GradeMax



Mark Scheme (Standardisation)

Summer 2019

Pearson Edexcel International Advanced Subsidiary

In 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.

SECTION A

Question Number	Answer	Mark
1 (a)	**[AO1 10] [AO2 10] [AO3 2]** **AO1:** One mark for Marina's capital and the bank loan, total receipts, rent and alterations, fixtures and fittings and redecoration, furniture and equipment, purchases in month 1, electricity, gas, water and total payments. **AO2:** One mark each for receipts from manicures and sale of accessories, month two and three purchases, Florentia's commission on manicures and accessories, drawings, bank loan repayments, the monthly balance, the opening balance and the closing balance. **AO3:** One mark each for an annual and a monthly figure for overdraft interest.	

Marina's Nail Bar Cash budget

Receipts	**Month 1**	**Month 2**	**Month 3**		
Capital - Marina	10 000			both	
Bank loan	10 000			**(1)** AO1	
Receipts - manicures		7 200	7 200	**(1)** AO2	
Receipts - accessories		1 440	1 440	**(1)** AO2	
Total Receipts	20 000	8 640	8 640	**(1)** AO1	
Payments					
Bank Loan repayments	240	240	240	**(1)** AO2	
Rent	840	840	840	**(1)** AO1	
Alterations	7 375			both	
Redecoration	1 450			**(1)** AO1	
Fixtures and Fittings	4 700			both	
Furniture	2 900			**(1)** AO1	
Equipment	1 600			both	
Purchases	1 200	720	720	**(1)** AO1	**(1)** AO2
Electricity	125	125	125	**(1)** AO1	
Gas			210	**(1)** AO1	
Water	570			**(1)** AO1	
Florentia - Manicures commission		1 260	1 260	**(1)** AO2	
Florentia- Accessories commission		360	360	**(1)** AO2	
Drawings - Marina		1 600	1 600	**(1)** AO2	
Overdraft interest		10		**(1)** AO3	
Total Payments	21 000	5 155	5 355	**(1) of** AO1	
Monthly balance	-1 000	3 485	3 285	**(1) of** AO2	
Opening balance	0	-1 000	2 485	**(1) of** AO2	
Closing balance	-1 000	2 485	5 770	**(1) of** AO2	
Workings	Days	Weeks	Customers	Amount	Total
Manicures	6	4	12	£25	£7,200
Accessories	6	4	12	£5	£1,440
	Overdraft	Rate	Annual		Months
Overdraft interest	1 000	12%	120	**(1)** AO3	12

(22)

Question Number	Answer	Mark
1 (b)	**[AO1 6] [AO2 11] [AO3 4]** **AO1:** Six marks for total revenue, opening inventory, closing inventory, redecoration, water, and total payments. **AO2:** Eleven marks for purchases, rent, alterations, fixtures and fittings, furniture, equipment, electricity, gas, Florentia's commission for manicures and for sale of accessories, and profit for the year. **AO3:** Four marks for revenue from manicures and from accessories, bank loan interest and overdraft interest.	**(21)**

Marina's Nail Bar Statement of Profit or Loss and Other Comprehensive Income

	£	£	
Revenue – manicures		79 200	**(1)** AO3
Revenue – accessories		15 840	**(1)** AO3
Total revenue		95 040	**(1)** AO1
Less			
Opening inventory	1 200		**(1)** AO1
Purchases	7 920		**(1)** AO2
Less closing inventory	1 200		**(1)** AO1
Cost of sales		7 920	
Rent		10 080	**(1)** AO2
Alterations Depreciation		295	**(1)** AO2
Fixtures and fittings Depreciation		235	**(1)** AO2
Redecoration		1 450	**(1)** AO1
Furniture Depreciation		290	**(1)** AO2
Equipment Depreciation		320	**(1)** AO2
Electricity		1 500	**(1)** AO2
Gas		840	**(1)** AO2
Water		570	**(1)** AO1
Florentia - Manicures commission		13 860	**(1)** AO2
Florentia- Accessories commission		3 960	**(1)** AO2
Bank Loan interest		900	**(1)** AO3
Overdraft interest		10	**(1)** AO3
Total Payments		42 230	**(1)** AO1
Profit for the year		52 810	**(1)** AO2

Question Number	Answer	Mark
1 (c)	**[1 AO1] [1 AO2] [4 AO3] [6 AO4]** Answers may include: **<u>Usefulness of budgets for a new business</u>** Budgets will focus the attention of the owners onto important areas e.g. cash flow, purchases, production, sales etc. The budget shows the business the likely outcome/future situation. The owners can plan their strategy around what the budget may show. The owners can use budgets as a tool of control over the business. This may allow the business to make changes to their plans if budget figures do not look good. For example, reduce budgeted expenditure or boost planned sales by an advertising campaign. Or, it may result in approaching the bank for a loan. Budgets may act as a motivating tool for staff, who must achieve targets e.g. sales Once business has started variance analysis, comparing actual figures to the budget, may allow the business to take corrective action. Budgets help communicate ideas and plans to all members of staff. This will also help co-ordinate the activities of different departments e.g. purchasing may operate according to the requirements of production. A framework for responsibility may be created, whereby managers of budget centres are responsible for achieving budgeted targets. A request for a bank loan or overdraft is almost certain to be followed up by a demand for budgets by the bank. **<u>Against usefulness of budgets</u>** Budget figures can only be estimates/guesses as they are for a future period Unexpected events or changes may happen in the future that were not planned for in the budget. This may make the budget less relevant. The cost of accountants or the time and cost of accounting staff to prepare the budgets and carry out variance analysis may outweigh the benefits or savings made by the budget. Unrealistic budget figures are demotivating for staff, who can never achieve them. **<u>Conclusion</u>**	

	Budgets are a useful for a new business as they help in planning and achieving targeted goals.	**(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.
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 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 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.

(TOTAL MARKS FOR QUESTION 1 = 55 MARKS)

Question Number	Answer	Mark
2 (a) (i)	**[AO1 4]** **AO1: Four marks for calculation of gross profit as a percentage of revenue.** Gross profit = £211 000 000 - £157 000 000 = £54 000 000 (1) AO1 **G**ross profit as a percentage of revenue = Gross profit / Revenue x 100 = £54 000 000 / £211 000 000 (1) AO1 x 100 **(1)o/f**AO1 = 25.59% AO1	**(4)**

Question Number	Answer	Mark
2 (a) (ii)	**[AO1 3]** **AO1: Three marks for calculation of net profit after tax as a percentage of revenue.** Net profit for the year after tax = £3 812 000 - £635 000 = 3 177 000 AO1 Net profit for the year after tax as a percentage of revenue = Net profit for the year after tax / Revenue x 100 = £3 177 000 / £211 000 000 x 100 **(1)o/f** AO1 = 1.51% **(1)o/f** AO1	**(3)**

Question Number	Answer	Mark
2 (a) (iii)	**[AO2 6] [AO3 2]** **[AO2]: Six marks for correct insertion net profit after interest, share capital, reserves, debenture and bank loan, and correct calculation of return on capital employed.** **[AO3]: Two marks for correct calculation of interest to add back.** Return on Capital employed = Net profit before interest and tax / Capital employed x 100 = £3 812 000**(1)** AO2 + £540 000**(1)**AO3 + £1 100 000 **(1)** AO3 / (£40 800 000**(1)**AO2+£6 000 000**(1)** AO2 + £26 950 000**(1)**AO2 + £6 000 000**(1)** +£10 000 000 **(1)**AO2 both) = £5 452 000 / £89 750 000 x 100 = 6.07% o/f AO2	**(8)**

Question Number	Answer	Mark
2 (a) (iv)	**[AO2 3] [AO3 1]** **[AO2]: Three marks for correct insertion of net profit after tax and of ordinary shares issued, and correct calculation of earnings per ordinary share.** **[AO3]: One mark for correct calculation of preference dividends.** Earnings per ordinary share = Net profit after tax – preference dividend / Issued ordinary shares = £3 177 000**(1)** AO2 - £420 000**(1)** AO3 = 5.74 pence per share **(1)**AO2 / 48 000 000**(1)** AO2	**(4)**

Question Number	Answer	Mark
2 (a) (v)	**[AO1 3]** **[AO1 3]: Three marks for correct insertion of market price of share and earnings per share and for correct calculation of price/earnings ratio.** Price/earnings ratio = Market price of share / Earnings per share = £1.44 **(1)**AO1 = 25.1 times **(1)**o/f AO1 / 5.74p **(1)**o/fAO1	**(3)**

Question Number	Answer	Mark
2 (a) (vi)	**[AO2 4]** **[AO2: Four marks for correct for correct calculation of dividend paid per ordinary share.** Dividend paid per share = Total ordinary dividend / Issued ordinary shares = (£48 000 000 x 0.008) **(1)**AO2 + £1 152 000 **(1)**AO2 = 3.2p per share**(1)** AO2 / 48 000 000 **(1)** AO2	**(4)**

Question Number	Answer	Mark
2 (a) (vii)	**[AO1 1] [AO2 2]** **[AO1]: One mark for correct insertion of total ordinary dividend.** **[AO2]: Two marks for correct for correct insertion of net profit after tax less preference dividends and calculation of dividend cover.** Dividend cover = Net profit after tax – preference dividend / Total ordinary dividend = £2 757 000 **(1)**o/f AO2 = 1.79 times**(1)** o/fAO2 £1 536 000**(1)** o/f AO1	**(3)**

Question Number	Answer	Mark
2 (a) (viii)	**[AO1 3]** **[AO1]: Three marks for correct insertion of market price of share and dividend per share and for correct calculation of dividend yield.** Dividend yield = Dividend per share x100 / Market price of share = 3.2 p**(1)** o/f AO1 x 100 = 2.22%**(1)** o/f AO1 £1.44p**(1)** AO1	**(3)**

Question Number	Answer	Mark
2 (a) (ix)	**[AO2 5]** **AO2: Five marks for correct calculation of gearing ratio.** Gearing ratio = Fixed Cost Capital / Capital employed = £6 000 000 **(1)**AO2 + £6 000 000 **(1)**AO2 + £10 000 000 **(1)**AO2 x 100 = £89 750 000 o/f**(1)** AO2 o/f =24.51% o/f**(1)** AO2	**(5)**

o/f**(1)** AO2

Question Number	Answer	Mark
2 (b)	**[AO1 3] [AO3 3]** **AO1 – Three marks for a point about why or how, to a maximum of three** **AO3 – Three marks for development of a point about why or how, to a maximum of three** Continuing Activities and Discontinued Activities should be shown separately in the financial statements. **(1)**AO1 This is required by FRS3 / IFRS 5 **(1)**AO3 This will benefit users of accounts because they can see that profits or losses from the Discontinued Activities will not be expected to be realised in the future. **(1)** AO1This allows readers to predict more accurately future expected performance of the company from Continuing Activities (1)AO3 This may help future potential investors/shareholders/creditors etc. with decision making. (1) AO1 E.g. buy more shares/allow credit. (1) AO3	**(6)**

Question Number	Answer	Mark
2 (c)	**[1 AO1] [1 AO2] [4 AO3] [6 AO4]** Answers will be o/f and may include: <u>For Investment</u> Gross profit as a percentage of revenue appears good at 25.59%, but this may depend on what is the average for this industry. ROCE at 6.07% may be higher than could be obtained by investing in a bank and in many other businesses. Earnings per ordinary share appear reasonably good at 5.74 pence per share, given the share was issued at £0.85. However, dividend yield may be more important. Price/Earnings ratio is reasonably good at 25.1 times so the market has confidence in the company. The dividend cover is low, which is good for investors. Over half of this year's available profit has been paid out in dividends. Gearing is safe at 24.51% and allows the company some tax benefits. <u>Against Investment</u> The net profit after tax as a percentage of revenue appears slim at 1.51% Dividend per share might be low at 3.2 pence per share Dividend yield is low at 2.22%, an investor could earn more in savings accounts and most other investments. <u>Decision</u> The company looks like a reasonably good investment for the stockbroker's clients.	**(12)**

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(TOTAL MARKS FOR QUESTION 2 = 55 MARKS)

TOTAL MARKS FOR SECTION A = 110 MARKS

Section B

Question Number	Answer	Mark
3 (a)	**[AO1 2] [AO3]** **AO1: Two marks for material price and labour rate** **AO3: Two marks for material quantity and labour hours** 2280 / 2 400 x 100 = 95% Budget for 2 280 pairs of shoes 1 520 square metres **(1)** AO3 of leather material at £120 per square metre = £182 400 **(1)** AO1 1 710 hours of labour (1) AO3 at £14.00 per hour = £23 940 **(1)** AO1	**(4)**

Question Number	Answer	Mark
3 (b) (i)	**[AO2 3] [AO3 1]** **A02: Three mark for correct substitution into formula** **AO3: One mark for material correct variance and label** Material usage variance = (Standard quantity – Actual quantity) x Standard price = (1 520 **(1)of** AO2 - 1 440) **(1)** AO2 x £120 **(1)** AO2 = £9 600 Favourable **(1) of** AO3	**(4)**

Question Number	Answer	Mark
3 (b) (ii)	**[AO2 3] [AO3 1]** **A02: Three marks for correct substitution into formula** **AO3: One mark for material correct variance and label** Material price variance = (Standard price – Actual price) x Actual quantity = (£120 **(1)** AO2 - £125) **(1)** AO2 x 1 440 **(1)** AO2 = £7 200 Adverse **(1)** AO3	**(4)**

Question Number	Answer	Mark
3 (b) (iii)	**[AO1 2]** **A01: Two marks for correct calculation of total variance and label** Total material variance = Material usage variance + Material price variance = £9 600 Favourable + £7 200 Adverse **(1)of** AO1 = £2 400 Favourable **(1)of** AO1	**(2)**

Question Number	Answer	Mark
3 (b) (iv)	**[AO2 3] [AO3 1]** **A02: Three marks for correct substitution into formula** **AO3: One mark for material correct variance and label** Labour efficiency variance = (Standard quantity – Actual quantity) x Standard rate = (1 710 **(1)of** AO2 - 1584) **(1)** AO2 x £14.00 **(1)** AO2 = £1 764 Favourable **(1)of** AO3	**(4)**

Question Number	Answer	Mark
3 (b) (v)	**[AO2 3] [AO3 1]** **A02: Three marks for correct substitution into formula** **AO3: One mark for material correct variance and label** Labour rate variance = (Standard rate – Actual rate) x Actual quantity = (£14.00 **(1)** AO2 - £14.50 **(1)** AO2) x 1 584 **(1)** AO2 = £792 Adverse **(1)** AO3	**(4)**

Question Number	Answer	Mark
3 (b) (vi)	**[AO1 1] [AO3 1]** **A01: One mark for correct substitution into formula** **AO3: One mark for correct calculation of total variance and label** Total labour variance = Labour efficiency variance + Labour rate variance = £1 764 Favourable + £792 Adverse **(1)of** AO3 = £972 Favourable **(1)of** AO1	**(2)**

Question Number	Answer	Mark
3 (c)	**[A04 6]** Performance of Colombo Leather Limited <u>Good performance</u> Less material was used than was budgeted to be used for this level of output. The workers must have been skilled, as they were paid a higher wage rate, but used less material, and completed the work in less hours than budgeted. The adverse wage rate variance of £792 was much less than the favourable material usage variance of £9 600 and the favourable labour efficiency variance of £1 764 <u>Poor performance</u> The wage rate paid was higher than budgeted. The price paid for material was higher than budgeted. However, this price is the wholesale market price and is beyond the control of the company. Future budgets should reflect this higher price. Company failed to meet production target. <u>Other points</u> Not enough information is given as to why production was below budget.	**(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.

(TOTAL MARKS FOR QUESTION 3 = 30 MARKS)

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>4 (a)</td><td>[AO1 5]
AO1: Five marks for factors to be considered.

<table>
<tr><th><u>Item</u></th><th><u>Factor</u></th><th></th></tr>
<tr><td>Property, plant and equipment</td><td>Market value /size/ location of property
Condition/depreciation of plant and equipment.</td><td>(1) AO1</td></tr>
<tr><td>Motor vehicles</td><td>Mileage/age/condition/depreciation of vehicles</td><td>(1) AO1</td></tr>
<tr><td>Other inventory</td><td>Lowest of cost and net realisable value.
Shelf life/condition/market value of inventory.
Number of items.</td><td>(1) AO1</td></tr>
<tr><td>Trade receivables</td><td>Possibility of bad debts.
Sales level.
Credit policy.</td><td>(1) AO1</td></tr>
<tr><td>Trade payables</td><td>Possibility of discount receivable.
Level of purchases/ terms of supplier
Availability of cash.</td><td>(1) AO1</td></tr>
</table></td><td>(5)</td></tr>
</table>

Question Number	Answer	Mark

4 (b)

[AO2 5]

AO2: Five marks for calculation of goodwill

Calculation of goodwill paid for Pumping gas plc.

	£ million	
Book Value of company	160	**(1)** AO2
Property	+ 28	(1)AO2
Fixtures and fittings	(1)	**Both**
Fuel	+5	**(1)** AO2
Total	192	**(1)of** AO2
Purchase price	200	
Goodwill	8	**(1)of** AO2

(5)

Question Number	**Answer**	**Mark**
4 (c) (i)	**[AO2 5] [AO3 1]** **AO2: Five marks for calculations and figures in non-current assets section.** **AO3 : One mark for identifying goodwill** Workings Property, plant and equipment 313 + 177 + 28 + 16 – 3 **(1)** AO2 = £531m	**(6)**

Non- current assets	**£m**	
Plant, property and equipment	531	**(1)of** AO2
Fixtures and fittings	10	**(1)** AO2
Vehicles	2	**Both**
Intangibles - Goodwill (1)AO3	13	**(1)** AO2
Total	556	**(1)of** AO2

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>4 (c) (ii)</td><td>
[AO2 1] [AO3 7]

AO2: One mark for calculations of purchase price.

AO3: Seven marks for workings and calculations for equity section items

Workings:

Calculation of purchase price of Roadside Fuel plc.

<table>
<tr><th></th><th>£ million</th><th></th></tr>
<tr><td>Book Value of company</td><td>128</td><td>(1) AO3</td></tr>
<tr><td>Property</td><td>+ 16</td><td>(1) AO3</td></tr>
<tr><td>Plant</td><td>(3)</td><td>Both</td></tr>
<tr><td>Fuel</td><td>+4</td><td>(1) AO3</td></tr>
<tr><td>Goodwill</td><td>5</td><td>Both</td></tr>
<tr><td>Purchase price</td><td>150</td><td>(1) AO2</td></tr>
</table>

Value of shares issued in Autoflow plc = (£200m + £150m) = £350 m

Number of shares issued = £350 m o/f = 280 m (1)o/f AO3
1.25

<table>
<tr><th><u>Equity</u></th><th>£m</th><th></th></tr>
<tr><td>Ordinary shares of £0.50 each</td><td>140</td><td>(1) AO3</td></tr>
<tr><td>Share premium</td><td>210</td><td>(1) AO3</td></tr>
<tr><td>Total Equity</td><td>350</td><td>(1) AO3</td></tr>
</table>
</td><td>(8)</td></tr>
</table>

Question Number	Answer	Mark
4 (d)	<u>For Merger</u> Shareholders in Pumping Gas plc receive goodwill of £8m The new company should enjoy benefits of horizontal integration as both merged companies were in same line of business at the same stage of production. The new company should enjoy economies of scale e.g. bulk buying of fuel at lower prices, resulting in greater profits. This would increase returns to shareholders in the form of dividends and lead to a rise in the share price. Shareholders in Roadside Fuel plc are receiving goodwill of £5m <u>Against Merger</u> Shareholders will see a dilution of ownership and reduction in voting power as the new company is larger. Roadside Fuel plc does not appear to be in a healthy financial state e.g. negative figure on retained earnings. Diseconomies of scale which might result from an increase in the size of the company. The risk of incompatible computer systems between the two companies. <u>Other factors</u> We do not know the market price of the Pumping Gas plc or Roadside Fuel plc shares are at the time of the merger. Shareholders are receiving shares in the new company according to the book value of the merging companies. <u>Evaluation</u> Should conclude and relate to points made above	**(6)**

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(TOTAL MARKS FOR QUESTION 4 = 30 MARKS)

Question Number	Answer	Mark
5 (a)	**AO1 (1) AO2 (5)** **AO1: One mark for totalling interest and returns.** **AO2: Five marks for calculating the interest or return of each item and the weighted average cost of capital.**	**(6)**

Option B	**£**	**Interest Rate/ Expected return**	**Interest/ return**	
Debenture	150000	15%	22 500	
Bank Loan	100000	12%	12 000	**(1)** AO2 both
Preference Shares	20000	7%	1 400	
Ordinary Shares	50000	5%	2 500	**(1)** AO2 both
Total	320000		38 400	**(1) o/f** AO1
Weighted Average Cost of capital	=	38400 x 100 / 320000	**(1) o/f** AO2 **(1)** AO2	= 12% **(1) o/f** AO2

Question Number	Answer	Mark
5 (b)	**AO3 (2)** **AO3: One mark for correct choice and one mark for correct reason** Megamedia plc should select the bank loan (Option A **o/f**), **(1)** AO3 because it has a lower **(o/f)** WACC. **(1)** AO3	**(2)**

Question Number	Answer	Mark
5 (c)	**AO3 (4)** **AO3: One mark for point made and one mark for development.** **Maximum of two points** The shareholder may also expect to make a capital gain **(1)** AO3 as the share price increases over time. **(1)** AO3 The economy may be undergoing inflation **(1)** AO3, which raises the interest rate. **(1)** AO3 The company may not have enough retained earnings to pay the ordinary shareholders **(1)** AO3 after paying the bank loan interest. **(1)** AO3 The loan will be at an end and have no value when it is repaid **(1)** AO3 but the share will continue to have value. **(1)** AO3	**(4)**

Question Number	Answer	Mark
5 (d)	**AO1 (4) AO2 (7) AO3 (1)** **AO1: Two marks for calculating labour cost savings.** **Two marks for calculating maintenance and electricity costs in year 1** **AO2: One marks for calculating maintenance and electricity costs in years 3 and 4** **One mark for calculating maintenance and electricity costs in year 5** **Five marks for calculating discounted cash flow from years 0 to 5 and the total** **AO3: One mark for correct calculation of net difference column**	(12)

Workings	**Robots**	**Staff replaced per robot**	**Total staff replaced**			
Labour replaced	6	2	12	**(1)**AO1		
Labour cost savings	Staff	Pay per hour	Hours	Weeks	Total	
	12	8	40	50	192 000	**(1)**AO1
Other costs	Per year	Robots	Total			
Maintenance	800	6	4 800			
Electricity	2 750	6	16 500	**(1)**AO1 both		
			21 300	**(1) o/f**AO1		
		Years 3 and 4	23 430	**(1) o/f** AO2		
		Year 5	25 773	**(1) o/f** AO2		

Year	**Labour Cost savings**	**Extra costs**	**Net Difference**	**Discount Factor 11%**	**Discounted Net cash flow**	
0			(320 000)	1	(320 000.00)	**(1)**AO2
1	192 000	21 300	170 700	0.901	153 800.70	
2	192 000	21 300	170 700	0.812	138 608.40	**(1) o/f** AO2 both
3	192 000	23 430	168 570	0.731	123 224.67	**(1) o/f**
4	192 000	23 430	168 570	0.659	111 087.63	AO2 both
5	192 000	25 773	166 227	0.593	98 572.61	**(1) o/f** AO2

				(1) o/fAO3		305 294.01	**(1) o/f** AO2

Question Number	Answer	Mark
5 (e)	**AO4 (6)** For the project • The NPV of the project is positive, at £305 294 **(o/f)** at the end of year 5. This is a huge saving in labour costs, even allowing for the falling value of money over time. • Most of the figures involved are not estimates, but actual figures e.g. wages of staff to be replaced. • There may be extra costs involved with staff e.g. replacing workers off sick, pension contributions and these will be saved Against the project Twelve members of staff will have to be made redundant. Other points • The robots only have a life of five years then have to be replaced. • What figures will be given by other methods of project appraisal e.g. payback, average rate of return.	**(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.

(TOTAL MARKS FOR QUESTION 5 = 30 MARKS)

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>6 (a)</td><td>AO1 (2) AO2 (2)
AO1: Two marks for calculating number of shares in the original holding of each.
AO2: Two marks for calculating the number of shares issued to each

<table>
<tr><th></th><th>Holding</th><th>Total Shares</th><th>Shares</th><th>Terms</th><th>Total</th></tr>
<tr><td>Ali</td><td>26%</td><td>x 80 000</td><td>= 20 800</td><td>5</td><td>= 104 000</td></tr>
<tr><td></td><td></td><td></td><td>(1) AO1</td><td></td><td>(1) of AO2</td></tr>
<tr><td>Dev</td><td>8%</td><td>x 80 000</td><td>= 6 400</td><td>5</td><td>= 32 000</td></tr>
<tr><td></td><td></td><td></td><td>(1) AO1</td><td></td><td>(1) of AO2</td></tr>
</table></td><td>(4)</td></tr>
</table>

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>6 (b)</td><td>AO1 (1) AO2 (2) AO3 (1)
AO1: One mark for calculating number of shares in the original holding.
AO2: Two marks for calculating the number of shares issued and the new total held
AO3: One mark for calculating percentage of shares held by people outside the family.

<table>
<tr><th>Family Hold</th><th>Other Holding</th><th>Total Shares</th><th>Shares</th><th>Terms</th><th>Issued</th><th>Total</th></tr>
<tr><td>76%</td><td>24%</td><td>x 80 000</td><td>= 19 200</td><td>x 5</td><td>= 96 000</td><td>115 200</td></tr>
<tr><td></td><td>(1) AO3</td><td></td><td>(1) of AO1</td><td></td><td>(1) of AO2</td><td>(1) of AO2</td></tr>
</table></td><td>(4)</td></tr>
</table>

Question Number	Answer	Mark
6 (c)	**AO1 (2) AO3 (2)** **AO1: One mark each for stating a reason up to a maximum of two.** **AO3: One mark for each development of answer up to a maximum of two.** The bonus shares may be issued to make the statement of financial position look like that of a larger company. **(1)** AO1 This could be useful when trying to attract investors / raise finance. **(1)** AO3 The company may not be in a position to pay cash dividends **(1)** AO1 so shareholders may be kept happy by an issue of bonus (free) shares. **(1)** AO3	**(4)**

Question Number	Answer	Mark
6 (d)	**AO3 (4)** **AO3 - One mark each for : date and narrative, account to be debited, account to be credited, correct figure for value of shares**	**(4)**

Date	Details	Debit	Credit
April 2 2018	Retained earnings **(1)** AO3	400 000	**(1)** AO3 both
	Ordinary shares **(1)** AO3		400 000
	Being a bonus issue of £1 ordinary shares **(1)** AO3		

Question Number	Answer	Mark
6 (e)	**AO2 (4)** **AO2 One mark each for total shares, interim dividend, final dividend and total dividend.**	**(4)**

Original shares	80 000			
New Issue	400 000			
Total shares	480 000	**(1) of** AO2		
Interim dividend	480 000	x 0.006	= 2 880	**(1) of** AO2
Final dividend	480 000	x 0.018	= 8 640	**(1) of** AO2
Total dividend			11 520	**(1) of** AO2

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>6 (f)</td><td>AO2 (4)
AO2 One mark each for opening balance and transfer, profit after tax, dividends, and closing balance.

Retained Earnings Account at 31 March 2019

<table>
<tr><td>Opening balance</td><td>653 000</td><td rowspan="2">(1) of AO2 both</td></tr>
<tr><td>Bonus issue</td><td>(400 000)</td></tr>
<tr><td>Transfer</td><td>9 000</td><td>(1) AO2</td></tr>
<tr><td>Profit after tax</td><td>219 000</td><td>(1) of AO2 both</td></tr>
<tr><td>Dividends</td><td>(11 520)</td></tr>
<tr><td>Closing balance</td><td>469 480</td><td>(1) of AO2</td></tr>
</table></td><td>(4)</td></tr>
</table>

Question Number	Answer	Mark
6 (g)	<u>For redeemable preference shares</u> • The company has more flexibility, being able to buy back the shares when it wishes and is in a position to do so. Buying back the shares will mean less dividends paid out in the future. • The company may be in a position to pay less tax. • Irredeemable preference shares cannot be redeemed except on liquidation of the company. • Irredeemable preference shares might be more attractive to potential investors, who would eventually be able to get their cash back i.e. the new shares might be easier to place. <u>For irredeemable preference shares</u> • The equity section of the company appears bigger and stronger. This may have benefits when trying to attract investors or raise finance etc. <u>Other comments</u> Both types of share will: • Be included as fixed interest debt, so the gearing ratio will be the same. • Involve paying a fixed dividend (that is actually cumulative). <u>Decision</u> Redeemable preference shares appear to offer flexibility and the possibility of a future redemption when finances allow.	**(6)**

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(TOTAL MARKS FOR QUESTION 6 = 30 MARKS)
TOTAL MARKS FOR SECTION B = 90 MARKS
TOTAL MARKS FOR PAPER = 2000 MARKS

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