GradeMax

Pearson

Mark Scheme (Results)

Summer 2026

Pearson Edexcel International Advanced Level in Accounting
WAC12/01
Unit 2: Corporate and Management Accounting

GradeMax

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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(1) AO2 (4)
AO1: One mark for correct formula stated.
AO2 : Four marks for correct for correct calculation of dividend paid per ordinary share.

Dividend paid per share = Total ordinary dividend (1)AO1
Issued ordinary shares

Final dividend = (£20 000 000 x 0.0125) = £250 000

= £250 000(1) AO2 + £190 000(1)AO2 = £0.022 (2.2 pence) per share(1o/f)AO2
20 000 000 (1)AO2

(5)

(ii)AO1 (4)
AO1: Four marks for correct formula, correct insertion of market price of share and dividend per share and for correct calculation of dividend yield.

Dividend yield = Dividend per share x100 (1)AO1
Market price of share

= £0.022p (1o/f)AO1 x 100 = 3.01% (1o/f)AO1
£0.73p (1)AO1

(4)

(iii) AO1(1) AO2 (5)
AO1: One mark for correct formula stated.
AO2 : Three marks for correct insertion of net profit after tax and of ordinary shares issued, and correct calculation of earnings per ordinary share.

Earnings per ordinary share = Net profit after tax - Irredeemable preference dividend (1)AO1
Issued ordinary shares

Net profit after tax = (£2 650 000 - £520 000) = £2 130 000 (1)AO2

Irredeemable Preference dividend = (£10 000 000 x 0.065) = £650 000 (1)AO2

Earnings per ordinary share = £2 130 000- £650 000(1)AO2 both = 7.4 pence per share
20 000 000 (1)AO2 (1o/f)AO2

(6)

ALSO ACCEPTABLE

Earnings per ordinary share = Net profit after tax - All preference dividends (1)AO1
Issued ordinary shares

Net profit after tax = (£2 650 000 - £520 000) = £2 130 000 (1)AO2

Irredeemable Preference dividend = (£10 000 000 x 0.065) = £650 000

Redeemable Preference dividend = (£5 000 000 x 0.06) = £300 000

Earnings per ordinary share

= £2 130 000 (1)AO2 – £650 000 - £300 000 (1)AO2= 5.9 pence per share (1o/f)AO2
20 000 000 (1)AO2

(iv) AO1 (4)
AO1 : Four marks for correct stating of formula, correct insertion of market price of share and earnings per share and for correct calculation of price/earnings ratio.

Price/earnings ratio = Market price of share (1)AO1
Earnings per share

= £0.73 (73p) (1)AO1 = 9.86 times (1o/f)AO1
7.4p (1o/f)AO1

(4)

ALSO ACCEPTABLE

Price/earnings ratio = Market price of share (1)AO1
Earnings per share

= £0.73 (73p) (1)AO1 = 12.37 times (1o/f)AO1
5.9p (1o/f)AO1

(4)

(v) AO1 (2) AO2 (2)
AO1 : Two marks for correct stating of formula and correct insertion of total ordinary dividend.
AO2 : Two marks for correct for correct insertion of net profit after tax less preference dividends and calculation of dividend cover.

Dividend cover = Net profit after tax – irredeemable preference dividend (1)AO1
Total ordinary dividend

= £2 130 000 - £650 000 (1o/f)AO2 both = 3.36 times (1o/f) AO2
£250 000 + £190 000 (1o/f)AO1 both

(4)

ALSO ACCEPTABLE

Dividend cover = Net profit after tax – All preference dividends (1)AO1
Total ordinary dividend

= £2 130 000 - £650 000 - £300 00 (1o/f)AO2 = 2.68 times AO2
£250 000 + £190 000 (1o/f)AO1

(4)

(vi) AO1(1) AO2(9) AO3(2)
AO1: One mark for correct formula stated.
AO2: Nine marks for correct insertion of debenture, bank loan, ordinary shares, retained earnings, general reserve and foreign exchange reserve, revaluation reserve, total debt, total equity and calculation of gearing ratio.
AO3: Two marks for correct inclusion of redeemable preference shares and irredeemable preference shares.

Gearing ratio = Fixed Cost Capital (Debt) x 100 (1)AO1
Capital employed (Debt + Equity)

Debt = £5 000 000 (1)AO3 + £10 000 000(1) AO2 + £1 800 000 (1)AO2 = £16 800 000

Equity
= £24 000 000 (1)AO2+ £10 000 000(1)AO3 - £1 350 000 (1)AO2 + £500 000 + £800 000 both (1)AO2
+ £1 000 000 (1)AO2 = £34 950 000

= £16 800 000 x 100 (1o/f)AO2 = 32.46% (1o/f)AO2
£51 750 000 (1o/f)AO2

(12)

ALSO ACCEPTABLE

Gearing ratio = Fixed Cost Capital (Debt) x 100 (1)AO1
Capital employed (Debt + Equity)

Debt = £5 000 000 (1)AO3 + £10 000 000(1)AO3 + £10 000 000(1) AO2 + £1 800 000 (1)AO2 = £26 800 000

Equity
= £24 000 000 (1)AO2 - £1 350 000 (1)AO2 + £500 000 + £800 000 both (1)AO2
+ £1 000 000 (1)AO2 = £34 950 000

= £26 800 000 (1o/f)AO2 = 51.79% (1o/f)AO2
£51 750 000 (1o/f)AO2

(12)

(vii) AO1(1) AO2(3) AO3(4)
AO1: One mark for correct formula stated.
AO2 : Three marks for correct insertion of net profit before interest and tax and capital employed and calculation of return on capital employed.
AO3 : Four marks for correct insertion of net profit after interest before tax, correct calculation of interest to add back on debenture, bank loan, and redeemable preference shares.

Return on Capital employed = Net profit before interest and tax x 100 (1)AO1
Capital employed

Net profit after interest before tax = £2 650 000 (1)AO3

Interest on debenture = (£10 000 000 x 12%) = £1 200 000 (1)AO3

Interest on bank loan = (£1 800 000 x 13%) = £234 000 (1)AO3

Interest on redeemable preference shares = (5 million x £1.00 x 6%) = £300 000 (1)AO3

Net profit before interest and tax = £4 384 000

= £4 384 000 (1o/f)AO2 x 100 = 8.47% (1o/f)AO2
£51 750 000 (1o/f)AO2

(8)

ALSO ACCEPTABLE

Return on Capital employed = Net profit before interest and tax x 100 (1)AO1
Capital employed

Net profit after interest before tax = £2 650 000 (1)AO3

Interest on debenture = (£10 000 000 x 12%) = £1 200 000 (1)AO3

Interest on bank loan = (£1 800 000 x 13%) = £234 000 (1)AO3

Net profit before interest and tax = £4 084 000 (1)AO3

= £4 084 000 (1o/f)AO2 x 100 = 7.89% (1o/f)AO2
£51 750 000 (1o/f)AO2

(8)

(b) (AO1)1 (AO2)1 (AO3)4 (AO4)6

Own figure rule applies throughout answer.

Answers may include:

Good performance

The dividend yield is 3.01%. This could be quite similar to what could be earned by placing in a deposit account. A dividend yield of between 2% and 6% is considered attractive.
However, an investor is also concerned with the movement of the share price – does the share price move up or down? We are not given any information that tell us if the share price has moved up or down.

The earnings per share is often regarded as the most important ratio of a company. For Atraixy Industrials plc, a figure 7.4 pence per share looks healthy. Especially as it appears that in previous years, a loss had been made.

Dividend cover tells investors how many times the net profit after tax less irredeemable preference dividend covers the ordinary dividends being paid out. A low figure shows a generous dividend policy (or a low profit). A high figure shows a dividend policy that is not generous (or a high profit). The market views a dividend cover ratio of 2 to be good. A ratio of below 1.5 may give cause for concern. The figure of 3.36 for Atraixy shows the company is being cautious with its dividend policy and not handing out large dividends.

Gearing is 32% which is inside the recommended boundaries for "good". These boundaries are between 25% and 50%. The company could take out more loans in the future if they want to.

Not easy to categorise

Dividend per share is 2.2 pence per share.
By itself, the figure means little. The market is more concerned with dividend yield, which relates dividends to the market price. An investor needs to relate this figure to the amount they paid for the share – the dividend yield.

Return on capital employed was 8.47% for the year just ended. This is a reasonable return. An investor would be unlikely to achieve a return of 8% if they invested in a bank deposit account. However, some markets consider a return to be good if it is above 15%. This figure often depends upon the industry the company is in.

Poor performance

The Price/earnings ratio was 9.86 times. The market considers a ratio of 20 to 25 as average. Below 20 to 25 the market considers the share undervalued. However, there could be a reason why the share price is low. One possibility is that in recent years, the company has made losses not profits. This is shown by the Retained earnings account having a debit balance,

Conclusion

It appears that the performance of Atraixy Industrials plc was quite good, as shown by many of the ratios.
However, retained earnings is a debit balance and the market is still cautious as the Price/earnings ratio is low.

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) 10 (AO2) 6				
AO1: One mark for each fixed cost and total fixed costs.				
One mark for each variable cost, except power and royalties which are worth one together,				
and one mark for total variable cost per unit.				
AO2: Three marks for calculation of contribution per unit.				
Three marks for calculation of break-even point in units.				

Fixed costs	£	
Business rates	23 400	(1)AO1
Managers salaries	19 200	(1)AO1
Other Fixed costs	7 200	(1)AO1
Power	36 000	(1)AO1
Total fixed costs	85 800	(1o/f)AO1
Variable costs per unit	£	
Delivery	0.05	(1)AO1
Direct labour	0.17	(1)AO1
Materials	0.80	(1)AO1
Power	0.01	both
Royalties	0.02	(1)AO1
Total variable costs per unit	1.05	(1)AO1
Contribution per unit =	Selling price -	Variable costs
	£2.65 (1)AO2 -	1.05 (1o/f) AO2
	= £1.60 (1o/f) AO2	
Break-even point	Total Fixed costs	
	Contribution per unit	
=	85 800	(1o/f)AO2
	£1.60	(1o/f)AO2
=	53 625	(1o/f)AO2
		(16)

(a)(ii) (AO2) 2			
AO2: Two marks for calculation of break-even point in revenue.			
Break-even point in revenue	=	53 625 x £2.65	(1o/f)AO2
		= £142 106.25	(1o/f)AO2
			(2)

(b) (AO2) 4			
Four marks for calculation of margin of safety in units.			
Volume of sales =	75 000 x 98% (1)AO2 =	73 500 units	
Margin of safety in units =	73 500 (1)AO2	- 53 625 (1o/f)AO2	
	19 875 units	(1o/f)AO2	**(4)**

(c) AO2 (6)				
AO2: Six marks for calculation of profit for the year				
Profit for the year		£	£	
Revenue	(75 000 x 98% x £2.65)		194 775	(1)AO2
Less				
Variable costs	(75 000 x 1.05 (o/f)	(78 750)	(1o/f)AO2	
Fixed costs		(85 800)	(1o/f)AO2	
Plus closing inventory		1 316	(1)AO2	
Cost of Goods sold			(163 234)	(1)AO2
Profit for the year			31 541	(1o/f)AO2
				(6)

(d) [AO1] 4 [AO2] 5 [AO3] 6 (graph will be integrated in MS)				
AO1: One mark for both axes labelled, one mark each for fully labelled scales,				
and correct drawing of fixed costs.				
AO2: Five marks for calculations of fixed and variable costs.				
AO3: One mark each for correct drawing on the graph of total costs, break-even point in units				
and revenue, profit, margin of safety in units and the angle of incidence.				
Workings for graph				
Fixed Costs	£			
Business rates	23400			
Managers Salaries	18000			
Other Fixed costs	6600	all four		
Power	32000	**(1)**AO2		
Total Fixed costs		80000	**(1o/f)**AO2	
Variable costs per unit	£			
Delivery	0.05			
Direct labour	0.23			
Material	0.90			
Power	0.02			
Total variable costs per unit	1.20	**(1)**AO2		
Total variable costs	(80 000 x £1.20)	= £96 000	**(1o/f)**AO2	
Total fixed and variable costs		£176 000	**(1o/f)**AO2	**(15)**

(e) AO1 (1) AO2 (1) AO3 (4) AO4 (6)

All figures are own figures.

Case for Producing Sponge cakes

Variable costs per unit for producing sponge cakes are £1.05 which is lower than fruit pies whose variable costs are £1.20 The difference is £0.15 per item.

Total costs for producing sponge cakes are £163 234 which is lower than total costs for producing fruit pies which are £176 000. The difference is £12 766.

The contribution of one sponge cake is £1.60. Total contribution is £117 600 This is £5 600 more than the contribution of fruit pies. Fruit pies contribution is £1.40 per pie giving a total contribution og £112 000

The break-even point for sponge cakes is 53 625 units, which is lower than the break-even point for fruit pies which is 57 142 units. The difference is 3 517 unit.

Only 98% of sponge cakes are predicted to be sold. This means that 2% will be in inventory which will be available should there be an increase in demand, or an underestimation of predicted sales figures.

Case for Producing Fruit pies

Fixed costs are £80 000 per year which is lower than sponge cakes fixed costs which are £85 800.
The difference is £5 800

Revenue of £208 000 is greater than the revenue from sponge cakes which is £194 775
The difference is £13 225

Fruit pies have a margin of safety of 80 000 – 57 142 = 22 858. This is greater than the margin of safety of sponge cakes which is 73 500 – 53 625 = 19 875

The profit for producing fruit pies is £32 000 which is greater than the profit for producing sponge cakes which is £31 541. The difference is £459

100% of fruit pies are predicted to be sold. It is good to sell all of production. This especially applies to foodstuffs that may see their condition deteriorate quite rapidly. It also means that there are no storage costs required.

Other Points

All the figures for costs and revenues are estimates for the future. It is not known how accurate these estimates are.

Conclusion

The most important figure is the figure for profit. This would mean that producing fruit pies would be the best option if the figures are correct estimates.

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	0	A completely incorrect response.
Level 1	1 - 3	Isolated elements of knowledge and understanding which are recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
Level 2	4 - 6	Elements of knowledge and understanding, which may be applied to the scenario. Chains of reasoning are present, but may be incomplete or invalid. A generic or superficial assessment is present.
Level 3	7 - 9	Accurate and thorough understanding, supported by relevant application to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects. An attempt at an assessment is presented, using financial 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 information and makes an informed decision.

12 marks

Total for Question 2 = 55 marks

Q3 Mark Scheme

(a) (AO1) 5 (AO2) 2

AO1: Five marks for correct calculation of book value of company, adjustments for fixtures and fittings, patent, inventory and value of company after adjustments.

AO2 : Two marks for calculations of property and computers.

Calculation of value of QHP plc

	(£000)	
Book value of company	6 320	(1) AO1
Revaluations		
Property, plant and equipment	960	(1) AO2
Computers	(210)	(1) AO2
Fixtures and Fittings	(40)	(1) AO1
Patent	(25)	(1) AO1
Inventory	5	(1) AO1
Value of QHP plc	7 010	(1o/f) AO1

(7)

(b) (AO2) 4

AO2: Four marks for correct calculation of value of offer.

Number of shares in QHP plc = $\frac{4\,800\,000}{0.8}$ (1) AO2 (1) AO2 = 6 000 000 shares (1) AO2

Value of offer = 6 000 000 x £1.37 = £8 220 000 (1o/f) AO2

(4)

(c) **(AO2) 3**

AO2 : Three marks for correct calculation of goodwill.

Calculation of goodwill

Value of offer	£8 220 000	(1o/f) AO2
Value of QHP plc	£7 010 000	(1o/f) AO2
Goodwill	£1 210 000	(1o/f) AO2

(3)

(d) **(AO3) 4**

AO3 : Four marks (2 marks per reason) for explaining why goodwill has been paid.

Reasons for willing to pay goodwill.

Goodwill sees the amount of the sum offered be higher than the book value of QHP. (1) AO3
This would make the offer more likely to be accepted. (1) AO3

QHP plc are likely to have a large number of existing customers (1) AO3 and StayKlean plc will be able to take these customers on board without advertising campaigns etc (1) AO3

StayKlean plc should gain from economies of scale (1) AO3 for example managerial economies, only having one director/manager for eg Personnel for the one company, not two. (1) AO3

(4)

(e) **(AO2) 1 (AO3) 3**

AO2: One mark for calculating the number of shares by the value of each share.
AO3: Three marks for workings in calculating the value of the offer.

Value of offer:
10 shares in QHP plc receive 4 shares in ShinyGlitter plc trading at £1.00 plus £2.50 premium a share.

So, ShinyGlitter shares are trading at £3.50 a share (1) AO3

4 shares at £3.50 = £14.00 (1o/f) AO3

Therefore, one share in QHP plc is valued at $\frac{£14.00}{10}$ = £1.40 (1o/f) AO3

Total value of offer = 6 000 000 (o/f) x £1.40 = £8 400 000 (1o/f) AO2

(f) **(AO2) 2**
AO2: Two marks for calculating the trading value of the shares received in ShinyGlitter plc.

Ahmad has 180 shares ÷ 10 = 18 lots

18 lots x 4 = 72 shares in ShinyGlitter plc (1) AO2

72 shares trading at £3.50 a share = £252 in total. (1o/f) AO2

(g) **(AO2) 1 (AO3) 2 (AO4) 3**
Answers may include:

In favour of StayKlean plc

Ahmad would receive £1.37 guaranteed cash per share.

He could then invest this and earn more returns on his cash if he wished.

Ahmad could spend the cash now if he wanted to.

The shares in ShinyGlitter plc may fall in value over time.

In favour of ShinyGlitter plc

Ahmad would receive the equivalent of £1.40 (o/f) for each share he held in QHP plc.
This is 3p (o/f) a share more than the offer from StayKlean plc.

He receives shares in ShinyGlitter plc and these shares may rise in value over time. The shares may also give dividends in the future.

If Ahmad decided to invest his cash in another company, the company's shares may fall in value.

Conclusion

Candidates may put forward a valid argument in favour of either option.

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	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 3 - 30 marks

Q4a to be integrated from the Excel file.

Q4a to be integrated from the Excel file.

(b) (AO3) 6
AO3: Six 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)

$$= 8\% \text{ (1)AO3} + (14 - 8) \text{ (1)AO3} \times \frac{(19\,160) \text{ (1o/f)AO3}}{(19\,160 \text{ (1o/f)AO3} + 31\,565) \text{ AO3}}$$

$$= 8\% + (6 \times 0.377 \text{ o/f})$$

$$= 10.262\% \text{ (1o/f)AO3}$$

6 marks

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

Answers may include:

Case For Investment

The tennis courts have a positive net present value of £19 159 using a funding rate of 7%, which presumably the council may obtain.

The internal rate of return is 10.262% which is higher than the funding rate of 7%.

The investment will provide sporting facilities for the population of Binghamton which they can enjoy using.

The sporting facilities will help improve the health of the local residents. This will also possibly reduce the amount of money the council has to spend on healthcare facilities.

Case Against Investment

This money could be spent on other projects by the council.

The figures are only estimates. The number of people using the facilities may be less than predicted.

Other points

Are there any other projects that the £150 000 may be invested in? These may include projects for other sports eg a running track or a gymnasium. Or they could be non-sporting projects eg social care or theatre.

Do these other projects give a better (or worse) return?

Decision

Candidates may conclude that the project should / should not go ahead.
Candidates should support the conclusion with the appropriate rationale.

6 marks

Level	Mark	Descriptor
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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 4 - 30 marks

Q5
(a)(i) AO1 (2) AO2 (3) AO3 (1)
AO1: Two marks for balancing off accounts correctly at start at end of year.
AO2: Three marks for entries for Application and allotment, and First call.
AO3: One mark for entry for second and final call.

Ordinary Share Capital Account

Date	Details	£	Date	Details	£
2025			2025		
			1 April	Balance b/d	485 000 (1)AO1
			4 May	Application and Allotment	30 000 (1)AO2
			1 Sept	Application and Allotment	60 000 (1)AO2
			15 Dec	First call	15 000 (1)AO2
2026			2026		
31 Mar	Balance c/d	635 000	1 Mar	Second and Final call	45 000 (1)AO3
		635 000			635 000
			1 April	Balance b/d	635 000 (1o/f)AO1
					6 marks

(a)(ii) AO2 (3) AO3 (3)
AO2: Two marks for bank account entries on credit side and balancing off account.
AO3: One mark for entry for refund and two marks for transfers to Ordinary share capital account.

Application and Allotment Account

Date	Details	£	Date	Details	£
2025			2025		
4 May	Ordinary share capital	30 000 (1)AO3	4 May	Bank	37 200 (1)AO2
25 July	Bank	7 200 (1)AO3	1 Sept	Bank	60 000 (1)AO2
1 Sept	Ordinary share capital	60 000 (1)AO3			
		97 200		(1o/f)AO2	97 200

6 marks

(a)(iii) AO1 (3)
AO1: Two marks for balancing off accounts correctly at start at end of year, and one mark for First call account entry.

Share Premium Account

Date	Details	£	Date	Details	£
2025			2025		
2026			1 April	Balance b/d	194 000 (1)AO1
31 Mar	Balance c/d	254 000	15 Dec	First call	60 000 (1)AO1
		254 000			254 000
			1 April 2026	Balance b/d	254 000 (1o/f)AO1

3 marks

(a)(iv) AO2 (3)
AO2: Three marks for bank entry, transfer to ordinary share account and transfer to share premium account.

First Call Account

Date	Details	£	Date	Details	£
2025			2025		
15 Dec	Ordinary share capital	15 000 (1)AO2	15 Dec	Bank	75 000 (1o/f)AO2
	Share premium	60 000 (1)AO2			
		75 000			75 000

3 marks

(a)(v) AO2 (3)
AO2: Three marks for bank entry, transfer to ordinary share account and balancing off account correctly at end of year.

Second Call Account

Date	Details	£	Date	Details	£
2026			2026		
1 Mar	Ordinary share capital	45 000 (1)AO2	1 Mar	Bank	45 000 (1)AO2
		45 000			45 000
					(1)AO2 **3 marks**

(b) (AO3) 2
AO3: One mark for each difference.

Two ways a bonus issue of ordinary shares differs to a rights issue of ordinary shares:

- A bonus issue sees no money paid for the shares but a rights issue involves payment.
- A bonus issue is issued to existing shareholders but a rights issue could involve new shareholders who are not registered shareholders at present.

(2)

(c) (AO3) 1
AO3: One mark for a similarity.

One way a bonus issue of ordinary shares is the same as a rights issue of ordinary shares:

- Both issues will entitle the holder of the new shares to more votes.

(1)

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

Advantages to the company

The company can raise capital. This could be used to expand the company, invest in new opportunities etc.
Company may need funds to pay off debts.
The company may appear to be a larger company, this may attract new investors.
A larger company may benefit from borrowing from banks at a lower interest rate.

Disadvantages to the company

Issuing more shares involves more fees and expenses eg broker's fees and possibly bank charges.
If the market does not think the value of the company has risen, the value of each share will go down as there are more shares in issue.
Having more shares in issue, could involve having to pay out more in dividends.

Conclusion

Candidates may argue and conclude that it is a good or a bad idea for a company to issue more shares.

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) 5 (AO2) 12 (AO3) 7
AO1: Five marks for calculating sales revenue, value of opening inventory, and units of production.
AO2: Twelve marks for calculating direct materials, direct labour, semi-variable costs (variable), closing inventory units, variable cost of sales, contribution, semi-variable costs (fixed), fixed overheads, total costs, and net profit.
AO3 : Seven marks for calculating value of closing inventory for both methods.

W(1)
Sales = (300 + 180) = 480 x 48 weeks = 23 040 units (1)AO1

Sales revenue = 23 040 x £49 = £1 128 960 (1o/f)AO1

W(2)
Opening inventory
Marginal = 1 000 units x £27 = £27 000

Absorption = 1.000 x £33 = £33 000 (1)AO1 both

W(3)
Production = 12 per hour x 8 hours x 5 days x 48 weeks (1)AO1

= 23 040 units (1o/f)AO1

W(4)
Closing inventory units = Opening inventory + Production - Sales units

= 1 000 + 23 040 - 23 040 (1o/f)AO2 = 1 000 units (1o/f)AO2

W(5)
Value of closing inventory -
Marginal costing
Variable overhead = £8.70
Direct materials = £11.20 (1)AO3 both
Direct labour = £9.45 (1)AO3
= £29.35 x 1 000 = £29 350 (1o/f)AO3

Absorption costing
Semi variable costs = £720 x 48 = £34 560 ÷ 23 040 (o/f) = £1.50 (1o/f)AO3
Fixed overheads = £9 600 x 12 = £115 200 ÷ 23 040 (o/f) = £5.00 (1o/f)AO3
Plus variable costs = £29.35 (o/f)

Total closing inventory absorption costing unit = £35.85 (1o/f)AO3

Total closing inventory absorption 1 000 units = £35 850 (1o/f)AO3

	Marginal Costing	Absorption Costing	
	£	£	
Revenue	1 128 960	1 128 960	W(1)
Less cost of sales			
Opening inventory	27 000	33 000	W(2)
Direct materials	258 048	258 048	(1)AO2
Direct labour	217 728	217 728	(1)AO2
Semi-variable costs (Variable)	200 448	200 448	(1)AO2
Less closing inventory	(29 350)	(35 850)	W(4)+(5)
Variable cost of sales	673 874		(1o/f)AO2
Contribution	455 086		(1o/f)AO2
Semi-variable costs (Fixed)	34 560	34 560	(1)AO2
Fixed overheads	115 200	115 200	(1)AO2
Total costs	823 634	823 134	(1o/f)AO2
Profit for the year	305 326	305 826	
	(1o/f)AO2	(1o/f)AO2	

24 marks

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

For producing accounts using the two methods

The company has the same levels of inventory at the start and the end of the year.
This could make the two profits quite similar. This may not always be the case.

The figures for inventory are relatively small compared to other expenses for the company.
This could make the two profits quite similar. This may not always be the case.

Both methods have advantages, for example:

Marginal costing:

- Helps decision making eg make or buy
- Costs are allocated to a time period, so profit for that time period is accurate.
- Follows the prudence concept

Absorption costing:

- Sees costs allocated to products, which is good for fixing prices.
- Recommended by SSAP 9/ IAS 2 / FRS 102 for external accounts.
- Follows the matching concept.

Against producing accounts using the two methods

Both methods have disadvantages, for example:

Marginal costing:

- Not recommended by SSAP 9 or IAS 2 as it may not give a true and fair view.
- Not all costs are allocated to the products, so not suitable for fixing prices in the long run.

Absorption costing:

- All costs are not allocated to the time period in which they are incurred.
- Does not follow the prudence concept.

Conclusion

It is probably worth preparing accounts using the two bases.

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