GradeMax



Mark Scheme (Results)

October 2018

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

Edexcel and BTEC Qualifications

Edexcel and BTEC qualifications are awarded by Pearson, the UK's largest awarding body. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information visit our qualifications websitesat www.edexcel.comor www.btec.co.uk.Alternatively, you can get in touch with us using the details on our contact us page atwww.edexcel.com/contactus.

Pearson: helping people progress, everywhere

Pearson aspires to be the world's leading learning company. Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: www.pearson.com/uk

October 2018
Publications Code WAC12_01_1810_MS
All the material in this publication is copyright
© Pearson Education Ltd 2018

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)	**AO1 (5)** **AO1: Five marks for correct calculation of purchase price of Roseberry plc.**	**(5)**

Number of shares in Roseberry = 38 000 000 x 4 = 152 000 000 **(1)** **AO1**

Number of shares to be awarded in Tittan = $\frac{152\ 000\ 000}{5}$ = 30 400 000 **(1 of)** **AO1**

Two shares trading at £1.95 per share

=30 400 000x 2 x1.95= £118 560 000 **(1 of)** **AO1**

Plus 0.32 pence cash = 30 400 000 x 0.3 = £9 728 000 **(1 of)** **AO1**

Purchase price = £128 288 000 **(1 of)** **AO1**

Question Number	Answer	Mark
1 (b)	**AO1 (11)** **AO1: Eleven marks for correct calculation of value of goodwill.**	**(11)**

Calculation of goodwill

Value of assets purchased	£		£	
Property, plant and equipment	74 280 000	both		
Plus revaluation	8 000 000	**(1) AO1**		
Less plant revaluation	(1 100 000)	**(1) AO1**		
Intangibles	28 000 000	both		
Plus Cocoatopa brand	34 000 000	**(1) AO1**		
Inventories	11 788 000			
Less revaluation	(750 000)	all three		
Trade receivables	2 354 000	**(1) AO1**		
Total asset value			156 572 000	**(1 of) AO1**
Value of liabilities purchased				
Mortgage	26 475 000	both		
Bank loan	15 000 000	**(1) AO1**		
Trade and other payables	3 393 000	both		
Less adjustments	(2 170 000)	**(1) AO1**		
Total value of liabilities			(42 698 000)	**(1 of) AO1**
Purchase price			128 288 000	**(1 of) AO1**
Less value of net assets purchased			113 874 000	**(1 of) AO1**
= Goodwill			14 414 000	**(1 of) AO1**

Question Number	Answer	Mark
1 (c)	**AO2 (8), AO3 (3)** **AO2: Eight marks for correct entries in Acquisition account.** **AO3: Three marks for correct calculation of share premium.**	**(11)**

Acquisition Account

		£				£	
1 Oct	Property, Plant + Equipment	81 180 000	**(1 of) AO2**	1 Oct	Mortgage	26 475 000	**(1)** both **AO2**
	Intangibles	62 000 000	**(1) AO2**		Bank loan	15 000 000	
	Inventories	11 038 000	**(1 of) AO2**		Trade Payables	1 223 000	**(1) AO2**
	Trade Receivables	2 354 000	both		Purchase price		**(1 of) AO2**
	Goodwill	14 414 000	**(1 of) AO2**		Cash	9 728 000	**(1 of) AO2**
					Shares of £1 each	60 800 000	
		_____			Share Premium	57 760 000	**(3 of) AO3**
		170 986 000				170 986 000	

Workings for share premium:
60 800 000**(1 of)AO3** shares at a premium of £0.95 per share**(1)AO3**
= £57 760 000 **(1 of)AO3**

This Acquisition Account acts as a control account for the acquisition.
It is acceptable to show entries going straight into i.e. Assets and Liabilities accounts, with the double entry in the Acquisition Account. This would be a mirror image of the above account.

Question Number	Answer	Mark
1 (d)	**AO2 (13), AO3 (3)** **AO2: Thirteen marks forcorrect calculation of each of the assets and the total assets, each of the liabilities and the total equity and liabilities, and each reserve.** **AO3: Three marks for correct calculation of value of cash and cash equivalents, ordinary shares, and share premium.**	**(16)**

Statement of Financial Position of Tittan Foods plc at 1 October 2018				
Assets	£		£	
Non-current Assets				
Property, plant and equipment	606 180 000	**(1 of) AO2**		
Intangible assets	204000000	**(1) AO2**		
Goodwill	14414000	**(1 of) AO2**		
			824594000	
Current Assets				
Inventories	52938000	**(1 of) AO2**		
Trade and other receivables	23954000	**(1) AO2**		
Cash and cash equivalents	228272000	**(1) AO3**		
			305164000	
Total Assets			1129758000	**(1 of) AO2**
Equity and Liabilities				
Equity				
Ordinary Shares of £1 each	270800000	**(1) AO3**		
Share premium	107760000	**(1) AO3**		
General reserve	40000000	**(1) AO2**		
Retained earnings	314597000	**(1) AO2**		
Total capital and reserves			733157000	

Non-current liabilities				
Mortgage	211475000	**(1) AO2**		
Debenture	75000000	both		
Bank loan	15000000	**(1) AO2**		
			301475000	
Current Liabilities				
Trade and other payables	19861000	**(1) AO2**		
Current tax payable	75265000	**(1) AO2**		
			95126000	
Total Equity and Liabilities			1129758000	**(1 of) AO2**

Question Number	Indicative Content	Mark
1 (e)	**AO1 (1), AO2 (1), AO3 (4), AO4 (6)** Answers may include: <u>For Purchase</u> Tittan may see an increase in their market share in the chocolate/confectionary market. Tittan may enjoy economies of scale eg bulk buying of materials, machinery etc. Tittan may enjoy benefits of vertical integration as in both companies are in the same line of business. Assets and liabilities taken over have been given agreed/market values by both sets of directors, so Tittan should not be overpaying for assets purchased. Roseberry appears to be in a healthy financial state. eg large positive figure for retained earnings. Liquidity position of Roseberry is good as they appear to have a healthy working capital ratio. Roseberry should not be a drain on the liquid resources of Tittan, especially as Tittan is not taking over tax bill and trade payables. Some shareholders may like the proactive decision-making of the board, which should increase profits and returns to shareholders. <u>Against Purchase</u> Shareholders in Roseberry have been paid goodwill of nearly £14.5 million. More shareholders means a dilution of ownership and voting power for existing shareholders in Tittan. Some shareholders may not like the closure of the factory and the redundancy, especially after a long history of being in the same location. Some shareholders may not like the reduction of size in the products, and the bad publicity, which often comes with these decisions. <u>Other points</u> We do not know the market price of Tittan shares after the purchase. The market will indicate whether the purchase, and the money paid, was a good idea. <u>Decision</u> Overall, the take-over is potentially a good decision	**(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.

Question Number	Answer	Mark
2 (a)(i)	**AO2(2), AO3 (1)** **AO2: Two marks for standard hourly pay and budgeted labour cost of production.** **AO3: One mark for correct calculation of budgeted labour time.** Budgeted labour cost = (462 x 40/60) **(1) AO3** x £7.20 **(1) AO2** = £2 217.60 **(1) AO2**	**(3)**

Question Number	Answer	Mark
2 (a)(ii)	**AO1(3), AO3 (1)** **AO1: Three marks for correct calculation of normal rate pay and total actual cost of production.** **AO3: One mark for calculation of overtime paid.** 6 workers x 44 hours x £7.20 = £1 900.80 **(1) AO1** 1 worker x 28 hours x £7.20 = £201.60 **(1) AO1** Overtime hours (5 + 6 + 4) x £9.60 = £144.00 **(1) AO3** Actual cost = £2 246.40 **(1) AO1**	**(4)**

Question Number	Answer	Mark
2 (a)(iii)	**AO2(3), AO3 (1)** **AO2: Three marks forcorrect calculation of budgeted hours, budgeted rate and labour efficiency variance.** **AO3: One mark for correct calculation of total hours worked.** Labour efficiency variance = (Actual hours – Budgeted hours) x Budgeted rate = (307 **(1) AO3** – 308 **(1) AO2**) x £7.20 **(1) AO2** = £7.20 Fav **(1) AO2**	**(4)**

Question Number	Answer	Mark
2 (a)(iv)	**AO2(3), AO3 (1)** **AO2: Three marks forcorrect calculation of actual hours, budgeted rate, and labour rate variance.** **AO3: One mark for correct calculation of actual rate.** Labour rate variance = (Actual rate – budgeted rate) x Actual hours = (£2246.40/307)**(1 of)** **AO3**-£7.20 **(1)**)**AO2**x307 **(1)** **AO2** = (£7.32-£7.20) x 307 = £36.84 (£36.00) Adv **(1)** **AO2**	**(4)**

Question Number	Answer	Mark
2 (a)(v)	**AO1 (3)** **AO1: Three marks for correct calculation of total labour variance.** Total labour variance = Actual labour cost - Budgeted labour cost = (£2246.40**(1 of)** **AO1** - £2 217.60 **(1 of)** **AO1**) = £28.80 Adv **(1 of)** **AO1**	**(3)**

Question Number	Answer	Mark
2 (b)(i)	**AO2 (4), AO3 (1)** **AO2: Four marks for calculating actual material cost of production.** **AO3: One mark for setting out actual material cost of production.** Actual material cost of production =(1 150 x £0.27)+(1500 x £0.28)+(480 x0.29)**(1)** **AO3** = £310.50**(1)** **AO2**+£420.00 **(1)** **AO2**+ £139.20 **(1)** **AO2** = £869.70 **(1)** **AO2**	**(5)**

Question Number	Answer	Mark
2 (b)(ii)	**AO2 (2)** **AO2: Two marks for correct calculation of budgeted material cost of production.** Budgeted material cost of production = (£0.28 x 6 x 462) **(1) AO2** = £776.16 **(1) AO2**	**(2)**

Question Number	Answer	Mark
2 (b)(iii)	**AO2 (4)** **AO2: Four marks for correct calculation of material usage variance.** Material usage variance =(Actual usage - Budgeted usage)x Budgeted price = ((1 150 + 1500 + 480) – 2772) x £0.28 = (3 130 **(1)AO2** – 2772 **(1)AO2)** x £0.28 **(1) AO2** = £100.24 Adv **(1) AO2**	**(4)**

Question Number	Answer	Mark
2 (b)(iv)	**AO2 (3), AO3 (1)** **AO2: Three marks forbudgeted price, actual usage and calculation of material price variance.** **AO3: One mark for correct calculation of actual price.** Material price variance = (Actual Price - Budgeted price) x Actual usage =(£869.70 **(1of)** **AO3** -£0.28 **(1)** **AO2**)x3130 **(1)** **AO2** 3130 = (0.278 - £0.28) x 3 130 = £6.70 Favourable **(1)** **AO2**	**(4)**

Question Number	Answer	Mark
2 (b)(v)	**AO1 (3)** **AO1: Three marks for correct calculation of total material cost variance.** Total Material Cost variance = Actual material cost - Budgeted material cost = (£869.70 **(1 of)** **AO1** - £776.16 **(1 of)** **AO1**) = £93.54 Adverse **(1 of)** **AO1**	**(3)**

Question Number	Answer	Mark
2 (c)(i)	**AO1 (2)** **AO1: Two marks for correct calculation of total budgeted cost.** Total budgeted cost = budgeted labour + budgeted material = (£2 217.60 + £776.16) **(1 of) AO1** = £2993.76 **(1 of) AO1**	**(2)**

Question Number	Answer	Mark
2 (c)(ii)	**AO1 (2)** **AO1: Two marks for correct calculation of total actual cost.** Total actual cost = actual labour + actual material = (£2246.40 + £869.70) **(1 of) AO1** = £3 116.10 **(1 of) AO1**	**(2)**

Question Number	Answer	Mark
2 (c)(iii)	**AO1 (3)** **AO1: Three marks for correct calculation of total variance.** Total variance = Actual total cost - Budgeted total cost = (£3 116.10**(1of)AO1** - £2993.76**(1of)AO1**) = £122.34 Adverse **(1of) AO1**	**(3)**

Question Number	Indicative Content	Mark
2 (d)	**AO1 (1), AO2 (1), AO3 (4), AO4 (6)** <u>Performed poorly</u> Labour rate variance is adverse. This is due to having to pay overtime at a higher rate to meet production target, to cover an absence. Possible solutions may include paying overtime at budgeted rate, especially if the target has not been met. Alternatively, transferring workers who work elsewhere in the company, to the Curtains section, having previously trained them. Other solutions could include having a reserve pool of temporary labour the company can call upon to step in to make curtains. Or use an agency to supply temporary workers. Material usage variance is adverse. Solutions could include better training of staff, or buying better quality material to reduce wastage, or new machinery to reduce production problems. <u>Performed well</u> Labour efficiency variance is favourable. This maybe due to workers completing the job quickly during overtime. Material price variance is favourable. This was because there was still material in inventory that had been purchased at a price of 27 pence a metre, lower than the budgeted price of 28 pence per metre. However, new material has been bought at 29 pence per metre. This may result in the budgeted price being raised for the next week. Other solutions could be to find alternative suppliers, negotiate better prices, or pay quickly to ensure discounts. Section may be efficient, it is just that the budget set is unrealistic. Maybe they are not reviewed regularly in which case review and change the budget. However, if they are set for one week at a time, it appears they are reviewed regularly. <u>Decision</u> Curtains section has a total cost variance that is adverse. Most of this figure consists of the material usage variance, which indicates poor performance. The labour rate variance is relatively small and due to staff absence. The staff worked efficiently to cover this absence.	**(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.

Question Number	Answer	Mark
3 (a)(i)	**AO1 (1)** **AO1: One mark for correct identification of two variables.** Any two from the following (or other correct answers), one mark each Copyright, goodwill, patents, **(1)AO1**	**(1)**

Question Number	Answer	Mark
3 (a)(ii)	**AO2 (2)** **AO2: Two marks forcorrect calculation of bank balance.** Bank balance = £377 000 - £249 000 **(1) AO2** = £128 000 overdraft **(1) AO2**	**(2)**

Question Number	Answer	Mark
3 (a)(iii)	**AO2 (2)** **AO2: Two marks for correct calculation of interest owing on bank loan.** Yearly interest = 6.5% x £800 000 = £52 000 **(1) AO2** Monthly interest due = £52 000 / 12 = £4 333.33 **(1) AO2**	**(2)**

Question Number	Answer	Mark
3 (a)(iv)	**AO2 (2)** **AO2: Two marks for correct calculation of amount of one instalment of debenture interest.** Yearly interest = 5.75% x £2 500 000 = £143 750 **(1) AO2** 6 month payment = $\frac{£143\ 750}{2}$ = £71 875 **(1) AO2**	**(2)**

Question Number	Answer	Mark
3 (a)(v)	**AO1 (2)** **AO1: Two marks for explanation of term "secured".** If the company fail to meet interest payments or repay the debenture when due **(1) AO1** The debenture holder may claim the asset(s) on which the debenture is secured**. (1) AO1**	**(2)**

Question Number	Answer	Mark
3 (a)(vi)	**AO2 (2)** **AO2: Two marks forcorrect calculation of profit or loss for the year.** £743 000 - £578 000 **(1) AO2** = £165 000 profit **(1) AO2**	**(2)**

Question Number	Answer	Mark
3 (a)(vii)	**AO1 (2)** **AO1: Two marks for correct identification of section.** Other receivables **(1) AO1** Inventory **(1) AO1**	**(2)**

Question Number	Answer	Mark
3 (a)(viii)	**AO3 (2)** **AO3: Two marks for correct explanation of term "irredeemable".** The shares cannot be bought back (redeemed)**(1) AO3** by the company. **(1) AO3**	**(2)**

Question Number	Answer	Mark
3 (a)(ix)	**AO3 (2)** **AO3: Two marks for correct identification of provisions.** Any two from the following, one mark each - Any damages or costs for court cases or legal claims against the company. -Any payments for future redundancy costs. -Any obligations for the pension fund - Any provisions for taxation. **2 x AO3**	**(2)**

Question Number	Answer	Mark
3 (b)(i)	**AO2 (2), AO3 (1)** **AO2: Two marks for entries in and balances of, the PPE account.** **AO3: One mark for correct entry of revaluation.**	**(3)**

Property, plant and equipment Account

Balance b/d	15 000 000		Bank (Sale /Disposal of property)	3 500 000	
Crown Printing Machinery Ltd	1 600 000	**(1)AO2** both			
Revaluation Reserve	2 000 000	**(1) AO3**	Balance c/d	15 100 000	**(1 of)AO2** both
	18 600 000			18 600 000	
Balance b/d	15 100 000				

Question Number	Answer	Mark
3 (b)(ii)	**AO2 (2), AO3 (2)** **AO2: Two marks for balance at start of year and entry of disposal.** **AO3: Two marks for entry of depreciation for the year and year end balance.**	**(4)**

Depreciation Account

Property sold/ Disposal	300 000	**(1) AO2**	Balance b/d	500 000	**(1) AO2**
Balance c/d	1 100 000		Depreciation for year/ SoCI	900 000	**(1 of) AO3**
	1 400 000			1 400 000	
			Balance b/d	1 100 000	**(1 of) AO3**

Question Number	Indicative Content	Mark
3 (c)	**AO4 (6)** <u>Case for creating a provision</u> A provision is an amount set aside from profit to meet a specific, although estimated, liability. Examples include provision for depreciation, or bad debts, or damages payable after a court case. Provisions ensure the company follows the prudence concept. Profits are understated, providing for a liability. Provisions may ensure the company follows the matching concept. For example, make a provision against possible bad debts in this accounting period, before the bad debt is realised in the next accounting period. Provisions reduce profit, so may reduce the amount that may be distributed as dividends. This may stop, for example, directors paying large dividends to shareholders, draining the company of funds, before an expensive court case. <u>Case against creating a provision</u> Provisions reduce profit, so may reduce the amount that may be distributed as dividends. This may make shareholders unhappy, and they may sell their shares. Provisions take time and money and expertise to prepare. Provisions may only be an estimate and may not be accurate. <u>Decision</u> It is beneficial to create a provision.	**(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.

Question Number	Answer	Mark
4(a)(i)	**AO1 (2)** **AO1: Two marks for monthly entries in purchases budget.**	**(2)**

(a) (i) Purchases Budget								
	January		February		March		April	
	36 400		36 400	**(1) AO1**	36 400		36 400	**(1) AO1**
								2 marks

Question Number	Answer	Mark
4(a)(ii)	**AO1 (2), AO2 (6)** **AO1: Two marks for entries for cash purchases from February to April and totals.** **AO2: Six marks for cash entry for January and credit entries.**	**(8)**

(a)(ii) Cash Budget extract								
	January		February		March		April	
Cash	16 380	**(1) AO2**	16 380		16 380		16 380	**(1) AO1**
One month credit			12 740	**(1) AO2**	12 740		12 740	**(1) AO2**
Two months credit					5 460	**(1) AO2**	5 460	**(1) AO2**
Three months credit							1 820	**(1) AO2**
Total	16 380		29 120		34 580		36 400	**(1 of) AO1**
								8 marks

Question Number	Answer	Mark
4(a)(iii)	**AO1 (1), AO2 (6), AO3 (3)** **AO1: One mark for totals.** **AO2: Six marks for all entries for January, one month's credit for February to April entries, two months credit for March and April entries, and April entry for three months credit.** **AO3: Three marks for two months credit for February and three months credit for February and March.**	**(10)**

(a)(iii) Trade Payables								
	January		February		March		April	
One month credit	12 740	**(1) AO2**	12 740		12 740		12 740	**(1) AO2**
Two months credit	5 460	**(1) AO2**	10 920	**(1)AO3**	10 920		10 920	**(1) AO2**
Three months credit	1 820	**(1) AO2**	3 640	**(1)AO3**	5 460	**(1)AO3**	5 460	**(1) AO2**
	20 020		27 300		29 120		29 120	**(1 of) AO1**
								10 marks

Question Number	Answer	Mark
4(b)	**AO3 (4)** **AO3: Four marks for correct calculation of discount.** Monthly purchases on credit = (36 400 - 16 380) **(1 of) AO3** = £20 020 **(1) AO3** Discount = 20 020 x 2% = £400.40 **(1) AO3** Four months= £400.40 x 4 = £1 601.60 **(1) AO3**	**(4)**

Question Number	Indicative Content	Mark
4 (c)	**AO4 (6)** <u>Case for paying within the same month</u> A total of £1 601.60 (o/f) would be saved / received as a discount. This would increase profit and maybe help cash flow, less would need to be paid out each month after April. Better relationship with suppliers. <u>Case against paying in the same month</u> It would not help cash flow for the first four months. There are no details for sales available, but it would appear that a large fraction of sales may have to be made in the same month as purchase. <u>Decision</u> It depends upon the cash flow situation. If cash flow allows, it is a good idea to pay for credit purchases in the same month.	**(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.

Question Number	Answer	Mark
5 (a)(i)	**AO1 (4), AO2 (7)** **AO1: Fourmarks for calculation of site rent, electricity, total fixed costs, and variable costs per unit.** **AO2: Seven marks for correct calculation of warehouse rent, depreciation, loan interest, contribution per unit, and break-even point**	**(11)**

Fixed Costs - per year

Rent (£460 x 7) = £3 220 **(1) AO1**
Insurance = £1 250
Warehouse (£275 x 4) = £1 100 **(1) both AO2**
Depreciation £2700 x 5 / 9 = £1 500 **(1) AO2**
Electricity (£35 x 12) = £ 420 **both**
Loan (£285 x 12) = £3 420 **(1) AO2**
Total FC £10 910 **(1 of) AO1**

Variable costs per unit

(0.20 + 0.11 + 0.01)
Total £0.32 per unit **(1)AO1**

Contribution per unit

(£0.55 - £0.32) **(1 of)AO2** = £0.23 **(1 of) AO1**

Break Even Point = £10 910 **(1 of) AO2** / £0.23 **(1 of) AO2** = 47 435 drinks **(1 of) AO2**

Question Number	Answer	Mark
5 (a)(ii)	**AO2 (5)** **AO2: Five marks for correct calculation of profit for 2019**	**(5)**

Profit for 2018

Sales = (110 + 210 + 175 + 180) x 200 = 135 000 units **(1)** **AO2**

Sales revenue = 135 000 x 0.55 = £74 250 **(1 of)** **AO2**

Less VC = 135 000 x 0.32 o/f = (£43 200) **(1 of)** **AO2**

Less FC = (£10 910) **(1 of)** **AO2**

Profit = £20 140 **(1 of)** **AO2**

Question Number	Answer	Mark
5 (b)(i)	**A01 (1) AO3 (4)** **AO1: One mark for totalling target profit and fixed costs.** **AO3: Four marks for including target profit and fixed costs, and three marks for calculating the required contribution per unit**	**(5)**

Target profit = £21 400

+ Fixed costs = £11 000 **(1)** **AO3**

£32 400 **(1)** **AO1**

135 000 o/f x Contribution per unit = £32 400 **(1)** **AO3**

Contribution per unit = $\frac{\text{£32 400}}{\text{135 000}}$ **(1of)** **AO3** = £0.24 **(1of)** **AO3**

Question Number	Answer	Mark
5 (b)(ii)	**AO3 (3)** **AO3: Three marks for calculating a selling price 38 pence above labour cost (as long as labour cost is above 20 pence)**	**(3)**

Selling price – Variable costs = Contribution

SP - (Labour cost per drink + 0.12 + 0.02) = £0.24 **(1)** **AO3**

So selling price must be £0.38 higher than labour cost **(1)** **AO3**

For example Selling price £0.60 and labour cost £0.22 **(1)** **AO3**

(Accept any answer where selling price is £0.38 higher than labour cost, as long as labour cost is above 20 pence (£0.20))

Question Number	Indicative Content	Mark
5 (c)	**AO4 (6)** <u>Case for</u> The town authorities could see a true and fair view of the number of drinks sold by the business. This would allow them to charge an accurate tax on Jacinda's business. Jacinda is assured she is meeting all necessary requirements and disclosures, which may ensure future contracts for Jacinda. It will help Jacinda ensure a smooth running of the business helping her e.g. control costs, planning, decision making. <u>Case against</u> The town authorities would have to pay a member of staff to study the audited accounts, which would cost time and money. Jacinda has to go to the time and expense of having her accounts audited. Loss of confidentiality by Jacinda. <u>Decision</u> It would be worthwhile for the town authorities to study the audited financial statements of Jacinda.	**(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.

Question Number	Answer	Mark
6 (a)(i)	**AO1 (3)** **AO1: Three marks for correct calculation of total ordinary dividend paid.** Total ordinary dividend paid = Dividend per share x number of shares = 6 pence **(1) AO1** x 15 000 000 **(1) AO1** = £900 000 **(1) AO1**	**(3)**

Question Number	Answer	Mark
6 (a)(ii)	**AO3 (3)** **AO3: Three marks for correct calculation of share price.** Share price = Earnings per share x Price/earnings ratio = 15 pence **(1) AO3** x 8.4 times **(1) AO3** = £1.26 **(1) AO3**	**(3)**

Question Number	Answer	Mark
6 (a)(iii)	**AO2 (3)** **AO2: Three marks for correct calculation of dividend yield.** Dividend yield = Dividend per share / Market price of a share = 6 pence **(1) AO2** x 100 / 126 pence **(1 of) AO2** = 4.76% **(1 of) AO2**	**(3)**

Question Number	Answer	Mark
6 (b)(i)	**AO1 (1), AO2 (2), AO3 (3)** **AO1: One mark for correct calculation of interest on debenture.** **AO2: Two marks for dividing by number of shares issued and final correct EPS figure.** **AO3: Three marks for calculating net profit after interest and tax and placing this figure as the numerator to find EPS.** Paxorient Interest on debenture = 6% x £2 500 000 = £150 000 **(1)AO1** Net profit after interest and tax = £3 600 000 – (£450 000 + £150 000) **(1)AO3** = £3 000 000 **(1)AO3** Earnings per ordinary share = Net profit after interest and tax Issued ordinary shares = £3 000 000 **(1)AO3** = 15p per share 20 000 000 **(1)AO2** **(1) AO2**	**(6)**

Question Number	Answer	Mark
6 (b)(ii)	**AO2 (2), AO3 (1)** **AO2: Two marks for using the correct ordinary dividend figure and calculating dividend cover.** **AO3: One mark for using the correct net profit after interest and tax figure.** Dividend cover = Net profit after interest and tax Total ordinary dividend = £3 000 000 **(1of)AO3** = 3 times**(1of)AO2** £1 000 000 **(1)AO2**	**(3)**

Question Number	Answer	Mark
6 (b)(iii)	**AO2 (3)** **AO2: Three marks forcorrect calculation of the price/earnings ratio.** Price/earnings ratio = Market price of share at year end Earnings per share = 90p **(1)AO2** = 6 times **(1 of)AO2** 15p **(1 of)AO2**	**(3)**

Question Number	Answer	Mark
6 (b)(iv)	**AO2 (3)** **AO2: Three marks for correct calculation of the dividend paid per share.** Dividend paid per share = Total ordinary dividend Issued ordinary shares = £1 000 000 **(1)AO2** = 5 pence per share 20 000 000 **(1) AO2** **(1) AO2**	**(3)**

Question Number	Indicative Content	Mark
6 (c)	**AO4 (6)** **Own figure rule applies for calculations from (a) and (b)** <u>For Investment in Paxorient plc</u> The dividend cover is higher by 0.5 times (3 times compared to 2.5 times) which means Paxorient have a safer policy with regard to dividends, when compared to net profit after interest and tax. Paxorient have a higher net profit before and after, interest and tax. The dividend yield for Paxorient plc is higher than Chinoso plc by 0.79% (5.55% compared to 4.76%). <u>For Investment in Chinoso plc</u> The price/earnings ratio of Chinoso plc is higher by 2.4 times (8.4 times compared to 6 times). The dividend paid per share is higher in Chinoso by 1 pence (6 pence compared to 5 pence). <u>Decision</u> With the information given, dividend yield might be the best figure to use for investment, making Paxorient the best investment.	**(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.

Pearson Education Limited. Registered company number 872828
with its registered office at 80 Strand, London WC2R 0RL, United Kingdom