GradeMax



Mark Scheme (Results)

Summer 2021

Pearson Edexcel International Advanced Level In Accounting (WAC12/01) Paper 02 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.

Summary of changes from Provisional Mark Scheme

A few minor changes were made to the Mark Scheme before marking on the marking service began. These have been highlighted in red in the Mark Scheme. The changes have been highlighted in the table:

Question Number	Summary of change
1(a)(i)	<u>Distribution costs</u> Swop the word "both" (goes down 1 row) with (1) AO1 (goes up 1 row) to now read: Motor lorries running expenses (1)AO1 Rent on warehouse both
2(a)(ii)	Should say (1) not (5) marks available
2(e)	Needs a conclusion. The following is added <u>Conclusion</u> Galana Saw Mill has performed well/poorly in Week 43
4(d)	Typo - 4th bullet . Should read "predicted" not "predictably"
5(a)	On the last row, the first two AO2 s are now (1o/f) ie own figure
6(a)(iii)	Top row – the two marks are now (1o/f)
6(b)	Top row – the mark is now (1o/f) Second row – the two marks are now (1o/f)

Q1(a)(i) Mark Scheme			**W1 Cost of Sales**	£		
[9 AO1] [15 AO2] [3 AO3]			Factory wages	1781000	(1)AO2	C
Statement of Profit or Loss and other comprehensive			Direct Materials	1670000	(1)AO1	
income for Sofa So Good plc			Less Discount Received	(28000)	both	
for y/e 31st March 2021	£		Factory buildings Depreciation	118000	(1)AO3	C
Revenue	6840000	AO2	Production Machinery Depreciation	53200	(1)AO2	C
		(1o/f)	Opening Inventory	451000	(1)AO1	
Cost of sales**(W1)**	(3547200)	both	Less Closing Inventory	(498000)	(1)AO1	**6**
				3547200		
Gross profit C	3292800	(1o/f)	**W2 Distribution Costs**			
		AO2	Marketing	181000	(1)AO2	C
Other Income	400		Discount Allowed	61000	(1)AO1	
		any 2	Motor lorries running expenses	27500	(1)AO1	
Distribution costs**(W2)**	(1455840)	(1o/f)	Rent on warehouse	148000	both	
		AO2	Depreciation on motor lorries	35000	(1)AO3	C
Administrative expenses**(W3)**	(500700)		Delivery costs	119000	(1)AO1	
		any 2	Commission on sales	62340	both	
Financial cost**(W4)**	(42500)	(1o/f)	Warehouse wages	274000	(1)AO2	C
		AO2	Transport staff wages	137000	(1)AO2	C
Profit on ordinary activities before tax	1294160	(1o/f)	Sales staff wages	411000	(1)AO2	**8** C
C		AO2		**1455840**		
Corporation taxC	(188000)	(1)AO2	**W3Administrative Expenses**			
			Auditors fees	14900	(1)AO2	C
Profit on ordinary activities after tax	1106160	(1o/f)	Irrecoverable Debts Written Off	18000	(1)AO1	
C		AO2	Increase in irrecoverable Debtsprvsn	10800	(1)AO3	C
		7	Head office expenses	320000	(1)AO1	
			Head office wages	137000	(1)AO2	**5** C
				500700		
			W4 Financial cost			
Total 27 marks			Debenture interest	**42500**	(1)AO2	**1** C

(a)(ii)[7 AO1] [6 AO2] [3AO3]

Statement of Financial Position of So Far So Good plc at 31/03/2021				
ASSETS	£	£	£	
Non-current assets				
Property, Plant & Equipment				
Factory buildings	2832000	(1o/f)AO2		
Production Machinery	212800	(1o/f)AO2		
Motor lorries	72000	(1o/f)AO2		
		3116800		
Goodwill		40000	(1)AO1	
Total Non-current Assets			**3156800**	
Current Assets				
Inventories		498000	(1)AO1	
Trade and Other Receivables				
Trade receivables	595000	(1)AO3		
Less Irrecoverable debt allowance	(23800)	both		
	571200			
Other Receivables	22000	(1)AO1		
		593200		
Cash and Cash Equivalents				
Bank	65000	(1)AO1		
Cash	27 000	both		
		92 000		
Total Current Assets			**1183200**	
Total Assets			**4340000**	
EQUITY AND LIABILITIES				
Equity				
Ordinary shares of £1.00 each	2100000			
Share premium	420000	(1)AO1		
General Reserve	25000	all three		
Retained Earnings	945 450	(1o/f)AO3		
Total Equity			**3490450**	
Current Liabilities				
Trade and other Payables				
Trade Payables	126000	(1)AO1		
Other payables	11700	both		
Debenture interest owed	21250	(1)AO2		
Auditors fee owed	2 600	(1)AO1		
		161550		
Debenture (2021)	500000	(1)AO3		
Corporation Tax Payable	188 000	(1)AO2		
		688 000		
Total Current Liabilities			**849550**	
Total Equity and Liabilities			**4340000**	(1o/f)AO2 **(16)**

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

An auditor is an independent person or business, appointed and authorized to examine accounts and accounting records, and state the result of their audit. Auditors are expected to pass comment on the corporate governance of a company.

Corporate governance is the framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in a company's relationship with all its stakeholders (financiers, customers, management, employees, government, and the community).

The auditor will report on the corporate governance of a company by feedback to the Board of Directors and in the Audit Report.

Case for the role of the auditor in corporate governance.

The auditor is an external person or business and should view all accounts, practices, procedures and company ethics from an independent viewpoint. This may allow the board to have feedback from a different, external viewpoint rather than from their own, internal position.

There is a UK Corporate Governance Code and auditors should examine if the company is complying with the Code. Companies must “comply or explain”. They may be able to justify an alternative approach in writing. The Code has 5 areas and each area may require a comment by the auditors when auditing Sofa So Good plc.

Section A: Leadership – the company should be led by an effective board, who are responsible for success of company. There should be a clear division of responsibilities, with non-executive directors who should challenge. The Chairman is responsible for the Board. No individual should be able to make all the decisions.The auditor should advise Sofa So Good plc that the Chair is not also the CEO.

Section B: Effectiveness – the board should have an appropriate balance of skills, experience, independence, and knowledge to carry out duties effectively. Appointments to the board should be formal, rigorous and transparent. There should be induction for new board members,

self-evaluation, and re-election. The auditor should advise Sofa So Good plc that the Code states that “board members should be re-elected at regular intervals” and also be rotated.

Section C : Accountability

The board should present a balanced and understandable assessment of the company’s position and prospects. The board is responsible for risk and internal controls, and should have sound risk management. For Sofa So Good plc, this risk management should apply when taking over another company. If the board were interested in taking over another company, thorough checks need to be carried out on the other company, to verify financial statements etc. It would be the funds of the shareholders that would be put at risk if these checks were not made.

Section D: Remuneration

Levels of remuneration should attract, retain and motivate directors of the required quality. However, a company should avoid paying more than is necessary. Director's remuneration should be partly linked to individual and corporate performance. No director should be involved in deciding their own remuneration which is not the case for Sofa So Good plc.

Section E: Relations with shareholders

The board is responsible for ensuring a satisfactory dialogue with shareholders takes place, based on mutual understanding of objectives. Investors should be encouraged to participate at the Annual General Meeting. Appropriate notice needs to be given to shareholders of Sofa So Good plc which will allow them to attend the AGM if they wish.

Case Against the role of the auditor in corporate governance.

Boards, including Sofa So Good plc, should maintain an appropriate relationship with the company's auditor. This may be difficult to put into practice. The auditor may be reluctant to criticise the company's corporate governance because the company is a lucrative source of income. The auditor may also be carrying out other, consultancy work with the company which is charged at a high rate. The auditors will be reluctant to lose fees for audit and management consultancy. This may result in poor corporate governance continuing into the future.

Suggestions have been made that different auditors should be used for audit work (including corporate governance) and management consultancy.
Other suggestions made have included the establishment of a separate, possibly government funded body that oversees the corporate governance of companies.

Conclusion

The role of the auditor in corporate governance is/is not appropriate nor beneficial.

12 marks

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 for Question 1 = 55 marks

Q2

(a)(i) **AO1 (4)**

AO1: Four marks for correct calculation of hours worked from time cards. and adding total.

Adamu 40 hours (1) AO1 Barasa 42 hours (1) AO1 Chitundu 43.5 hours (1) AO1

Darweshi 46 hours (1) AO1 **(4)**

(a)(ii) AO1 (1)

AO1: One mark for correct calculation total hours worked.

Total hours worked = 171.5 (1o/f) AO1 **(1)** **(1)**

(b) (i)AO2 (2)

AO2: Two marks for using correct procedure to calculate Budget labour cost.

Budgeted labour cost = (4 x 40 x £9.60) (1) AO2 = £1 536 (1) AO2 **(2)**

(ii) **AO2 (3)**

AO2: Three marks for correct calculation of Actual labour cost

Actual labour cost = (160 x £9.60) (1) AO2 + (11.5 o/f x £14.40) (1o/f) AO2

= £1 536 + £165.60 = £1 701.60 (1o/f) AO2 **(3)**

(iii) **AO2 (3)**

AO2: Three marks for correct calculation of labour efficiency variance

Labour efficiency variance = (Actual hours – Budgeted hours) x Budgeted rate

= (171.5 –160) (1o/f) AO2 x 9.60 (1) AO2 = £110.40 Adv (1o/f) AO2 **(3)**

(iv) **AO2 (5)**

AO2: Five marks for correct calculation of labour Rate variance

Labour rate variance = (Actual rate - Budgeted rate) x Actual hours

= (1701.60 (1o/f) AO2 - £9.60 (1)AO2) x 171.5 (1o/f) AO2
(171.5 (1o/f) AO2

= £55.20 Adv (1o/f) AO2 **(5)**

(v) **AO2 (3)**

AO2: Three marks for correct calculation of Total labour variance

= Actual total labour cost - Budgeted labour cost

= (£1 701.60 (1o/f) AO1 - £1 536 (1o/f) AO1= £165.6 Adv (1o/f) AO1 **(3)**

OR = Labour efficiency variance + Labour rate variance

£110.40 Adv (1o/f) AO1 + £55.20 Adv (1o/f) AO1= £165.60 Adv (1o/f) AO1 **(3)**

(c) (i) **AO1 (2)**

AO2: Two marks for correct calculation of number of trees required.

Number of trees required to meet production = $\frac{480}{12}$(1)AO1 = 40 trees(1)AO1 **(2)**

(ii) **AO1 (1)**

AO1: One mark for correct calculation of budgeted material cost of production

Budgeted material cost of production = (40 o/f x £19.50) = £780 (1o/f)AO1 **(1)**

(iii) **AO2 (2)**

AO2: Two marks for correct calculation of Actual cost per tree

Actual cost per tree = $\frac{£779}{41}$(1) AO2 = £19.00 per tree (1) AO2 **(2)**

(iv)**AO2 (3)**

AO2: Three marks for correct calculation of material usage variance

Material usage variance = (Budget quantity - Actual quantity) x Budgeted price

= (40 - 41) (1o/f) AO2 x £19.50 (1) AO2 = £19.50 Adverse (1o/f) AO2 **(3)**

(v) **AO2 (3)**

AO2: Three marks for correct calculation of material price variance

Material price variance = (Budget price - Actual price) x Actual quantity

= (£19.50 - £19.00) (1o/f) AO2 x 41 (1) AO2 = £20.50 Favourable (1o/f) AO2 **(3)**

(vi)**AO1 (3)**

AO1: Three marks for correct calculation of Total material variance

= Actual total material cost - Budgeted material cost

= (£779.00 (1) AO1 - £780 (1o/f) AO1 = £1.00 Fav (1o/f) AO1 **(3)**

OR = Material usage variance + Material price variance

£19.50 Adv (1o/f) AO1 + £20.50 Fav (1o/f) AO1= £1.00 Fav (1o/f) AO1 **(3)**

(d)

(i) **[4 AO3]**

AO3: Four marks for correct explanation of overhead variances.
Award a maximum of 2 marks per overhead. Answers may include the following:
Fixed overheads do not change with output, but they do change over time. **(1)**AO3

Fixed overheads are often outside the control of the company / production manager.**(1)** AO3

Variable overheads will rise when output increases but output was exactly as budgeted.**(1)**AO3

Variable overheads are generally costs that can be controlled by the company/production managers.
(1)AO3 **(4)**

(ii) **Award 1 AO1 mark for example and one AO3 mark for development.**

Maximum of two examples. Answers may include.

Rent **(1)**AO1 may decrease when the lease is renewed if there is a decrease in demand for properties in the area **(1)**AO3

Managers salaries **(1)**AO1 may decrease if there are fewer managers this year / some managers have been made redundant / left the company.**(1)**AO3

Depreciation **(1)** AO1 may decrease if there are less non-current assets after some have been sold. **(1)AO3**

(4)

(e) **[1 AO1] [1 AO2] [4 AO3] [6 AO4]**
Answers may include

OWN FIGURE RULE APPLIES

Good performance

Material price variance is favourable by £20. This may show that the purchasing department of Galana Saw Mill Limited may be doing a good job and negotiating a good deal with the tree supplier. However, it could just be market forces that have reduced the price.

The fixed overhead variance was favourable. However, not enough information is given as to why this is the case.

Planned output of 480 timber lengths for the week was achieved.

Poor performance

Output was only achieved with 11.5 hours of overtime which is paid at a higher rate.

Labour efficiency variance is adverse by £110. Labour rate variance is adverse by £55.

Adamu manages to reach his target within the 40 hours. Why is it that the other three workers cannot meet their target? Are they inefficient? Or maybe they are working slowly in order to receive the overtime payment at the higher rate? Is Adamu a more skilled worker? Have the other three workers received sufficient training?

It may be that a better method of payment in the future is to switch to piece rate ie pay the worker for each timber length produced. This may make workers more efficient and work quicker, reducing the need for overtime. However, it may also result in workers rushing and the quality of finished product may suffer.

Material usage was adverse at £19.50. An extra tree had to be purchased. Each worker should use 10 trees per week. Has one worker used 11 trees or has more than one worker had to use the "extra" tree? Were all the trees of the required quality?

Other points

Variable overheads had no variance. This may suggest that budget setting was accurate. The total material variance was only £1 favourable which supports this.

Conclusion

Galana Saw Mill has performed poorly/well in Week 43.

12 marks

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	0	A completely incorrect response.
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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 for Question 2 = 55 marks

Q3

(a) **[2 AO2]**

AO2 – Two marks for calculation of profit or loss after interest.

(£68 000 000 - £7 000 000) (1)AO2 = £61 000 000 (1)AO2 **(2)**

(b)(i) **[1 AO1] [1 AO3]**

AO1 – One mark for each point made and AO3 one mark for each point developed.

Answers may include

Advantage

Lower costs of storing inventory (1)AO1 eg rent, insurance, security (1)AO3 **(2)**

Accept other relevant answers

(ii)**[1 AO1] [1 AO3]**

AO1 – One mark for each point made and AO3 one mark for each point developed.

Answers may include

Disadvantage

Less/narrower range of inventory (1)AO1 which means unexpected orders or large orders cannot be met. (1)AO3 **(2)**

Accept other relevant answers

(c) **[1 AO2]**

AO1 – One mark for calculation of amount owing at the start of the year.

(£36 400 000 - £20 000 000) = £16 400 000 (1)AO2 **(1)**

(d) **[1 AO1] [1 AO3]**

AO1 – One mark for point made and AO3 one mark for point developed.

Answers may include

An advantage of a decrease in trade payables is that the credit rating of the company may improve if they pay suppliers promptly. (1)AO1This will allow them to obtain credit more easily in the future. (1)AO3

Accept other relevant answers

(2)

(e) **[2 AO2]**

AO2 – Two marks for calculation of amount of loan.

Size of loan = £6 000 000 x 100(1)AO2 = £50 000 000 (1)**AO2** **(2)**

(f) **[1 AO2] [2 AO3]**

AO3 – Two marks for correct use of proceeds from sale and profit on sale.

AO2 – One mark for calculation of book value when sold.

Proceeds from sale of non-current asset = £33 000 000 (1)AO3

Less Profit on sale of non-current asset = (£11 000 000) (1)AO3

Book value of non-current asset when sold £22 000 000 (1)AO2 **(3)**

(g) **[2 AO1]**

AO1 – One mark for each point made

Answers may include

Share price may rise in the future and profit may be made. (1)AO1

Company may wish to take control or have a larger say in another company (1)AO1 **(2)**

Accept other relevant answers

(h) **[2 AO3]**

AO3 – One mark for each point made

Answers may include

Raise capital (1)AO3

Reduce gearing ratio (1)AO3 **(2)**

Accept other relevant answers

(i) **[2 AO2]**

AO2 – Two marks for calculation of bank balance at start of year.

(£6 000 000 - £7 050 000) (1)AO2 = £1 050 000 overdraft (1)AO2 **(2)**

(j) **[4 AO2]**

AO2 – Four marks for calculation of cash balance at end of year.

Year end bank balance = (£1 050 000 O/D + £7 900 000) (1o/f)AO2

= £6 850 000 (1o/f)AO2

Cash balance = (£15 000 000 - £6 850 000)(1o/f)AO2 = £8 150 000 (1o/f)AO2 **(4)**

(k) **[1 AO2] [2 AO3] [3 AO4]**

Answers may include

For the payment

- Shareholders are kept happy and kept onside with the company. This may be important as the share issue may have diluted the existing shareholders ownership.
- The dividend cover is over 2 times so the company can afford to pay the dividends.
- Preference dividends must be paid.

Against thepayment

- £23 million of cash will leave the company. This cash could be put to better use within the company. Eg fund expansion.

Other points

- It is not known how many shares the company has issued so it is not possible to know the dividend per share.
- The market price of the share is not given so it is not possible to calculate the dividend yield.

Conclusion

- It is/is not appropriate topay £23million in dividends for the year. Conclusion should follow argument given above.

6 marks

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 for Question 3 = 30 marks

Q4

(a) [4 AO1] [3 AO2] [3 AO3]

[AO1] : Four marks for calculation of rent, other fixed costs, total fixed costs and total variable costs.

[AO2] : Three marks for calculation of staff costs, machine depreciation, and contribution per unit.

[AO3] : Three marks for calculation of break-even point.

Fixed Costs	Staff (12 x £16 500) ÷ 4 = £49 500 (1)AO2 Machine Depreciation (£105 000 ÷ 7) = £15 000 ÷ 4 = £3 750 (1) AO2 Rent (£1 800 x 3) = £5 400 (1) AO1 Other FC (£450 x 3) = £1 350 (1) AO1 Total FC = £60 000 (1o/f) AO1need all four
Variable Costs per unit	Paper = £0.04 Ink = £0.14 Delivery = £0.02 Total VC = £0.20 (1) AO1 need all three
Contribution per unit	(£0.95 - £0.20 o/f) = £0.75 (1o/f) AO2
Break even point	£60 000(1o/f) AO3 = 80 000 units (1o/f) AO3 £0.75 (1o/f) AO3
	(10)

(b) [AO2] 4

[AO2] Four marks for calculation of profit or loss for 2021 Quarter 1

Sales	71 000 x £0.95 = £67 450(1)AO2
Less Variable Costs	(71 000 x £0.20) = (£14 200) (1 o/f)AO2
Less Fixed Costs	= (£60 000)(1 o/f)AO2
= Loss	= (£6 750) (1o/f)AO2
	(4)

(c) [1 AO1] [5 AO2] [4 AO3]

[AO1] : One mark for calculation of total fixed costs.

[AO2] : Five marks for calculation of staff costs, hardware depreciation, rent, other fixed costs and contribution per customer.

[AO3] : One mark for calculation of quarterly revenue for one customer and three marks for calculation of break-even point.

Fixed Costs	Staff (11 x £17 400) ÷ 4 = £47 850 (1)AO2 Hardware and Software Depreciation (£120 000 ÷ 5)÷ 4 = £6 000 (1) AO2 Rent (£1 800 + £125) x 3 = £5 775 (1) AO2 Other FC (£665 x 3) = £1 995 (1) AO2 Total FC = £61 620 (1o/f)AO1
Variable Costs per unit	Electricity = £0.03
Contribution per unit	(£0.80(1) AO3 - £0.01) = £0.77(1) AO2
Break even point	£61 620(1o/f)AO3 = 80 026units per quarter(1o/f)AO3 £0.77(1o/f)AO3
	(10)

(d) [1 AO2] [2 AO3] [3 AO4]
Answers may include OWN FIGURE RULE APPLIES

For moving to electronic edition only

- Sales of magazines have been declining rapidly, by 27 000 (about 25%), over the last year.
- Sales of 80 000 magazines are required to break-even but only 71 000 were sold in the last quarter.
- The company therefore made a loss of £ 6750 in the last quarter.
- There is no evidence that the declining sales of magazines can be reversed. Teenagers appear to prefer to read from their mobile phones or computers.
- 80 026customers are required to break-even for the electronic edition. This is considerably higher than 35 000 units predicted to be sold in 2022 Quarter 1.

Against moving to electronic edition only

- The figures for customers to the electronic edition are only estimates. Actual sales levels may be much lower.
- The company will continue to make a loss for the first four quarters of the electronic edition.
- One member of staff will have to be laid off.

Decision

Sales of the magazine are declining but moving to an electronic edition does not appear to be profitable. Perhaps a subscription model may be suitable.

6 marks

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 for Question 4 = 30 marks

5(a) [3 AO1] [12 AO2] [5 AO3]

AO1 – One mark for each entry for transfer from General reserve to Foreign exchange reserve, and one mark for entry of loss for year.

AO2 – One mark each for Opening balance row, final dividend, rights issue entries (2), interim dividend, entries for ordinary shares redemption (2), closing balance row (2), and total equity totals (3), and closing balance total.

AO3 – One mark each for heading Revaluation reserve, heading Capital redemption reserve, entry in revaluation reserve, entries for ordinary share redemption in retained earnings and capital redemption reserve,

Q5 (a) **Figures are in £ millions**	Ordinary Share £1 Capital £	Share Premium £	Retained Earnings £	General Reserve £	Foreign Exchange Reserve £	Revaluation Reserve (1) AO3 £	Capital Redemption Reserve (1) AO3 £	Total Equity £
(1) Balance at 1 April 2020	320	40	11	9	2			382 (1) AO2 All 6 in this row
(2) Final Dividend 2019			(5.6) (1) AO2					(5.6)
(3) Transfer				(1.5) (1)AO1	1.5 (1) AO1			---
(4) Rights Issue	32 (1) AO2	4.8 (1) AO2						36.8
(5) Revaluation						7 (1) AO3		7 (1) AO2 All 3 above totals
(6) Interim Dividend 2020			(0.88) (1)AO2					(0.88)
(7) Ordinary Share Redemption	(2) (1) AO2	(0.2) (1) AO2	(2.2) (1) AO3				2.2 (1) AO3	(2.2)
(8) Loss for the year			(4.7) (1)AO1					(4.7) (1) AO2 All 3 above totals
(9) Balance at 31March 2021	350	44.6	(2.38) (1o/f) AO2 All 3	7.5	3.5	7	2.2 (1o/f) AO2 All 4	412.42 (1o/f) AO2 If all7y/e balances

(20)

(b) **[2 AO1] [2 AO3]**

AO1: Two marks for correct identification of reason for a redemption of shares (one per point).

AO3: Two marks for development (one per point).

Answers may include:

The company may not need this capital to operate. (1) AO1 The company may be generating sufficient funds from trading. (1) AO3

Having fewer shares will mean remaining shareholders may receive greater dividends. (1) AO1 This will please these shareholders. (1) AO3

Buying the shares will improve some ratios. (1) AO1These could be return on capital employed or earnings per share. (1) AO3

Accept other relevant answers **(4)**

(c)

[1 AO2] [2 AO3] [3 AO4]

For the issue of debentures

Debentures may be issued at an interest rate lower than other sources of finance to Tangail Logistics plcsuch as bank loans.

It may be that bank loans are not available to Tangail Logistics plc especially if they are making trading losses.

Against the issue of debentures

Debentures may be issued at an interest rate higher than other sources of finance to Tangail Logistics plc such as bank loans.

Tangail Logistics plc may have to offer non- current assets as security to the debenture holders.
These would be forfeited if Tangail Logistics plc fails to pay the interest or fails to pay back the debenture. The security could be property or vehicles which would seriously affect the running of the company.

The debenture would be repaid in one large instalment. It may be difficult for Tangail Logistics plc to raise this large sum all at one time.

Conclusion

It may be good / bad for Tangail Logistics plc to issue a debenture to raise capital.

Conclusion should relate to argument put forward.

(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 for Question 5 = 30 marks

Q6 (a) Mark scheme

(i)Inventory Budget	**[2 AO1] AO1: Two marks for completion of inventory budget**						
	July		August		September		
Inventory	30800	(1) AO1	27100		23400	(1)AO1	**(2)**
						both	
(ii) Sales Budget	**[3 AO1]**						
	AO1: Three marks for completion of sales budget						
	July		August		September		
Sales units	18000	(1)AO1	16200	(1)AO1	14580	(1)AO1	**(3)**
(iii)Production Budget	**[3 AO2] [7 AO3]**						
	AO2 Three marks for entries for next month sales (2), and required for good production						
	AO3 Seven marks for entries for inventory adjustment (3), rejects (3) and total production						
	July		August		September		
For next month sales	16200	(1o/f) AO2	14580		13122	(1o/f) both	
Inventory adjustment	(3700)	(1)AO3	(3700)	(1)AO3	(3700)	(1)AO3	
Required good production	12500		10880		9422	(1)AO2	
Rejects	255	(1o/f)AO3	222	(1o/f)AO3	192	(1o/f)AO3	
Total production	12755		11102		9614	(1o/f)AO3	**(10)**
						all 3	
(b)Trade Receivables Budget	**[5 AO2]**						
Pounds (£)	**AO2: Five marks for completion of trade receivables budget**						
	July		August		September		
	£		£		£		
Gross amount owed	351000		315900		284310	(1o/f)AO2	
Less discount	(17550)	(1o/f)AO2	(15795)	(1o/f)AO2	0		
Net amount owed	333450	(1o/f)AO2	300105	(1o/f)AO2	284310		**(5)**

(c) Cash budget extract	**[4 AO2]**						
	AO2: Four marks for completion of trade receivables budget						
	July		August		September		
Cash received	370 500	(1o/f)AO2	333450		300105	(1o/f)AO2 both	

July working 20000 x 19.5 = 390 000(1)AO2
Less 5% Discount (19500)(1o/f)AO2
Net amount 370 500 **(4)**

Question 6(d) [1 AO2] [2 AO3] [3 AO4]

Answers may include
OWN FIGURE RULE APPLIES

For the suggestion

This would be an efficient method to produce 100 000 units all in one production run. Producing the
100 000 units in a number of production runs would involve many set-up costs etc for the production line. It appears that there may need to be over 10 production runs using the existing method.

This would save management time eg no need to draw up any more production budgets for the RG57 and schedule when the production run will take place.

The disc brakes will not deteriorate or perish if held for a long time.

Against the suggestion

Producing 100 000 units all in one production run would result in higher inventory holding costs.

Hercules plc may not have enough warehouse space to store 100 000 units.

Evaluation

Hercules should/should not produce the 100 000 units in one production run.

Conclusion must relate to argument put forward and should have a key reason for the final decision.

(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 for Question 6 = 30 marks

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