - 192 591.52 (1) o/f AO3 = £524 650 - £192 591.52 o/f = £332 058.48 (1) o/f AO1	**(3)**

Question Number	Answer	Mark
3 (b)(ii)	**AO2 (2), AO3 (2)** **AO2: Two marks for correct calculation of contribution and profit.** **AO3: Two marks for analysis of data to help calculation of contribution and fixed costs.** Profit Contribution (£5.76 o/f x 35 000) (1) AO3 = £201 600 o/f (1) AO2 Less FC = (£74 000) o/f (1) AO3 Profit = £127 600 o/f (1) AO2	**(4)**

Question Number	Answer	Mark
3 (c)	**AO2 (7)**  	**(7)**

Question Number	Answer	Mark
3 (d)	**AO4 (6)** Case for ICT • Saves time and therefore money, compared to preparing accounts by hand. • Spreadsheets can be used for calculations for break-even analysis. • Spreadsheets can also be used to generate graphical information. Case against ICT • Financial cost of hardware, software, staff training, running costs, maintenance etc. • If staff are not trained or are unskilled, they can make errors, which may lead to generation of incorrect information. • Security risks if management or company wish to keep the information confidential. • Computer crashes, freezes etc which may result in a loss of information and waste of staff time. Decision ICT is very advantageous for break-even analysis. The decision should be supported by reference to key points of their argument.	**(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.

Question Number	Answer	Mark
4 (a)(i)	**AO1 (3)** **AO1: Three marks for correct calculation.** Gross profit as a percentage of revenue = Gross profit x 100 / Revenue = 6 560 000 x100 (1) AO1 82 000 000 (1) AO1 = 8% (1) AO1	**(3)**

Question Number	Answer	Mark
4 (a)(ii)	**AO2 (2), AO3 (2)** **AO2: Two marks for correct calculation of capital employed and ROCE.** **AO3: Two marks for analysis of data to calculate net profit before interest and tax.** Return on Capital employed = Net profit before interest and tax x 100 / Capital employed = £480 000 (1) AO3 + £400 000 (1) AO3 x 100 = 2.67% (1) AO2 £33 000 000 (1) AO2	**(4)**

Question Number	Answer	Mark
4 (a)(iii)	**AO2 (2), AO3] (2)** **AO2: Two marks for application of data to find correct number of shares and EPS.** **AO3: Two marks for correct calculation of earnings.** Earnings per share = Net profit after interest and tax – preference dividend / Number of issued ordinary shares = £480 000 (1) AO3 - £180 000 (1) AO3 25 000 000 (1) AO2 = 1.2 p per share (1) AO2	**(4)**

Question Number	Answer	Mark
4 (a)(iv)	**AO2 (2), AO3 (1)** **AO2: Two marks for application of data to find correct number of shares and dividend per share.** **AO3: One mark for correct calculation of total ordinary dividend.** Dividend paid per share = Total ordinary dividend / Number of issued ordinary shares = £160 000 (1) AO3 = 0.64 p per share (1) AO2 25 000 000 (1) AO2	**(3)**

Question Number	Answer	Mark
4 (a)(v)	**AO2 (2), AO3 (2)** **AO2: Two marks for application of data to find total ordinary dividend and dividend cover.** **AO3: Two marks for correct calculation of available funds for dividends.** Dividend cover = Net profit after interest and tax – preference dividends / Total ordinary dividend = £480 000 (1) AO3 - £180 000 (1) AO3 £160 000 (1) AO2 = 1.875 times (1) AO2	**(4)**

Question Number	Answer	Mark
4 (a)(vi)	**AO1 (2), AO2 (1)** **AO1: Two marks for correct substitution into formula.** **AO2: One mark for correct calculation of P/E Ratio.** Price/earnings ratio = Market price of share / Earnings per share MP is £0.72 as per QP = 43.2p (1) AO1 = 36 times o/f (1) AO2 1.2p o/f (1) AO1	**(3)**

Question Number	Answer	Mark
4 (a)(vii)	**AO2 (3)** **AO2: Three marks for correct substitution into formula and calculating dividend yield.** Dividend yield = Dividend per share / Market price of share x100 = 0.64 p o/f (1) AO2 / 43.2 (1) AO2 x 100 = 1.48 % o/f (1) AO2	**(3)**

Question Number	Answer	Mark
4 (b)	**AO4 (6)** Better than 2016 • ROCE better by 0.85 % points. • Earnings per ordinary share is better 1.12 pence per share. • Dividend cover is greater so funds are being retained in the business by 1.275 times. Worse than 2016 • Gross profit as a percentage of revenue is worse by 2%. • Dividend per share is worse from the shareholders point of view by 1.86 p per share. • Dividend cover could be said to be worse from the shareholders point of view as a lower percentage of profit is paid as a dividend by 1.275 times. • Price/Earnings ratio is worse by 4. • Dividend yield is worse by 3.82%. Decision Key ratio ROCE for 2017, shows an improvement for Lam Tin Investments plc. Shareholders may still be unhappy as dividends paid out have reduced, which makes some ratios look worse.	**(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.

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>5 (a)</td><td>
AO1 (5), AO2 (12), AO3 (7)
AO1: Five marks for insertion of fixed overheads, calculation of depreciation per year, and calculation of total costs.
AO2: Twelve marks for correct calculation of direct labour, direct materials and semi-variable overheads.
AO3: Seven marks for correct calculation of number of machines required and semi-fixed overheads, also variable element in semi variable production overheads and fixed element in other overheads.
<table>
<tr><td>Output (units)</td><td><u>20000</u></td><td><u>22000</u></td><td><u>25000</u></td></tr>
<tr><td>Costs</td><td></td><td></td><td></td></tr>
<tr><td>Direct Labour</td><td>211 200 (1) AO2</td><td>232 320 (1) AO2</td><td>264 000 (1) AO2</td></tr>
<tr><td>Direct Materials</td><td>310 800 (1) AO2</td><td>341 880 (1) AO2</td><td>388 500 (1) AO2</td></tr>
<tr><td>Production overheads – semi variable</td><td>58 300 (1) AO2</td><td>59 860 (1) AO2</td><td>62 200 (1) AO2</td></tr>
<tr><td>Production overhead – semi fixed</td><td>10 640 (1) AO3</td><td>12 160 (1) AO3</td><td>13 680 (1) AO3</td></tr>
<tr><td>Machine maintenance overheads - fixed</td><td>38 750</td><td>38 750</td><td>38 750 (1) AO1</td></tr>
<tr><td>Other overheads – semi variable</td><td><u>22 450</u> (1) AO2</td><td><u>22 830</u> (1) AO2</td><td><u>23 400</u> (1) AO2</td></tr>
<tr><td>Total costs</td><td><u>652 140</u> (1) of AO1</td><td><u>707 800</u> (1) of AO1</td><td><u>790 530</u> (1) of AO1</td></tr>
</table>
<u>Workings:</u>
Production overheads – semi variable:
59 080 – 42 700 = 16 380
16 380 / 21 000 = 0.78 (1) o/f AO3
variable element per unit
Production overhead – semi fixed:
(£8 000 - £400)= £7 600 ÷ 5 = £1 520 (1) AO1
depreciation per machine per year
</td><td>(24)</td></tr>
</table>

	22 000 output requires 8 machines, (1) AO3 so £1 520 x 8 = £12 160 o/f 25 000 output requires 9 machines, (1) AO3 so £1 520 x 9 = £13 680 o/f Other overheads: (21 000 x £0.19) = £3 990 £22 640 - £3 990 = £18 650 (1) AO3 fixed element	

Question Number	Answer	Mark
5 (b)	**A04 (6)** Case for flexible budgets • Allows good decision making as "like is compared to like" e.g. costs at the same output levels. • Variances are more meaningful if the volume element is eliminated. • May save time and money by allowing "management by exception" i.e. take action only if there is a variance at the same level of output. • The targets are realistic if the budget is flexible and this may improve motivation of employees. • May allow company to see future possible profit or loss at various output levels. Case against flexible budgets • Drawing up a series of budgets at different output levels will take time which means money. • Figures are only estimates so some variances may be misleading or the action taken in response is inappropriate. Decision Should relate to points made above i.e. flexible budgets are a very useful tool. The decision should be supported by reference to key points of their argument.	**(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.

Question Number	Answer	Mark
6 (a)(i)	**AO1 (2)** **AO1: Two marks, one for an advantage one for a disadvantage.** <u>Advantage</u> Lower costs of storing / holding inventories e.g. rent, insurance, security (1) AO1 <u>Disadvantage</u> Less / decrease in range in inventories which means customers may be disappointed and buy from other suppliers (1) AO1	**(2)**

Question Number	Answer	Mark
6 (a)(ii)	**AO1 (1), AO2 (1)** **AO1: One mark for correct calculation of amount owed by customers at year end.** **AO2: One mark for correct application of figures to arrive at amount owed by customers at year end.** (£45 000 + £38 000) (1) AO2 = £83 000 (1) AO1	**(2)**

Question Number	Answer	Mark
6 (a)(iii)	**AO1 (1), AO2 (1)** **AO1: One mark for correct calculation of amount owed to suppliers at year end.** **AO2: One mark for correct application of figures to arrive at amount owed to suppliers at year end.** (£33 000 + £26 000) (1) AO2 = £59 000 (1) AO1	**(2)**

Question Number	Answer	Mark
6 (a)(iv)	**AO2 (1), AO3 (2)** **AO1: One mark for correct identification of amount paid in the year.** **AO2: Two marks for correct calculation of interest and accrued amount.** £400 000 x 6% = £24 000 (1) AO3 Paid in year £22 000 (1) AO2 so £2 000 accrued (1) AO3	**(3)**

Question Number	Answer	Mark
6 (a)(v)	**AO3 (2)** **AO3: Two marks for correct calculation of profit after interest payments.** £1 260 000 – (£24 000 + £2 000)(1) AO3 = £1 234 000 (1) AO3	**(2)**

Question Number	Answer	Mark
6 (a)(vi)	**AO1 (1), AO2 (1), AO3 (1)** **AO1: One mark for correct identification of amount received from sale.** **AO2: One mark for correct identification of LOSS from sale.** **AO3: One mark for calculation of book value of plant when sold.** £51 000 (1) AO2 + £11 000 (1) AO3 = £62 000 (1) AO1	**(3)**

Question Number	Answer	Mark
6 (a)(vii)	**AO2 (2)** **AO2: Two marks, one for each reason.** Answers may include – maximum of 2 marks AO2 (2) • Kontire Digital plc have surplus liquid funds (which they wish to utilise to earn a return). • Shares will pay future dividends • Share price may rise in the future Show company name	**(2)**

Question Number	Answer	Mark
6 (a)(viii)	**AO3 (2)** **AO3: Two marks for correct calculation of value of preference shares.** 4% of *X* = £8 000 so *X* = $\frac{8\,000}{4}$ x 100 (1) AO3 = £200 000 (1) AO3	**(2)**

Question Number	Answer	Mark
6 (a)(ix)	**AO2 (2)** **AO2: Two marks for correct calculation of cash balance at start of year.** (£119 000 + £27 000) (1) AO2 = £146 000 (1) AO2	**(2)**

Question Number	Answer	Mark
6 (a)(x)	**AO3 (4)** **AO3: Four marks for correct calculation of movement on bank balance.** Year end bank balance = (£1 203 000 - £609 000) (1) AO2 = £594 000 (1) AO2 Yearly movement = (£594 000 + £27 000) (1) AO2 = £621 000 increase (1) AO2	**(4)**

Question Number	Answer	Mark
6 (b)	**AO4 (6)** Possible answers: **<u>For the statement</u>** <u>Disadvantages of outflow due to share redemption or paying dividends</u> • Liquid funds leave the company, which has a negative effect on cash flow and liquidity. • Net worth (book value) of the company decreases. • Company has less liquid funds to invest in possible profitable areas. **<u>Against the statement</u>** <u>Advantage of outflow due to share redemption</u> • Company does not require the funds. • Redeeming shares would improve some ratios eg return on capital employed. • Shareholders are not happy or have a problem with the company, so buying them out will benefit company. • Share price will rise if less shares in circulation. • Less dividends to pay in future. <u>Advantages of paying dividends</u> • Shareholders kept happy and therefore quiet. • May support share price. • Sends out positive message and confidence in company may be maintained. <u>Decision</u> Should relate to points made above i.e. negative cash flow from financing activities is not always worrying. The decision should be supported by reference to key points of their argument.	**(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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