GradeMax



Mark Scheme (Results)

January 2022

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.

Q1 Mark scheme

(a) (i) **[AO1] 2**

AO1: Two marks for stating the different treatment.

Irredeemable preference shares would be placed in the equity/ share capital section of the statement of financial position.**(1)**AO1
Redeemable preference shares are treated as a non-current liability in the statement of financial position. **(1)**AO1

(ii)**[AO3] 2**

AO3: Two marks for stating the different treatment.

Dividends paid on irredeemable preference shares would be found in the Appropriation account in the statement of profit and loss and other comprehensive income. **(1)**AO3
Dividends paid on redeemable preference shares would be treated as an expense in the statement of profit and loss and other comprehensive income. **(1)**AO3

(4)

(b)

(i) **[AO1] 4**

AO1 : Four marks for calculation of gross profit as a percentage of revenue.

Gross profit = £360 000 000 - £225 000 000 = £135 000 000 **(1)**AO1

$$\text{Gross profit as a percentage of revenue} = \frac{\text{Gross profit}}{\text{Revenue}} \times 100$$

$$= \frac{£135\,000\,000}{£360\,000\,000} \times 100$$ **(1)**AO1

= 37.5% **(1)**AO1 **(4)**

(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 = £24 000 000 - £2 500 000 = £21 500 000 **(1)**AO1

Net profit for the year after tax as a percentage of revenue =

$$\frac{\text{Net profit for the year after tax as a percentage of revenue}}{\text{Revenue}} \times 100$$

= £21 500 000 x 100 **(1)**AO1 = 5.97% **(1)**AO1
£360 000 000 **(3)**

(iii) [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 – Irredeemable preference dividend
Issued ordinary shares

= £21 500 000 **(1o/f)**AO2 - £600 000 **(1)**AO3 = 23.22 pence per share**(1o/f)**AO2
90 000 000 **(1)**AO2

(4)

(iv) [AO1] 3

AO1 : 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 per share
Earnings per share

= £1.60**(1)**AO1 = 6.89 times o/f **(1o/f)**AO1
23.22p **(1o/f)**AO1 **(3)**

(v) **[AO2] 4**

AO2 : Four marks for correct calculation of dividend paid per ordinary share.

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

= £225 000**(1)**AO2 + (£90 000 000 x 0.0175) **(1)**AO2 = 2.00p per share **(1)**AO2
90 000 000 **(1)**AO2

(4)

(vi)[AO1] 1 [AO2] 2

AO1 : One mark for correct insertion of total ordinary dividend.
AO2 : Two marks for correct insertion of net profit after tax less preference dividends and calculation of dividend cover.

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

= £20 900 000 **(1o/f)**AO2 / £1 800 000 **(1o/f)**AO1 = 11.61 times **(1o/f)**AO2 **(3)**

(vii)[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 ordinary share / Market price of share x100

= 2.00 p **(1o/f)**AO1 / £1.60 **(1)**AO1 x 100 = 1.25% **(1o/f)**AO1 **(3)**

(viii) [AO2] 7 [AO3] 3

AO2 : Seven marks for correct insertion of net profit after interest; and calculation of interest on redeemable preference shares, debenture, and bank loan; and calculation of ordinary share capital, redeemable preference shares; and return on capital employed.
AO3 : Three marks for correct insertion of irredeemable preference shares, other reserves and debenture and bank loan.

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

= £24 000 000 **(1)**AO2 + £1 120 000**(1)**AO2 + £1 200 000**(1)**AO2 + £1 080 000**(1)**AO2 / (£81 000 000**(1)**AO2+£10 000 000**(1)**AO3+£16 000 000**(1)**AO2+£23 000 000**(1)**AO3+£15 000 000+£12 000000**(1)**AO3both)

= £27 400 000 / £157 000 000 x 100 = 17.45% **(1)**AO2 **(10)**

(ix)
[AO2] 5
AO2: Five marks for correct calculation of gearing ratio.

Gearing ratio = Fixed Cost Capital / Capital employed

=£10 000 000 **(1)**AO2 + £16 000 000**(1)**AO2 + £15 000 000 + £12 000 000**(1)**AO2 both x 100=33.76%**(1o/f)**AO2

£157 000 000 **(1o/f)** AO2

(5)

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

Own figure rule applies throughout answer.
Answers may include :

Improved performance in 2021
Gross profit as a percentage of revenue has improved by 7.4% points.
Possible reasons for this include: increased selling price for finished product / reduced costs of material, direct labour.

Gearing has reduced by 2.73% points which reduces risk.
Possible reasons for this include: an issue of ordinary shares was made / loans were repaid

Worsened performance in 2021
The net profit after tax as a percentage of revenue has reduced by 1.23% points.
Possible reasons for this include: increase in expenses such as rents or managers salaries

Earnings per share have fallen by 3.76 pence per share.
Possible reasons for this include: reduced net profit after tax / an issue of ordinary shares was made.

Price/earnings ratio has fallen by 1.38 times.
Possible reasons for this include: the market has less confidence in the company, probably because of the decrease in net profit after tax.

Dividend per share has fallen by 1 penny per share.

Possible reasons for this include: reduced net profit after tax / reduced earnings per share / an issue of ordinary shares was made.

Dividend cover has fallen by 2.77 times
Possible reasons for this include: reduced net profit after tax which has resulted in a greater percentage of net profit being paid out as dividends.

Dividend yield has fallen by 0.1% points.
Possible reasons for this include: reduced net profit after tax which has resulted in lower dividends being paid out.

Return on capital employed has fallen by 3.79% points.
Possible reasons for this include: reduced net profit after tax / a possible increase in share capital or fixed cost capital.

Conclusion
It appears that the performance of MGH Textiles plc in 2021 was worse than 2020, due to the net profit after tax being a lower percentage of revenue.

(**12 marks)**

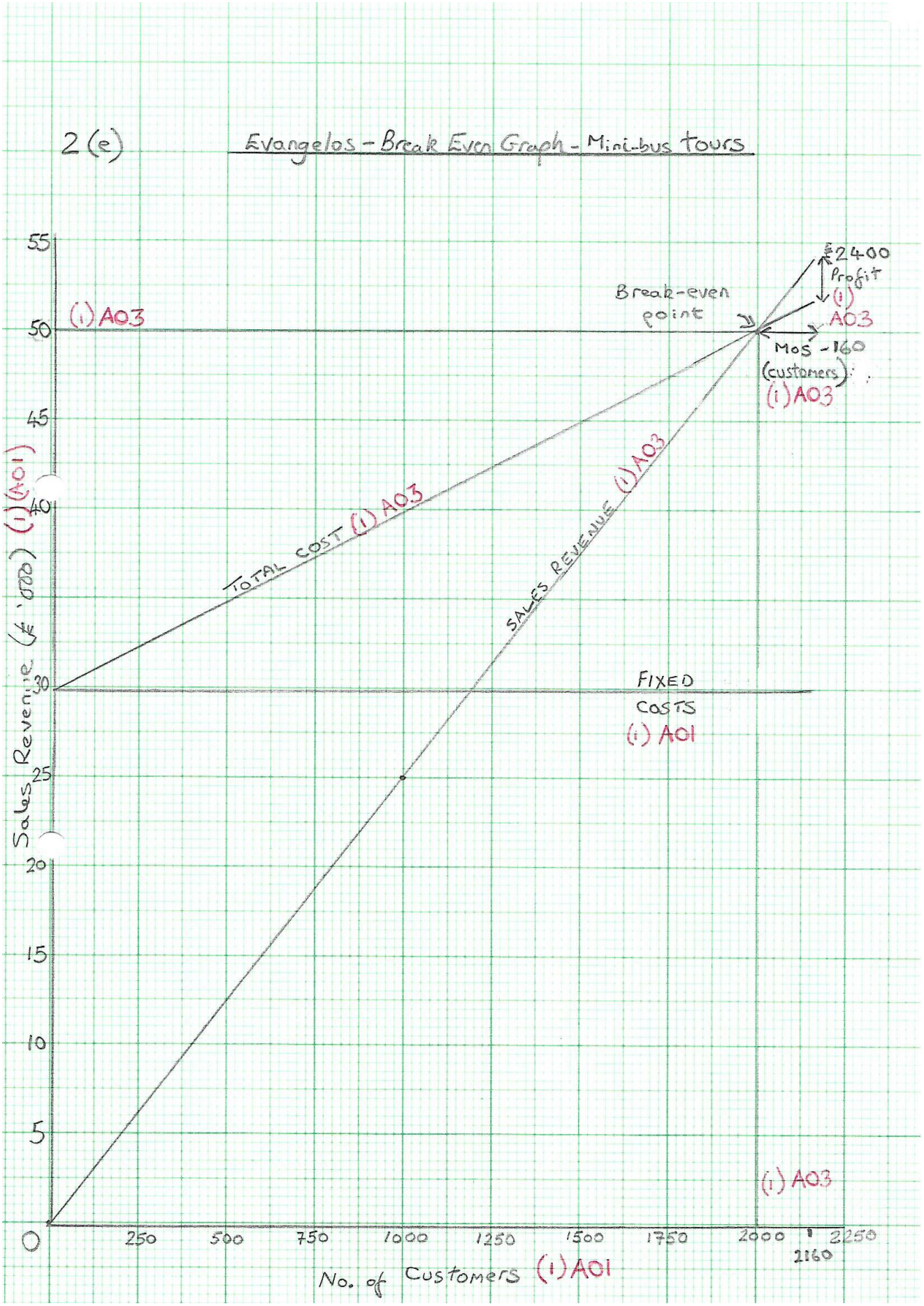
Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1- 3	Isolated elements of knowledge and understanding which are recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
Level 2	4 - 6	Elements of knowledge and understanding, which may be applied 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)

Question 2				
(a)(i) [AO1] 8 [AO2] 7				
AO1: Eight marks for correct calculation of individual and total fixed costs				
AO2: Seven marks for correct calculation of variable costs, contribution per unit, and break-even point				
Depreciation	£40 000 - £1 000 / 5	= £39 000 (1)AO1 / 5	= £7 800	
Fixed Costs		£		
Depreciation		7800	(1o/f)AO1	
Service	(£360 x 3)	1080	(1)AO1	
Rent	(£25 x 180)	4500	(1)AO1	
Salaries	(£1 920 x 6)	11520	(1)AO1	
Licence	(£1 250 x 6)	7500	(1)AO1	
Fuel	(£35 x 720)	25200	(1)AO1	
		57600	(1)o/fAO1	
Variable costs		£		
Labour	(£8 x 37.5%)	3.00	(1)AO2	
Contribution per unit =	Selling price -	Variable costs		
=	£ 8.00(1)AO2 -	£3.00	(1)o/fAO2	
=	£5.00	(1)o/fAO2		
Break-even point	Total Fixed Costs / Contribution per unit			
=	£57,600 / £5.00	(1)o/fAO2 / (1)o/fAO2		
=	11 520 customers	(1)o/fAO2	**15 marks**	
(a)(ii)[AO2] 2				
AO2: Two marks for correct calculation of break-even point in sales revenue				
Break-even point in sales revenue =	(11520 x £8.00)	(1) o/f AO2 =	£92 160	(1)o/fAO2
				2 marks
(b) [AO2] 3				
AO2: Three marks for correct calculation of break-even customers per tour				
Break-even customers per tour	11 520 (1)o/f AO2 / 720 tours (1)AO2	= 16 per tour	(1)o/fAO2	
				3 marks

(c) (i) [AO2] 3				
AO2: Three marks for correct calculation of margin of safety in number of customers.				
Total number of customers =	(180 days x 4 tours x 40 customers) =		28 800	(1)AO2
Margin of safety in customers =	(28 800 – 11520) (1)o/fAO2	= 17 280 (1)o/fAO2		**3 marks**
(c) (ii) [AO2] 3				
AO2: Three marks for correct calculation of margin of safety as a percentage of sales				
Margin of safety as a				
percentage of sales =	17 280 x 100(1)o/fAO2 =	60%	(1)o/fAO2	
	28 800 (1)o/fAO2			**3 marks**
(d) [AO1]1 [A02] 3				
AO1: One mark for correct calculation of profit for the season				
AO2: Three marks for correct calculation of revenue, variable costs and fixed costs				
Profit for the year				
Revenue	(£8.00 x 28 800)	230 400	(1)AO2	
Less				
Variable costs	(3 x 28 800)	(86 400)	(1)o/fAO2	
Fixed Costs		(57 600)	(1)o/fAO2	
Profit for year		86 400	(1)o/fAO1	**4 marks**

(e) [AO1]3 [A03] 6		
AO1: Three marks for correct drawing and labelling of scales and axes, and fixed costs		
AO3: Six marks for correct drawing and labelling of sales revenue, total costs, break-even point measured in		
number of customers and sales revenue, margin of safety in number of customers, and profit.		


2(e)
Evangelos - Break Even Graph - Mini-bus Tours
Sales Revenue (£'000) (1) AO1
55
50
45
40
35
30
25
20
15
10
5
0
(1) AO3
£2400 Profit
(1) AO3
Break-even point
MoS - 160 (customers)
(1) AO3
TOTAL COST (1) AO3
SALES REVENUE (1) AO3
FIXED COSTS
(1) AO1
(1) AO3
250
500
750
1000
1250
1500
1750
2000
2250
2160
No. of Customers (1) AO1

(f) [AO1] 2 [A02] 2				
AO1: Two marks for correct calculation of fixed costs and profit for the season				
AO2: Two marks for correct calculation of revenue and variable costs.				
Number of customers	= 180 x 12 = 2 160			
Profit for the season				
Revenue	(£25.00 x 2 160)	54 000	(1)AO2	
Less				
Variable costs	(£10 x 2 160 o/f)	(21 600)	(1)o/fAO2	
Fixed Costs		(30 000)	(1)AO1	
Profit for season		2 400	(1)o/fAO1	**4 marks**

Question 2 (g) Mark scheme

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

For Option A, the open top bus tours
The profit at the open-top bus is £86 400 which is higher than the profit of £2 400 of the mini-bus.
The difference is £84 000 for the expected customers.

Evangelos pays himself £86 400 in wages with the open-top bus, but only £21 600 with the mini-bus.
The difference is £64 800 for the expected customers.

For Option B, the mini-bus tours
The break-even point at 2 000 customers is lower than the break-even point of 11 520 customers in the open-top bus. The difference is 9 520 units.

Fixed costs (rent, managers salaries, and other fixed costs) are lower for the mini-bus. If the forecast sales do not happen, the mini-bus represents less of a risk.

Evangelos has £40 000 which will all be spent on buying the open-top bus if this option is chosen. Does he have access to any other monies if some of the other fixed costs need to be paid in advance, e.g. for a licence to operate?

The mini-bus tours take vehicles out of the town centre which may be congested and this lowers pollution.

Other points

The figures given are only estimates in some cases. It is not possible to exactly predict the sales figures for the bus tours. Perhaps the projected sales may not happen, so profits for each bus will differ from those given above.

How long will the working day be for Evangelos? The open-top bus makes 4 tours a day. How long is each tour? The mini-bus goes to beauty spots outside the town. How far away are the beauty spots? How long is the drive to these spots? Does Evangelos have a rest at the beauty spots?

Conclusion

Although the mini-bus has a lower break-even point, the open-top bus has a higher predicted profit.
This means the open-top bus should be chosen.

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

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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)

(Total for Section B = 110 marks)

Question 3

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

AO1 : Five marks for opening and closing balances
AO2 : Twelve marks for :
Entries in ordinary share account for applications received, first and second calls.
Entries in application and allotment account for accepted applications and payments.
Entries in first call and second call accounts.
Entries in Bank account for applications accepted, monies received for first call and second call, and returns of monies.
AO3 : Seven marks for all entries concerning balances due on allotment and entry in application and allotment account for return of monies.

(i) Ordinary Share Capital Account

		£ 000			£ 000
			1 Jan2021	Balance b/d	32 000 (1)AO1
			13 March	Application & Allotment	1 200**(1)**AO2
			30 June	Application & Allotment	1 200 **(1)**AO3
			15 July	First Call	2 100 **(1)**AO2
31Dec	Balance c/d	38 000	31 Aug	Second + Final Call	1 500 **(1)**AO2
		38 000			38 000
			1 Jan 2022	Balance b/d	38 000**(1)**AO1
					6 marks

(ii) Share Premium Account

		£ 000			£ 000
			1 Jan2021	Balance b/d	8 000**(1)**AO1
31Dec	Balance c/d	9 500	30 June	Applctn&Allotmnt	1 500**(1)**AO3
		9 500			9 500
			1 Jan2022	Balance b/d	9 500 **(1)**AO1
					3 marks

(iii) Application and Allotment Account

		£ 000			£ 000
2021			2021		
13 Mar	Ordinary Share Capital	1 200 **(1)**AO2	13 Mar	Bank	1 660 **(1)**AO2
24 Mar	Bank	460 **(1)**AO3	30 June	Bank	2 700 **(1)**AO3
30 June	Ordinary Share Capital	1 200 **(1)**AO3			
	Share Premium	1 500**(1)**AO3			____
		4 360			4 360
					6 marks

(iv) First Call Account

		£ 000			£ 000
2021			2021		
15 July	Ordinary Share Capital	2 100**(1)**AO2	15 July	Bank	2 100**(1)**AO2
		2 100			2 100
					2 marks

(v) Second and Final Call Account

		£ 000			£ 000
2021			2021		
31 Aug	Ordinary Share Capital	1 500**(1)**AO2	31 Aug	Bank	1 500**(1)**AO2
		1 500			1 500 **(1)**AO1
					3 marks

(vi) Bank Account extract

		£ 000			£ 000
2021			2021		
13 Mar	Application and Allotment account	1 660 **(1)**AO2	24 Mar	Application and Allotment account	460**(1)**AO2
30 June	Application and Allotment account	2 700**(1)**AO3			
15 July	First Call account	2 100			
31 Aug	Second Call account	1 500**(1)**AO2 both			
					4 marks

(24)

(b) [AO2] 1 [AO3] 2 [AO4] 3

Answers may include:

Case for Divesocean Hotels plc Ordinary shares

- It is fairly straightforward to ask existing shareholders if they would like to purchase more shares.
- No "outside" parties having any influence on the running of the Divesocean Hotels plc, e.g. a place on the board, which banks may request if they provide funds.
- Shareholders do not have to be paid dividends, which is useful if Divesocean Hotels plc is short of funds.

- No interest has to be paid, so the profits of Divesocean Hotels plc will be higher than taking a bank loan. This will also help cash flow and liquidity.
- Issue of shares results in lower gearing, which decreases the risk to Divesocean Hotels plc.

Case against Divesocean Hotels plc Ordinary shares

- Administration costs involved in the issue of ordinary shares would be much greater than the administration costs of taking out a bank loan.
- A share issue may not be fully subscribed. If Divesocean Hotels plc then turn to a bank for funding, the bank may see the company as high risk and charge a high interest rate.

Conclusion

Should relate to points made above. For example, ordinary shares are a good source of finance.

(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 3 = 30 Marks)

Question 4								
(a)(i) [AO2] 2								
AO2 : Two marks for correct calculation and insertion of purchases								
(a) Purchases								
Budget	April		May		June		July	
	27000		27000	(1)AO2 both	27000		27000	(1)AO2 both
								2 marks
(a)(ii)[AO1] 3 [AO2] 5 [AO3] 2								
AO1: Three marks for correct addition of monthly totals								
AO2: Five marks for correct calculation of one and two months credit figures and April and May three months credit figures.								
AO3: Two marks for three months credit figures for June and July								
Trade Payables								
Budget	April		May		June		July	
B - One month credit	10800		10800		10800		10800	(1)AO2 all
C - Two months credit	8100	(1)AO2	16200		16200		16200	(1)AO2 all three
D - Three months credit	2700	(1)AO2	5400	(1)AO2	8100	(1)AO3	8100	(1)AO3
Total	21600	(1o/f)AO1	32400	(1o/f)AO1	35100		35100	(1o/f)AO1 both
								10 marks
(b)(i) [AO2] 2								
AO2: Two marks for correct calculation of sales figures								
Sales								
Budget	April		May		June		July	
	44712	(1)AO2	48600		48600		48600	(1)AO2 all three
								2 marks

(b)(ii) [AO1] 2 [AO2] 3 [AO3] 5								
AO1: Two marks for correct addition of monthly totals for April to July								
AO2: Three marks for correct calculation of cash sales figures, and total for April.								
AO3: Five marks for six months credit figures.								
Cash Budget								
extract	April		May		June		July	
Cash sales	22 356	(1o/f)AO2	24 300		24 300		24 300	(1o/f)AO2 all three
Six months credit	0		3 726	(1)AO3	7 776	W1 [2]	11 826	W2 [2]
Total	22 356	(1o/f)AO2	28 026	(1o/f)AO1	32 076		36 126	(1o/f)AO1both
Workings								
W1 June	3 726 (1o/f)AO3 +	4 050	(1o/f)AO3	= 7 776 [2]				
W2 July	7 776 (1o/f)AO3 +	4 050	(1o/f)AO3	= 11 826 [2]				**10 marks**

4(c)

For the terms

Purchases – there are a range of terms offered which means QPKSHeating plc do not have to pay for all purchases in one go, at the start of trading for this store.

Two or three months' credit allows QPKS Heating plc time to sell boilers before they need to pay for them.

50% of sales for cash generate an instant cash flow after a sale.

Six or seven months to pay for a boiler will generate sales, especially as items are expensive.

Against the terms

60% of all purchases need to be paid for within one month.

50% of all sales do not have payment complete until seven months after the sale.

Evaluation

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

Given that the mark-up of QPKS Heating plc is 80% and all purchases are sold within the same month as purchases, cash flow should not be a problem for this store.

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 4 = 30 marks)

Question 5 (a)(i) [AO2] 4

[AO2] : Four marks for entries in Property, plant and equipment Account.

Property, plant and equipment Account

Date	Details	£000		Date	Details	£000	
1 Jan2021	Balance b/d	6 439	**(1)**AO2	4 Apr2021	Disposals	252	both
25 Oct 2021	Bank (Plant)	125	**(1)**AO2	23 Jun	Disposals	1 760	**(1)**AO2
		____		31Dec	Balance c/d	4 552	**(1)**AO2
		6 564				6 564	
1 Jan 2022	Balance b/d	4 552					

4 marks

(a)(ii) [AO1] 5 [AO2] 8 [AO3] 7
[AO1] Five marks for entries of profit and tax, and totals for operating cash flow before working capital changes, cash generated from operations and net cash from operating activities.

[AO2] Eight marks for calculation and inclusion of interest, profit on sale of fixed asset, loss on sale of fixed asset, increase or decrease in inventories, trade and other receivables, and trade and other payables.

[AO3] Seven marks for calculation of depreciation and amortisation of intangibles.

Statement of Cash Flows for y/e 31 December 2021		
Cash Flows from operating activities	£ 000	
Profit from operations (1 432**(1)**AO1 + 2 **(1)**AO2)	1 434	[2]
Add Depreciation	201	W1 [5]
Add Amortisation of intangibles	195	W2 [2]
Less Profit on sale of non-currentasset	(577)	**(1)**AO2
Add Loss on sale of non-current asset	13	**(1)**AO2
Operating cash flow before working capital changes	1 266	**(1)**AO1 o/f
Add decrease in Inventories	1	**(1)**AO2
Add decrease in Trade receivables	8	**(1)**AO2
Less increase in Other receivables	(5)	**(1)**AO2
Less decrease in Trade payables	(202)	
Add increase in Other payables	6	**(1)**AO2 both

Cash generated from operations	1 074	**(1)**AO1o/f
Less Interest paid	(2)	**(1)**AO2
Less Tax paid	(298)	**(1)**AO1
Net Cash from Operating Activities	774	**(1)**AO1o/f

W1 - Working for depreciation:

Depreciation Account

Date	Details	£000		Date	Details	£ 000	
4 Apr 2021	Disposals	78	**(1)**AO3	1 Jan2021	Balance b/d	2 548	**(1)**AO3
23 June	Disposals	525	**(1)**AO3	31 Dec	Statement of Comprehensive Income	201	**(1)**AO3
31Dec	Balance c/d	2 146	**(1)**AO3				
		2 749				2749	
				1 Jan 2022	Balance c/d	2 146	

W2 – Working for amortisation

Figures in £000

(1 900 + 595) - 2 300 **(1)**AO3 = 195 **(1)**AO3

20 marks

(b) [AO2] 1 [AO3] 2 [AO4] 3

Case for usefulness of Statement of Cash Flows

The statement helps Valetta Motors plc study where the company has generated its cash over the last financial year and how it is applied. This may help decision-making in the next financial year.

The statement is broken down into three key sectors, net cash flows from operating, investing and financing activities. The three parts are added together to give an overall figure for an increase or a decrease in cash for the last financial year.

The statement helps to explain why the overall change in the bank balance might be significantly different (or even contradict) the amount of profit or loss generated.

The statement looks back and uses figures that are nearly all actual figures (except for depreciation and amortisation).

Case against usefulness of Statement of Cash Flows

The statement is fairly complicated. It may not be fully understood by all readers.

It may take time, effort and funding of Valetta Motors plc to produce.

Conclusion

The statement must be produced by Valetta Motors plc and is regarded as a useful tool to inform readers about liquidity of the company.

(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)

6

(a) [AO1] 2 [AO2] 12 [AO3] 4

AO1 : Two marks for fixed overheads and opening inventory.

AO2 : Twelve marks for calculation of revenue, direct materials, direct labour, semi-variable costs, closing inventory units and marginal costing value, profit.

AO3 : Four marks for calculation of absorption costing closing inventory.

Statement of Profit or Loss and Other Comprehensive Income for Y/E 31 December 2021				
	Marginal	Absorption		
	£	£		
Revenue	3 995 160	3 995 160	**(1)**AO2	
Less				
Direct Materials	919 600	919 600	**(1)**AO2	
Direct Labour	1 117 200	1 117 200	W1 [2]	
Semi-variable costs	224 200	224 200	W2 [2]	
Fixed Overheads	228 000	228 000	**(1)**AO1	
	2 489 000	2 489 000		
Opening Inventory	(160 650)	(190 400)	**(1)**AO1	
Closing Inventory	140 544	167 680		
Profit	1 486 054	1 483 440	**(2o/f)**AO2	
			1 each	
Workings				
W1				
Calculation of direct labour				
= (1.75 x £8.40)	= £14.70 per unit	x 76 000	= £1 117 200	
	(1)AO2		**(1o/f)**AO2	
W2				
Calculation of semi-variable costs				
= (£0.65 x 76 000)	= £49 400	+ £174 800	= £224 200	
	(1)AO2		**(1o/f)**AO2	
Calculation of closing inventory units				
Opening inventory	Production	Less sales units	Closing inventory	
5950	76000	-76830	5120	
		(1)AO2	**(1)**AO2	

Calculation of closing inventory value				
Marginal	(12.10+14.70+0.65)	x 5120 both **(1o/f)**AO2	140 544	**(1o/f)**AO2
Absorption				
2489000	**(1o/f)**AO3 =	32.75	x 5120	= 167 680
76000	**(1)**AO3	**(1o/f)**AO3		**(1o/f)**AO3
				18 marks

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

1 AO1 mark for point made. 1 AO3 mark for development

Disadvantages of marginal costing

Not recommended by SSAP 9 and IAS 2.**(1)**AO1 If used to prepare financial statements, it is argued they would not give a true and fair view / be signed off by auditors. **(1)**AO3

Not all costs are allocated to the products.**(1)**AO1 This would mean this method is not suitable for fixing prices / accepting possible orders etc in the long run.**(1)**AO3

(2)

(ii) [AO1] 2 [AO3] 2

1 AO1 mark for each point made. 1 AO3 mark for each development

Answers may include:

Disadvantage of absorption costing

All costs are not allocated to the time period in which they are incurred.**(1)**AO1 It may be argued that profit for that time period is not accurate as external accounts are drawn up on the basis of a time period. **(1)**AO3

Does not follow the prudence concept**(1)**AO1 Closing inventory may be overstated and therefore also profit overstated.**(1)**AO3

May be time consuming and complex to work out the value of closing inventory.**(1)**AO1

All costs must be included in the valuation of closing inventory.**(1)**AO3

(4)

(c)

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

For accepting order

- The order could be accepted on the grounds that £30 is greater than the marginal cost of £27.45
- The new customer may result in more orders in the future, perhaps at a higher price.
- There are just over 5 000 units in inventory, so the order can be met. There will be no need to have any extra production runs as the units are in inventory.

For rejecting order

- In the long term, selling at £30 would result in a Net Loss/ not all costs are covered.
- Existing customers would be unhappy to hear of this low price on offer.
- The lower price might invite the belief that the product is now inferior / of lower quality and this may affect sales.
- If taken out of inventory, this would only leave 120 units. If regular customers request any extra orders, they may have to wait or be disappointed.

Conclusion

Marginal costing states order should be accepted.

(6)

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(Total for Question 6 - 30 Marks)

(Total for Section B = 90 marks)

TOTAL FOR PAPER = 200 MARKS

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