

Mark Scheme (Results)

October 2019

Pearson Edexcel International Advanced Level

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.

Q1a Mark Scheme

[AO1 16] [AO2 21] [AO3 6]

W1 Cost of Sales			
Direct Materials	3 090 000	(1) AO1	
Less Discount Received	(71 000)	(1) AO2	
Electricity	72 000	(1) AO2	
Equipment Depreciation	6 000	(1) AO3	
Factory Depreciation	42 000	(1) AO3	
Gas	8 000	(1) AO2	
Insurance	14 000	(1) AO2	
Chefs Wages	525 500	(1) AO1	
Opening Inventory	244 500	(1) AO1	
Less Closing Inventory	(281 500)	(1) AO2	
	3 649 500	(1 o/f) AO1	**11 marks**
W2 Distribution Costs			
Advertising	47 000	(1) AO2	
Fuel	140 000	(1) AO2	
Electricity	90 000	(1) AO2	
Gas	8 000	(1) AO2	
Insurance -shops	10 000	(1) AO2	
Insurance - vehicles	20 000	(1) AO2	
Depreciation on motor vans	78 750	(1) AO3	
Motor van maintenance	238 000	(1) AO1	
Shop Rents	654 000	(1) AO1	
Motor van driver wages	302 000	(1) AO1	
Shop staff wages	884 000	(1) AO1	
	2 471 750	(1 o/f) AO1	**12 marks**
W3Administrative Expenses			
Electricity	18 000	(1) AO2	
Gas	8 000	(1) AO2	
Insurance - office	2 000	(1) AO2	
Office expenses	138 000	(1) AO1	
Office staff wages	117 000	(1) AO1	
Stationery	9 000	(1) AO1	
	292 000	(1 o/f) AO1	**7 marks**
W4 Financial cost			
Interest on bank loan	21 000	(1) AO2	
Bank charges	11 000	(1) AO1	
Interest on debenture	120 000	(1) AO3	
	152 000	(1 o/f) AO1	**4 marks**

Accept bank charges as administrative expenses

Statement of Profit or Loss and Other Comprehensive Income for			
Cyprieat plc for y/e 30 September 2019			
Revenue	7 489 000	(1) AO2	
Cost of sales	(3 649 500)	(1 o/f) AO2	
Gross profit	3 839 500	(1 o/f) AO2	
Distribution costs	(2 471 750)	(1 o/f) AO2	
Administrative expenses	(292 000)	(1 o/f) AO2	
Financial cost	(152 000)	(1 o/f) AO2	
Profit on ordinary activities before tax	923 750	(1 o/f) AO3	
Corporation tax	(185 000)	(1) AO2	
Profit on ordinary activities after tax	738 750	(1 o/f) AO3	**9 marks**

b) [AO1 1] [AO2 1] [AO3 4] [AO4 6]

Case for ICT

Cyprieat plc saves time and therefore money, compared to preparing accounts by hand. The need to have ledgers and books is eliminated, and this saves space as well.

Many bookkeeping/accounting programmes complete the double entry after the first entry is made. This could reduce errors. They can also produce final financial statements automatically.

Cyprieat plc can use spreadsheets for quick calculations. Also displaying financial and management accounts in a pre-prepared formats. Flexed budgets could be speedily produced by changing key variables.

Packages provide an audit trail, so entries can be tracked. This allows auditors to audit the accounts at the year end.

Spreadsheets can also be used to generate graphical information. This may be useful for break-even analysis.

Cyprieat plc can use packages to complete invoices, purchase orders, requisition notes, delivery notes, etc. The presentation could be a clearer, standard format, which should be useful.

Case Against ICT

The financial cost of hardware, software, staff training, running costs, maintenance etc. may cost Cyprieat plc a great deal of money.

Hardware has a relatively short life, software often needs updating, new staff will need to be trained, and often outside experts are needed for maintenance issues.

If staff are not trained or are unskilled, they can make errors, which may lead to generation of incorrect information. These errors will take time and money to correct.

Security risks if management or Cyprieat plc wish to keep the information confidential. Outside hackers could access sensitive information if security controls are weak. Internal staff could gain access to information they are not meant to view if security controls are lapsed.

Computer crashes, freezes, power cuts, etc which may result in a loss of information and waste of staff time. Back-up copies should be kept in case these issues occur

Should conclude that ICT is very advantageous.

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	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.

(12 marks)

Total for Question 1 - 55 marks

Q2 Mark scheme				
(a)(i) [AO1 6] [AO2 6]				
Fixed Costs	£			
Rent	720000	both		
Power	58500	(1)AO1		
Managers Salaries	540000	both		
Other Fixed Costs	324000	(1)AO1		
	1642500	(1 o/f)AO1		
Variable costs	£			
Patent	1.45	both		
Labour	7.50	(1)AO1		
Materials	3.75			
Power	0.05	all three		
Delivery	0.35	(1)AO1		
	13.10	(1 o/f)AO1		
Contribution per unit =	Selling price -	Variable costs		
=	£35.00 (1)AO2	£13.10	(1 o/f)AO2	
=	£21.90	(1 o/f)AO2		
Break even point	Total Fixed Costs			
	Contribution per unit			
=	£1,642,500	(1 o/f)AO2		
	£21.90	(1 o/f)AO2		
=	75000 units	(1 o/f)AO2	12 marks	
(a)(ii)[AO2 2]				
Break even point in sales revenue =		(75 000 o/f x	£35.00)	(1)AO2
	=	£2 625 000	(1 o/f)AO2	
				2 marks
(b) (i) [AO1 3]				
Margin of safety in units =	180000 (1)AO1 -	75 000	(1 o/f)AO1	
=	105 000 units		(1 o/f)AO1	3 marks
(b) (ii) [AO2 3]				
Margin of safety as a				
percentage of sales =	105000 o/f x 100(1)AO2	58.33%	(1 o/f)AO2	
	180 000 (1) AO2			3 marks

(c) [AO1 2] [A02 2]				
Profit for the year				
Revenue	(£35.00 x 180 000)	6 300 000	(1)AO2	
Less				
Variable costs	(13.10 o/f x 180 000)	(2 358 000)	(1 o/f)AO2	
Fixed Costs		(1 642 500)	(1 o/f)AO1	
Profit for year		2 299 500	(1 o/f)AO1	4 marks

(d) [AO1 2] [AO3 2]
AO1: Two marks, one mark for each point made.
AO3: Two marks, one mark for each point developed.

Advantages of break-even analysis.
Answers could include.

The analysis could be used for decision-making (1). For example, if a project does not appear to break-even, the business should not proceed with the project. (1)

Break-even analysis is suitable for computer modelling (1). By changing variables on a spreadsheet, the business could see the effect on break-even point and levels of profit (1)/ or graphical representations can be produced easily, which are easier to interpret than columns of figures (1).

4 marks

(e) [AO1 2] [AO3 2]
AO1: Two marks, one mark for each point made.
AO3: Two marks, one mark for each point developed.

Disadvantages of break-even analysis.
Answers could include.
The analysis assumes that total fixed costs remain the same for all output levels (1). This is unrealistic, as there are likely to be stepped fixed costs, meaning total fixed costs will rise as output rises (1).

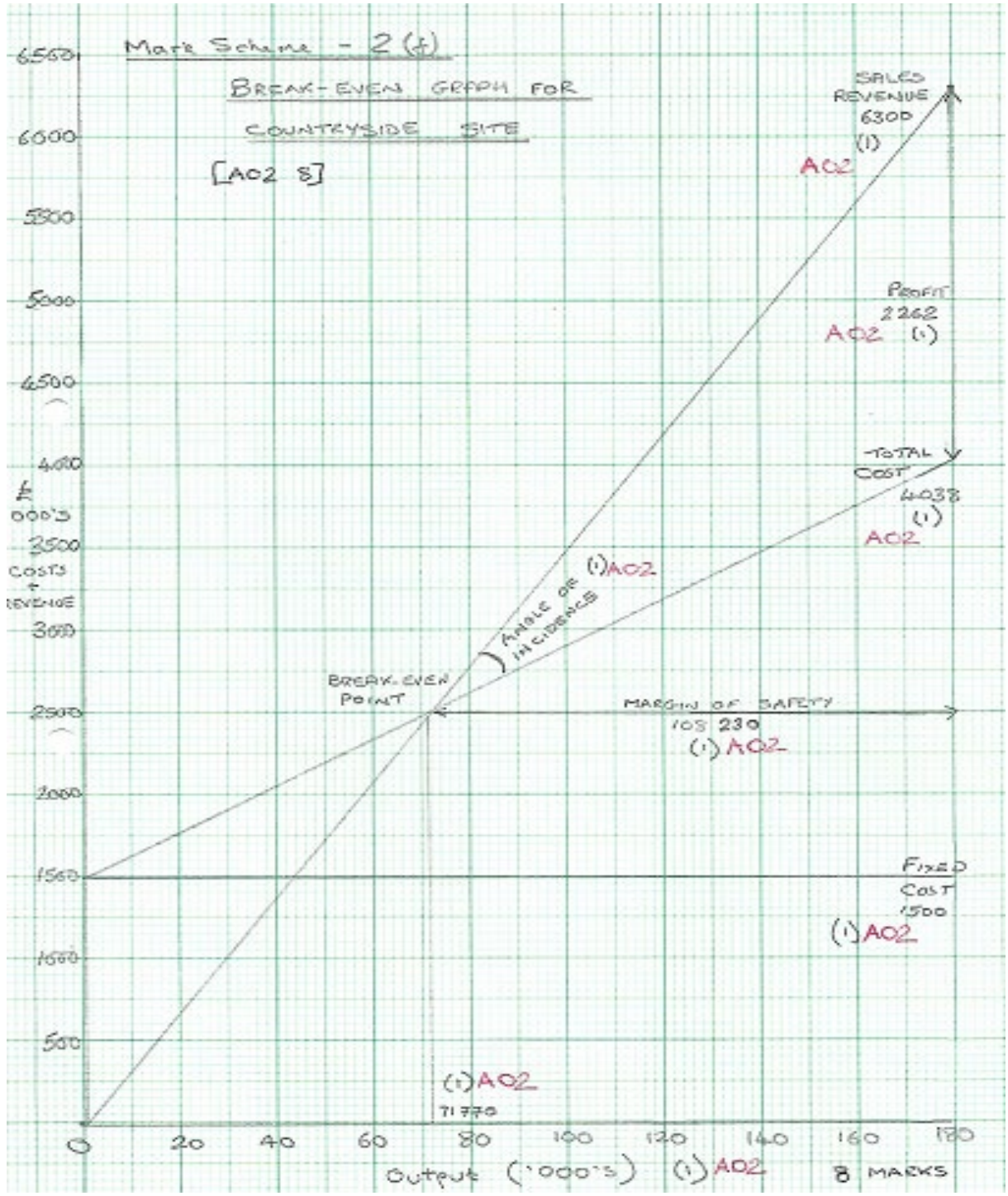
Break-even analysis assumes that the variable costs per unit remain the same for all levels of output (1). This is not likely to happen because, for example, discounts will be received as the purchase of raw materials increases (1).

It is assumed that sales revenue is a straight line, as the selling price per item does not change (1). This may be unrealistic, as discounts may be allowed for sales in bulk (1).

The analysis assumes all output is sold, which may not always happen (1). This would affect the sales revenue figure/line on the graph and the level of profit achieved (1).

4 marks

(f)



8 marks

(g) [AO1 1] [AO3 2]

AO1: One mark, for basic point made.

AO3: Two marks, one mark for each point developed.

The angle of incidence illustrates the relationship between total costs and sales revenue. (1)

The greater the angle, the greater the difference per unit between total costs and sales revenue. (1)

A business would like the angle of incidence to be large, as the contribution and profit per unit sold will be large. (1)

3 marks

(h) [AO1 1] [AO2 1] [AO3 4] [AO4 6]

Own figure applies

For the town centre site option 1

The profit at the town centre site is £2 299 500 which is higher than the profit of £2 262 000 at the countryside site. The difference is £37 500 for sales of 180 000 radios.

It appears that delivery costs are lower for the town centre site, and also labour and material costs, perhaps because the location is more central. The town centre variable costs £13.10 and the countryside costs £14.10 per unit.

It is likely to be easier to attract labour to work in the town centre site, as the location is nearer and more accessible.

The town centre site may mean the countryside is protected and free from workers travelling to work by car or bus and the resulting pollution. The countryside may remain unspoilt.

For the countryside site option 2

The break-even point at 71 770 units is lower than the break-even point of 75 000 units in the town centre site. The difference is 3 230 units.

Fixed costs (rent, managers salaries, and other fixed costs) are lower at the countryside site, perhaps due to the forces of supply and demand.

The countryside site will take vehicles and commuters out of the town centre which may be congested at the moment.

Other points

The figures given are only estimates in some cases. It is not possible to exactly predict the sales figures for the radios. Perhaps all 180 000 radios produced will not be sold, so profits at each site will differ from those given above.

Conclusion

Although the countryside site has a lower break-even point, the town centre site has a higher predicted profit. This means the town centre site should be chosen.

However, if there are doubts concerning the level of sales that can be achieved, it may be better to choose the countryside site.

12 marks

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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 non-financial information and makes an informed decision.

Q3 Mark Scheme

[AO1 1] [AO2 12] [AO3 1]

(a) Statement of Profit or Loss					
Calculation of sales					
Opening		Closing			
inventory	Production	Inventory	Sales units	Price	Revenue
5 000	96 000	6 000	95 000	29	2 755 000
			(1)AO2		
Sales			2 755 000	(1o/f)AO2	
Less variable cost					
Opening inventory	82 000	(1)AO1			
Direct Materials	336 000	(1)AO2			
Direct Labour	1 036 800	(1)AO2			
Semi-variable costs	240 000	(1)AO2			
Variable cost of manufacture		1 694 800			
Less closing inventory		(100 800)	(1o/f))AO2		
Variable cost of sales			1 594 000	(1o/f) AO2	
Contribution			1 161 000	(1o/f) AO2	
Less Fixed costs					
Fixed Overheads	84 000	(1)AO2			
Semi-Variable overheads	1 44 000	(1)AO2			
Head Office overheads	33 750	(1)AO2			
			261 750		
Profit			899 250	(1o/f) AO2	
Calculation of closing inventory					
Marginal	(3.50+10.80+2.50)	x 6 000 =	100 800	(o/f)	
	(1)AO3				**14 marks**

(b) **[AO1 4]**

Answers may include. Maximum of 2 marks per point made.

AO1 Four marks: One mark for point made and one further mark for development.

Accepting the offer may lead to the closure of the factory and redundancies of the staff. (1 AO1)
Will they be able to find alternative employment? OR Depressing effect on local community. (1 AO1)

Consider transport miles of the units coming from abroad. (1 AO1) Will this be environmentally friendly? OR will this result in pollution etc. (1 AO1)

If the foreign company can undercut Merillion, what are pay and conditions like in the foreign factory. (1 AO1) Are wages low and conditions poor? (1 AO1)

(c) **[AO4 6]**

own figure rule applies

For accepting offer

£15 is below the present variable cost of £16.80 o/f. Thus would result in a greater contribution and profit.

If the factory closed, there would be a great saving in overheads, of £228 000.

Buying at £15 per unit would make Merillion more competitive. This would be beneficial if the market is competitive and margins are slim.

For rejecting offer

Head Office costs of £33 750 may have to be transferred to the Berton factory. This would reduce the profit of this factory.

Conclusion

Marginal costing should be used for a make or buy decision. Marginal costing would suggest buy.

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

(d) [AO3 6]

	£	£	
Revenue		2 154 000	
Cost of sales:			
Variable production cost	1 085 000	(1)AO3	
Less closing inventory	(86 800)	(1)AO3	
Variable cost of sales		998 200	
Contribution		1 155 800	(1o/f)AO3
Less Fixed production cost		764 000	(1)AO3
Profit		391 800	(1o/f)AO3

Working: Closing inventory = (1 085 000 x 8%) (1)AO3 = 86 800

6 marks

Total for Question 3 - 30 marks

Question 4 Mark Scheme

(a)			
(i)[AO1 1] [AO2 3] [AO3 3]			
Cash Flows from Investing Activities			
Payments to acquire tangible non-current assets	(328 000)	(1) AO2	
Proceeds from sale of tangible non-current assets	4 017 000	(1)AO3	
Sale of intangible non-current assets	100 000	(1) AO3	
Payments to acquire shares in other companies	(241 000)	(1) AO2	
Dividends received from shares in other companies	18 000	(1) AO2	
Proceeds from sale of shares in other companies	227 000	(1) AO3	
Net Cash from Investing Activities	**3 793 000**	(1o/f) AO1	7
(ii) [AO1 1] [AO2 9]			
Cash Flows from Financing Activities			
Issue of Ordinary shares	1 100 000	(1) AO2	
Redemption of Preference shares	(500 000)	(1) AO2	
Reduction in bank loan	(1 200 000)	(1) AO2	
Repayment of debenture	(5 000 000)	(1) AO2	
Repayment of mortgage	(200 000)	(1) AO2	
Dividends Paid : Final 2018 Ordinary	(162 000)	(1) AO2	
Ordinary Interim (9200000 x 1%)	(92 000)	(1) AO2	
Final 2018 Preference	(100 000)	(1) AO2	
Interim Preference (2000000 x 3.5%)	(70 000)	(1) AO2	
Net Cash used in Financing Activities	**(6 224 000)**	(1o/f) AO1	10
(iii) [AO1 3]			
Net decrease in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year	391 000	(1) AO1	
Cash and cash equivalents at the end of the year	(51 000)	(1) AO1	
Net decrease in cash and cash equivalents	**(442 000)**	(1o/f) AO1	3
(b) [AO3 4]			
Net decrease in cash and cash equivalents	(442 000)	(1o/f) AO3	
Add Net Cash used in Financing Activities	6 224 000	(1o/f) AO3	

Less Net Cash from Investing Activities	(3 793 000)	(1o/f) AO3	
Cash Flow from Operating Activities	1 989 000	(1o/f) AO3	**4**

(c) [AO4 6]

Case for liquidity handled well

Cash flow from investing activities is positive, mainly due to the sale of property. Was this property excess to requirements?

Cash flow from operating activities was positive at nearly £2 million (o/f).

The repayment of the debenture, and the reduction/paying off part of the bank loan will reduce the future interest payments.

The redemption of some preference shares will reduce future dividends to be paid.

The issue of over £1 million of ordinary shares helped cash inflows.

The current ratio is fairly healthy, being 1.56:1 in 2018 and 1.51 in 2019.

Case for liquidity handled poorly

The repayment of the debenture, and the reduction/paying off part of the bank loan has drained cash reserves, and there was an outflow of cash in financing activities of over £6 million.

Overall, the cash and cash equivalents fell by £442 000 (o/f) over the year. The bank balance became an overdraft.

The acid ratio is poor, being 0.17 in 2018 and 0.13 in 2019.

Conclusion

The short term (ie 2019) effect on liquidity was negative, as the cash balance fell, and the bank balance became an overdraft.

The long term effect on liquidity may be positive as loans etc have been repaid.

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

6 marks

Total for question 4 = 30 marks

Question 5 Mark scheme

Mark Scheme Question 5									
(a) For each section of (a)									
AO1: One mark for correct answer									
AO2: One mark for correct working calculation									
[AO1 1] [AO2 1]									
(i) Quantity of raw materials	4224 sq m	=	2.2	(1)AO2	x 1 880	=	4136 sq m	(1)AO1	
	1920							**2 marks**	
[AO1 1] [AO2 1]									
(ii) Total cost of raw materials	£194 304	=	£101.2	(1)AO2	x 1 880	=	£190 256	(1)AO1	
	1920							**2 marks**	
[AO1 1] [AO2 1]									
(iii) Number of direct labour hours	3360 hrs	=	1.75	(1)AO2	x 1 880	=	3290 hours	(1)AO1	
	1920							**2 marks**	
[AO1 1] [AO2 1]									
(iv) Total cost of direct labour	£28 560	=	£14.875	(1)AO2	x 1 880	=	£27 965	(1)AO1	
	1920							**2 marks**	
(b)									
[AO2 2] [AO3 2]									
AO2 : One mark for correct insertion of standard and actual usage, and one mark for correct answer									
AO3: Two marks for correct insertion to calculate standard price									
(i) Material usage variance									
= (Standard usage - Actual usage) x Standard price									
=	(4136 o/f -	3984)	(1)AO2	x 194304	(1)AO3	=	6992	Favourable	
				4224	(1)AO3			(1o/f)AO2	
								4 marks	

[AO2 2] [AO3 2]									
AO2 : Two marks for correct insertions to find actual price, one mark for actual usage, and one mark for correct answer									
AO3: Two marks for correct insertions to calculate standard price									
[AO2 4] [AO3 2]									
(ii) Material Price variance									
= (Standard price - Actual price) x Actual usage									
	(194304 -	(1)AO3	171312)	(1)AO2	x 3984	=	11952	Favourable	
	(4224	(1)AO3	3984)	(1)AO2	(1)AO2			(1)AO2	
								6 marks	

Question 5 Mark Scheme

(c) (c)[AO1 1] [AO2 4] [AO3 1]
AO1: One mark for correct insertion of labour variances
AO2: Three marks for materials, overheads, and total variances. One mark for reconciliation.
AO3: One mark for correct standard cost of 1880 units.

Actual cost of 1880 units			253956		(1)AO3
Variances	Favourable	Adverse			
Direct materials usage	6992o/f				both
Direct materials price	11952o/f				(1)AO2
Direct labour rate	1739				both
Direct labour efficiency		1598			(1)AO1
Overheads		2060			(1)AO2
Total variance	20683o/f	3658o/f	17025o/f	Fav	(1)AO2
Budgeted cost of 1880 units			270981o/f		(1)AO2

6 marks

(d) [AO4 6]

Case for good performance
Direct material usage variance is favourable. Perhaps wastage has been less than expected.
Direct material price variance is favourable. Material has been bought at a lower price than expected. However, this may be due to a good performance by the purchasing department, not the production department.

Direct labour rate variance is favourable. Workers have been paid at a lower rate than expected. However, this may be due to a good performance by the Human Resources department.

The actual labour rate paid was £8 per hour but the budgeted rate was £8.50 per hour.

Case for poor performance

Direct labour efficiency variance is adverse. Labour has not been working as efficiently as expected. We do not know the reason for this. Perhaps there have been machine breakdowns etc. This would explain the failure to meet expected output levels.

Output has not met the expected level. What is the reason for this?

Other points

The overheads have an adverse variance. What could be the reason for this? Is this the fault of the production department?

Conclusion

It may be argued that the production department has performed well. The budgeted average total cost per unit was £143.55, but the actual average cost of producing each unit was £135.08. However, the production target of 1 920 units was not met.

Own figure rule applies throughout answer.

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6 marks

Total 30 marks

Question 6 Mark scheme

(a) [AO1 5] [AO2 12] [AO3 7]

(i) **[AO1 2] [AO2 1]**

[AO1]: Two marks for correct insertion of total ordinary dividend and issued ordinary shares

[AO2] : One mark for correct for correct calculation of dividend paid per ordinary share.

Dividend paid per share = Total ordinary dividend / Issued ordinary shares

= £600 000 (1) AO1 / 50 000 000 (1) AO1 = 1.2p per share (1) AO2 (3)

(ii) [AO1 2] [AO2 1]

[AO1] : Two marks for correct insertion of market price of share and dividend per share.

[AO2] :One mark for correct calculation of dividend yield.

Dividend yield = Dividend per share / Market price of share x100

= 1.2 p o/f (1) AO1 / £1.19p (1) AO1 x 100 = 1.01% o/f (1)AO2 (3)

(iii) **[AO1 1] [AO2 1] [AO3 2]**

[AO1] : One mark for correct insertion of total ordinary dividend.

[AO2] : One mark for correct calculation of dividend cover.

[AO3] : Two marks for correct for correct insertion of net profit after tax and preference dividends.

Dividend cover = Net profit after tax – preference dividend / Total ordinary dividend

= (£2 184 000 – £415 000) (1) AO3 - £300 000 (1) AO3 / £600 000 (1) AO1 = 2.45 times (1) AO2 (4)

(iv) [AO2 3]

[AO2] : Three marks for correct insertion of net profit after tax, number of ordinary shares issued, and correct calculation of earnings per ordinary share.

Earnings per ordinary share = Net profit after tax – preference dividend / Issued ordinary shares

= £1 469 000 (1 o/f) AO2 / 50 000 000 (1) AO2 = 2.94 pence per share (1 o/f) AO2 (3)

(v) [AO2 3]

[AO2 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

= £1.19 (1) AO2 / 2.94p (1 o/f)AO2 = 40.5 times (1 o/f) AO2 (3)

(vi) [AO2 3] [AO3 5]

[AO2] : Three marks for correct insertion share capital, reserves, and correct calculation of return on capital employed.
[AO3] : Five marks correct insertion of net profit after interest, correct calculation of interest to add back for bank loan and debenture, and correct insertion of profit and loss reserves, bank loan and debenture.

Return on Capital employed = Net profit before interest and tax / Capital employed x 100

= (£2 184 000 (1)AO3 + £400 000(1)AO3 + £1 050 000 (1)AO3) / (£50 000 000 (1) AO2+ £10 000 000 (1)AO2 + £7 850 000 (1)AO3 £8 000 000 + £15 000 000(1) AO3 both) x 100

= £3 634 000 / £90 850 000 x 100 = 4.00% (1 o/f) AO2 (8)

(b) [AO4 6]

Dividend yield is a reflection of the success of the company

Dividend yield is a reflection when judging the success of the company because dividends paid will be higher when profits are healthy. The company could increase the ratio by increasing the dividends.

Dividend yield is not a reflection of the success of the company

The board of the company could make a decision to increase the dividends paid out to shareholders. This would make shareholders happy. However, this does not necessarily indicate a successful company but may just be an indication of the dividends policy of the directors. Dividends yield may be high because the directors are paying out all of the profits as dividends.

Dividend yield may be high because the share price is low. The low share price may be due to external factors e.g. government regulations or internal factors e.g. company weaknesses.

Return on capital employed is a better reflection of the performance of the company.

Conclusion

Dividend yield probably is a reflection of the success of the company.

(Candidates may conclude dividend yield is/is not a reflection of the success of the company but must be supported by an appropriate rationale)

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

6 marks

Total for Question 6 - 30 marks