

Mark Scheme (Result)

October 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.

Question 1(a) Mark Scheme

AO1(16) AO2(21) AO3(6)

AO1: Eight marks for heading, profit, change in inventories,trade receivables and payables, and deduction of bank and debenture interest.

Four marks for payments to acquire tangible and intangible non-current assets and shares in other companies, and proceeds from sale of non-current assets.
Two marks for redemption of bank loan and receipt of debenture.
Two marks for inclusion of cash and cash equivalents at start and end of year.

AO2: Nine marks for calculation of bank and debenture interest, loss on sale of fixed asset, sub totals and total cash from operating activities.
One mark for calculation of total cash used in investing activities.
Nine marks for calculation of issue of ordinary shares, dividends paid and total cash used in financing activities.
Two marks for calculation of decrease in cash and cash equivalents.

AO3: Six marks for calculation of depreciation and amortisation.

Statement of Cash Flows for Nairobi Plastics for year ended 31 March 2021	(1)AO1	
Cash flows from operating activities	£	
Profit from operations after interest	1 012 200	(1)AO1
Add bank loan interest (154000/2) (1)AO2	77 000	(1)AO2
Add debenture interest (80000/2) (1)AO2	40 000	(1)AO2
Add Depreciation	712 000	(4)(W1)
Add Amortisation (1750000 + 200 000) - 1 800 000 (1)AO3	150 000	(1)AO3
Add Loss on sale of non-current asset (800 000-390 000)- 320 000 (1)AO2	90 000	(1)AO2
Operating cash flow before working capital changes	**2 081 200**	(1o/f)AO2
Decrease in inventories	86 000	(1)AO1
Increase in trade receivables	(42 000)	(1)AO1
Increase in trade payables	8 000	(1)AO1
Cash generated from operations	**2 133 200**	(1o/f)AO2
Less Interest paid: Debenture	(40 000)	(1o/f)AO1
: Bank loan	(77 000)	(1o/f)AO1
Less Tax Paid	(313 000)	(1)AO1
Net Cash from Operating Activities	**1 703 200**	(1o/f)AO2
Cash flows from Investing Activities		
Payments to acquire tangible non-current assets	(1 470 000)	(1)AO1
Proceeds from sale of tangible non-current assets	320 000	(1)AO1
Payments to acquire intangible assets	(200 000)	(1)AO1
Payments to acquire shares in other companies	(215 000)	(1)AO1
Net Cash Used in Investing Activities	**(1 565 000)**	(1o/f)AO2

Cash flows from Financing Activities		
Issue of Ordinary shares (800 000 + 200 000) (1)AO2	1 000 000	(1)AO2
Redemption of bank loan	(2 200 000)	(1)AO1
Issue of debenture	1 000 000	(1)AO1
Dividends Paid : Final 2020 (4800000 x 0.018) (1)AO2	(86 400)	(1)AO2
Interim 2021 (5600000 x 0.008) (1)AO2	(44 800)	(1)AO2
Preference (500000 x 0.04) (1)AO2	(20 000)	(1)AO2
Net Cash used in Financing Activities	**(351 200)**	(1o/f)AO2
Net decrease in cash and cash equivalents	**(213 000)**	(1o/f)AO2
Cash and cash equivalents at the beginning of the year	384 000	(1)AO1
Cash and cash equivalents at the end of the year	171 000	(1)AO1
Net decrease in cash and cash equivalents	**(213 000)**	(1)AO2
		43 marks
Working 1 (W1)		
Depreciation calculation		
Depreciation at 31March 2021	2 732 000	(1)AO3
Less depreciation at 31 March 2020	(2 410 000)	(1)AO3
	322 000	
Plus depreciation on assets sold	390 000	(1)AO3
Total depreciation for year	712 000	(1o/f)AO3

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

Liquidity position good/handled liquidity well

- Firm has healthy level of cash and cash equivalents at £171 000 and is not overdrawn at the end of the year.
- Current ratio at year end stands at 3.42: 1 which is good, even improving on the year start figure of 3.02:1
- Acid test ratio at year end stands at 1.76 :1 which is good, even improving on the year start figure of 1.60:1
- Liquidity has been improved by issue of ordinary shares and taking out of a debenture for £1 million.
- Tax bill of £313 000 has been paid, which reduces current liabilities.
- Healthy operating profit is being made which will help liquidity.
- Bank loan of £2.2 million has been repaid which will reduce demands on funds to pay interest.

Liquidity position poor/ handled badly

- Working capital fell by £98 000, falling from £1 423 000 to £1 325 000
- Bank loan has been repaid which uses liquid funds.
- It may be argued that the current ratio and the acid ratio show the company has too much liquid funds. Maybe the company should be putting these funds to better use, earning interest or profits for the company.
- Total dividends of £151 200 have been paid which is a large sum.

Conclusion

Liquidity position/handling of liquidity is good.

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.

12 marks

Total for Question 1 = 55 marks

Q2 Mark scheme

(a)(i) AO1 (4)

AO1: Four marks for correct calculation of sales units per month

Revenue (Sales) Budget (units)	**July**	**August**	**September**	**October**
Weekly sales	150000	170000	190000	210000
Monthly sales	600000	680000	760000	840000
	(1)AO1	(1)AO1	(1)AO1	(1)AO1

4 marks

(a)(ii) AO1 (4)

AO1: Four marks for correct calculation of sales revenue per month

(a)(ii) Revenue Budget (£s)	**July**	**August**	**September**	**October**
Monthly Sales at £1.20 each	£720000	£816000	£912000	£1008000
	(1o/f)AO1	(1o/f)AO1	(1o/f)AO1	(1o/f)AO1

4 marks

(iii) AO1(4) AO2(6) AO3(1)

AO1 : Four marks for correct calculation of total payments for month.

AO2 : Six marks for correct calculation of payments in same month and after one month August to Oct.

AO3 : One mark for correct calculation of total payments after one month made in July.

Extract from Cash Budget (£)	**July**	**August**	**September**	**October**
Payments made in same month	£360000	£408000	£456000	£504000
	(o/f)	(1o/f)AO2	(1o/f)AO2	(1o/f)AO2
Payments made after one month	£360000	£360000	£408000	£456000
	bothAO3	(1o/f)AO2	(1o/f)AO2	(1o/f)AO2
Total payments for month	£720000	£768000	£864000	£960000
	(1o/f)AO1	(1o/f)AO1	(1o/f)AO1	(1o/f)AO1

11 marks

(iv) AO1(4) AO2(8)

AO1: Four marks for correct addition to find total production for each month.

AO2: Eight marks for correct calculation of production for sales for present month and following month.

Production Budget	**July**	**August**	**September**	**October**
Production for this month	450000	510000	570000	630000
	(1o/f)AO2	(1o/f)AO2	(1o/f)AO2	(1o/f)AO2
Production for next month	170000	190000	210000	230000
	(1o/f)AO2	(1o/f)AO2	(1o/f)AO2	(1o/f)AO2
Total production	620000	700000	780000	860000
	(1o/f)AO1	(1o/f)AO1	(1o/f)AO1	(1o/f)AO1

12 marks

(v) AO3(4)

AO3: Four marks for correct calculation of units in inventory at end of each month.

Inventory Budget	**July**	**August**	**September**	**October**
Inventory units	170000	190000	210000	230000
	(1o/f)AO3	(1o/f)AO3	(1o/f)AO3	(1o/f)AO3

4 marks

(vi) AO2(4)

AO2: Four marks for correct calculation to find total purchases in kgs for each month.

Purchases Budget (kgs)	**July**	**August**	**September**	**October**
For this month's production	186000	210000	234000	258000
	(1o/f)AO2	(1o/f)AO2	(1o/f)AO2	(1o/f)AO2

4 marks

(vii) AO2(3) AO3(1)

AO2: Three marks for correct calculation to find payments made in August to October.

AO3: One mark for correct calculation to find payment made in July.

Extract from Cash Budget (£)	**July**	**August**	**September**	**October**
Payments made to suppliers	£252000	£260400	£294000	£327600
	(1o/f)AO3	(1o/f)AO2	(1o/f)AO2	(1o/f)AO2

4 marks

(b)

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

FOR - Budgets as a management tool for forecasting, planning and control.

Preparing a budget ensures management focus on future possibilities and likely outcomes.

Eg Jolly Pyeman plc may focus on level of sales and expected sales revenues.

Some budgets are under the direct control of management. This will mean that management can accurately forecast the likely figures. For example, Jolly Pyeman plc has decided the level of inventory is to be equal to the sales level of the following week. The company will have to plan to ensure it has sufficient capacity for this level of inventory.

Some costs are under management control, for example rate paid to direct labour.

Budgets allow a business to see how a level of costs impacts on profit, for example direct labour. This may result in management deciding on an appropriate level of pay rise.

Variances can be analysed and remedial action taken. For example, Jolly Pyeman plc may not be happy with the forecast level of sales. This may result in a marketing campaign to boost sales.

Budgets may act as a yardstick against which performance may be measured. This helps senior management in control of other staff of the company. For example, the Production Department has to meet a production target of 620 000 (o/f) pies in the month of July.

Budgets ensure that different departments are co-ordinated, integrated and controlled. For example the purchasing, production, and logistics department of Jolly Pyeman plc must be co-ordinated to ensure the smooth running of the company.

AGAINST - Budgets as a management tool for forecasting, planning and control.

Forecasting may not be accurate. For example, sales for Jolly Pyeman plc are seasonal, affected by the weather. If the autumn months are mild or warm, sales may not reach the expected levels.

Forecasts may be unrealistic. For example, production targets for staff may be set too high, which will demotivate staff.

Some costs are out of management control. For example, Jolly Pyeman plc may not be able to control the wholesale price of meat, or flour. This means that management can only make an informed guess when preparing figures.

Some figures or costs may not change each year. Therefore drawing up budgets is a waste of time and money and does not help planning or control. For example, the production figures for Jolly Pyeman plc may stay the same each year.

Conclusion

Budgets are a useful management tool for forecasting, planning and control.

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Level 4	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and maybe non-financial information and makes an informed decision.

12 marks
Total for Question 2 = 55 marks
Total for Section A = 110 marks

Q3.Mark scheme

(a)

(i)**[AO1] 2**

AO1: Two marks for correct reasons for inventory decreasing

Company is selling inventory well/quickly. (1)AO1

Company policy to decide to hold a smaller inventory. (1)AO1

Value of inventory may be falling due to condition/ demand / tastes etc(1)AO1

Maximum of two marks

(ii) **[AO1] 2**

AO1: Two marks for correct reason to increase irrecoverable debt provision.

More customers are failing to pay amount due / more irrecoverable debts than previous years (1)AO1

Irrecoverable debt provision may be based as a percentage of year-end trade receivables which have increased.(1)AO1

Economic recession may result in inability to pay debts (1) AO1

Credit limit for customers may have been increased. (1) AO1

Maximum of two marks

(iii) **[AO2] 2**

AO2: Two marks for correct calculation of percentage of commission on sales.

$\frac{189\ 424}{2\ 367\ 800}$ x 100 (1)AO2 = 8% (1)AO2

(iv) **[AO3] 2**

AO3: Two marks for correct reason as to why discount allowed may be given.

Discount allowed is a small percentage deducted from the invoice total (1)AO2 which encourages customers to pay promptly. (1)AO2

This will help the selling company's cash flow (1)AO2 even though it is a small percentage deducted from the total (1)AO2.

The company could put these funds into an interest-bearing account(1)AO2 if customers have paid promptly. (1)AO2

Maximum of two marks

(b) **[AO2] 4**

AO2: Four marks for correct calculation of interest on overdraft.

Average overdrawn balance is £9000/2 = £4 500 (1)AO2

Interest payable is (£4 500 x 14%)(1o/f)AO2 x 2/12 (1)AO2 = £105 (1o/f)AO2

(c) **[AO2] 3**

AO2: Three marks for correct calculation of estimated corporation tax.

£525 000 - £28 000 = £497 000 (1)AO2

£497 000 x 18%(1o/f)AO2 = £89 460 (1o/f)AO2

(d)

(i) **[AO2] (1) [AO3] (3)**

AO2: One mark for correct completion of bank entry.

AO3: Three marks for correct completion of entry of Machinery, Statement of Profit or Loss and Other Comprehensive Income and Provision for Depreciation.

Disposal of machinery account

March31 2021	Machinery	40 000 (1)AO3	March31 2021	Bank	18 000 (1)AO2
March 31 2021	Statement of Profit and Loss	2 000 (1o/f)AO3	March 31 2021	Provision for depreciation of machinery	24 000 (1)AO3
		42 000			42 000

(ii) **[AO2] (2) [AO3] (2)**

AO2: Two marks for correct completion of entry of balance b/d at start of year and bal c/d at year end.

AO3: Two marks for correct completion of entries of Disposal of machinery, and Statement of Profit or Loss and Other Comprehensive Income

Machinery - Provision for DepreciationAccount

March31 2021	Disposals of machinery	24 000 (1)AO3	April 1 2020	Balance b/d	80 000 (1)AO2
March 31 2021	Balance c/d	96 000 (1o/f)AO2	March 31 2021	Statement of Profit and Loss	40 000 (1)AO3
		120 000			120 000

(e) **[AO1] (1)**

One mark for correct choice of position on Statement of Profit or Loss and Other Comprehensive Income.

Other income AO1

(f)
[AO2] (1) [AO3] (2) [AO4] (3)
For usefulness
This will benefit users of financial statements because they can see that profits or losses from the Discontinued Operations will not be expected to be realised in the future. This allows reader to predict more accurately future expected performance.

This may help future potential investors / shareholders / creditors etc with decision making.
For example, buy more shares /allow credit.

Helps to give a true and fair view of the accounts and the business operation.

Should be beneficial if required to be shown by FRS3 / IFRS 5

Against usefulness

Adds more figures and details to the financial statements, so makes them more difficult to understand, especially for those with little accounting knowledge.

Takes time to add extra detail to the financial statements and therefore this means extra expense.

Evaluation
Should conclude that it is beneficial to show Discontinued Activities.

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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

Mark Scheme Question 4						
(a) (i) (AO1) 1 (AO2) 1						
AO1: One mark for all components for calculating budgeted production.						
AO2: One mark for calculating budgeted monthly production.						
			Daily	Monthly		
	Days	Weeks	Output	Production		
Budgeted production	(5 x	4 x	750 000)	15 000 000	(1)AO2	
		all three	(1)AO1		**2 marks**	
(ii) (AO1)1						
AO2: One mark for calculating actual monthly production.						
Actual production	15 000 000	minus	500 000	= 14 500 000	(1o/f)AO1	
					1 mark	
(b) (AO3)3						
AO3: Three marks for correct calculation of standard quantity of material required.						
Standard quantity of material required=	14 500 000	(1o/f)AO3	x 600 000	(1)AO3	= 580 000 kgs	
	15 000 000				(1o/f)AO3	
					3 marks	
(c) (i)						
AO1 (1) AO2 (4)						
AO1 : One mark for correct statement of formula						
AO2: Four marks for correct calculation of material usage variance.						
Material usage variance						
= (Standard usage - Actual usage) x Standard price (1)AO1						
=	(580 000 -	594 500)	x £255 000	(1)AO2	=£6 162.50	
		(1o/f)AO2	600 000	(1)AO2	Adverse	(1o/f)AO2
						5 marks

(ii)						
AO2 (1) AO2 (5)						
AO1 : One mark for correct statement of formula						
AO2: Five marks for correct calculation of material price variance.						
[AO2 4] [AO3 2]						
Material price variance						
= (Standard price - Actual price) x Actual usage (1)AO1						
	£255 000	(1)AO2 -	£247 950)	(1)AO2	x 594 500	=£4 712.50
	600 000		594 500)	(1)AO2	(1)AO2	Favourable
						(1)AO2
						6 marks
(iii)						
AO1 : One mark for correct statement of formula						
AO2: Two marks for correct calculation of total material variance.						
Total material variance = material usage variance + material price variance (1)AO1						
Total material variance =	£6 162.50 Adv	+	£4 712.50 Fav	= £1 450	Adverse	
			(1o/f)AO2		(1o/f)AO2	**3 marks**

(d) AO3 (4)

AO3: Four marks for explaining the stages in establishing a standard costing system.

Answers may include:

For product, obtain a product specification (1)AO3 giving standard quantities for materials and labour (1)AO3

Look at figures for past cost of sales (1)AO3

Standard prices for materials obtained by consulting buyers and suppliers (1)AO3

Standard labour rates obtained by consulting human resources department and/or unions.(1)AO3

Standard overheads obtained by consulting management / finance department. (1)AO3

(e) AO2 (1)AO3 (2)AO4 (3)

Own figure rule applies

Case for good performance.

Direct material price variance is favourable. Material has been bought at a lower price than expected.

This may be due to a good performance by the purchasing department, not the production department.

Case for poor performance

Direct material usage variance is adverse. This may be due to the technical problems encountered. Is this the fault of the production department? For example, due to insufficient maintenance.

Output has not met the expected level.

Other points

Have the standards and budgets been set accurately?

Conclusion

Overall, the total material variance is adverse, so performance may not have been good.

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6 marks

Total for Question 4 = 30 mark

Q5. Mark scheme

(a) AO1(5) AO3(5)

AO1: Five marks for entries to close off accounts in the accounts.

AO3: Five marks for corresponding entry of the double entry

		Debit	Credit
31 March	Realisation a/c	58 000 000 (1)AO3	
	Property, plant and equipment a/c		58 000 000 (1)AO1
31 March	Trade payables a/c	17 000 000 (1)AO1	
	Realisation a/c		17 000 000 (1)AO3
31 March	Ordinary shares of £1 a/c	50 000 000 (1)AO1	
	Sundry Shareholders a/c		50 000 000 (1)AO3
31 March	Share premium a/c	20 000 000 (1)AO1	
	Sundry Shareholders a/c		20 000 000 (1)AO3
31 March	Sundry Shareholders a/c	38 200 000 (1)AO3	
	Retained earnings a/c		38 200 000 (1)AO1
			10 marks

(b) AO2(4) AO3(2)

AO2: Four marks for calculation and entry of purchase consideration and entries of retained earnings, andshare capital and share premium.
AO3: Two marks for calculation and entry of loss on realisation.

Asiatic Electronics plc Sundry Shareholders Account

Beam plc(1)AO2 (Purchase consideration)	13 000 000 (1)AO2	Share capital	50 000 000 both
Retained earnings	38 200 000 (1)AO2	Share premium	20 000 000 (1)AO2
Loss on realisation (1)AO3	18 800 000(1o/f)AO3		
	70 000 000		70 000 000
			6 marks

Purchase consideration calculation:(50 000 000) x £1.20 + (10 000 000 x £0.10) = 13 000 000
5

(c)
(i) AO2(2)
AO2: Two marks for calculating number of shares received

Mingxia receives 8000(1)AO2 = 1 600 shares (1)AO2 **2 marks**
5

(ii) AO2(2)
AO2: Two marks for calculating amount of cash received

Cash received = (1 600 x 10p) (1o/f)AO2 = £160 (1o/f)AO2 **2 marks**

(d) AO2(4)
AO2: Four marks for calculating number of shares issued and preparation of equity section of statement of financial position.

Shares issued to Asiatic Electronics plc =50 000 000 = 10 000 000 shares (1)AO2
5

Shares issued to Sunriseplc =38 000 000 = 19 000 000 shares (1)AO2
2

Statement of Financial Position of Beam plc
Equity section

	£	**£**
Ordinary shares of £1 each	29 000 000 both	
Share premium	5 800 000 (1o/f)AO2	
Total Equity		34 800 000 (1o/f)AO2

4 marks

(e) AO2 (1) AO3 (2) AO4 (3)

For Merger

The new company could enjoy economies of scale, for example, bulk buying 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 Asiatic Electronics plc are receiving a total of £13 million (shares valued at £12m and cash of £1m) and the market value of the company is £13 million (50 million shares valued at £0.26 each).

Asiatic Electronics plc has been making losses and the retained earnings show a very large debit balance. The company could go out of business and shareholders could lose everything. The market does not have much confidence in the business as the market value of the company is much less than the book value.

The Profitability index is 1.207 which is good.

The payback period is 3.288 years (3 years 3.46 months) which is good.

The average rate of return is 21.52% which is good.

Against Merger

Shareholders will see a dilution of ownership and reduction in voting power as the new company is larger.

Shareholders in Asiatic Electronics plc are receiving a total of £13 million (shares valued at £12m and cash of £1m) but the book value of the company is £31.8 million.

For every 5 shares Mingxia bought, for £1.40 each, she had an outlay of £7.00 but she is only receiving £1.30 when she sells the 5 shares at £0.26 each. This is a loss of £5.70 for every 5 shares bought. Or a loss of £1.14 on every share bought.

Her total loss is £1.14 x 8 000 = £9 120. Mingxia paid £11 200 for her shares and received £2 080 when she sold them.

Evaluation

Should conclude and relate to points made above. However, the company has serious problems and a fresh start with a merger may be the best option.

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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.

6 marks

Total for Question 5 = 30 marks

Question 6

(a)

AO1(5)AO2(8)

AO1: Five marks for correct calculation of costs for driver, fuel, and others.

AO2: Eight marks for correct calculation of revenue, total costs, net cash flow, and net present value

Revenue	Hours	Days	Customers	Fare	Total
Revenue	18	350	1.5	£10.80	£102060
				All 4 (1)AO2	(1)AO2
Costs					
	Pay	Hours	Days		
Drivers	£9	18	350		£56700
			All 3 (1)AO1		(1)AO1
	Cost	Hours	Days	Customers	
Fuel	£2.50	18	350	1.5	£23625
				All 4 (1)AO1	(1)AO1
	Cost	Months			
Other costs	£975	12			£11700
					(1)AO1
Total costs					£92025
					(1o/f)AO2
Net Cash Flow					£10035
					(1o/f)AO2

Net Present Value

	Net Cash	Discount	Discounted	
Year	Flow	Factor 9%	Cash flow	
0	(£33000)	1	(£33000)	(1)AO2
1	£10035	0.917	£9202	Both
2	£10035	0.842	£8449	(1o/f)AO2
3	£10035	0.772	£7747	
4	£10035	0.708	£7105	All three
5	£11285	0.650	£7335	(1o/f)AO2
Net Present Value			£6839	(1o/f)AO2

13 marks

(b) AO2 (4)

AO2: Four marks for correct calculation of annual profit.

Depreciation $\frac{(£33000 - £1250)}{5}$ =£6350 (1)AO2

Annual Profit

Net Cash flow	£10035	(1o/f)AO2
Depreciation	£6350	(1o/f)AO2
Annual profit	£3685	(1o/f)AO2

4 marks

Q6.(c) AO3 (7)

AO3 : Seven marks for calculating the internal rate of return

Internal Rate of Return = Lower rate + (% difference between rates) x (NPV using lower % rate)
(Difference between NPVs)

$$= 9\%\ (1)AO3 + ((16 - 9)(1)AO3 \times \frac{6\ 839(1o/f)AO3}{(6\ 839(1o/f)AO3 + 145)(1)AO3}$$

$$= 9\%\ o/f + (7 \times 0.979)(1o/f)AO3$$

$$= 15.85\%\ (1o/f)AO3$$

7 marks

(d) AO2 (1) AO3 (2) AO4 (3)

Own figure rule applies

In favour of project

The project has a net present value of £6 839 (o/f) which is a positive value and shows the project is worthwhile investing in.

The net present value calculation takes inflation into account.

The internal rate of return of the project is 15.85% (o/f) which is a healthy return and greater than the cost of capital.

Payback period is 3.288 years which is good.

Profitability index is 1.207 which is good.

Average rate of return is 22.98% which is very good.

Against project

All of the figures are only estimates. We cannot say for certain they will be correct.

There may be changes in the future in competition, fuel costs, licensing arrangements etc.

It may be useful if other calculations were made eg payback period, profitability index and average rate of return.

Are there any alternate projects available to the company?

Does this fit into the future objectives of the company? Eg this is a fuel driven vehicle and the future of vehicles appears to be electric.

Conclusion

It would appear that the project is worth investing in if the figures are reasonably accurate.

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.

6 marks

Total for Question 6 = 30 marks

Total for Section B = 90 marks

Total for Paper = 200 marks