# Mark Scheme (Results)

# October 2019

Pearson Edexcel International Advanced Level

In Accounting (WAC12)

Paper 01 Corporate and Management Accounting

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**General Marking Guidance**

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

**Q1a  Mark Scheme**

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

| W1 Cost of Sales | | | |
|---|---:|---|---|
| Direct Materials | 3 090 000 | (1) AO1 | |
| Less Discount Received | (71 000) | (1) AO2 | |
| Electricity | 72 000 | (1) AO2 | |
| Equipment Depreciation | 6 000 | (1) AO3 | |
| Factory Depreciation | 42 000 | (1) AO3 | |
| Gas | 8 000 | (1) AO2 | |
| Insurance | 14 000 | (1) AO2 | |
| Chefs Wages | 525 500 | (1) AO1 | |
| Opening Inventory | 244 500 | (1) AO1 | |
| Less Closing Inventory | (281 500) | (1) AO2 | |
| | **3 649 500** | (1 o/f) AO1 | **11 marks** |
| | | | |
| **W2 Distribution Costs** | | | |
| Advertising | 47 000 | (1) AO2 | |
| Fuel | 140 000 | (1) AO2 | |
| Electricity | 90 000 | (1) AO2 | |
| Gas | 8 000 | (1) AO2 | |
| Insurance -shops | 10 000 | (1) AO2 | |
| Insurance - vehicles | 20 000 | (1) AO2 | |
| Depreciation on motor vans | 78 750 | (1) AO3 | |
| Motor van maintenance | 238 000 | (1) AO1 | |
| Shop Rents | 654 000 | (1) AO1 | |
| Motor van driver wages | 302 000 | (1) AO1 | |
| Shop staff wages | 884 000 | (1) AO1 | |
| | **2 471 750** | (1 o/f) AO1 | **12 marks** |
| | | | |
| **W3 Administrative Expenses** | | | |
| Electricity | 18 000 | (1) AO2 | |
| Gas | 8 000 | (1) AO2 | |
| Insurance - office | 2 000 | (1) AO2 | |
| Office expenses | 138 000 | (1) AO1 | |
| Office staff wages | 117 000 | (1) AO1 | |
| Stationery | 9 000 | (1) AO1 | |
| | **292 000** | (1 o/f) AO1 | **7 marks** |
| | | | |
| **W4  Financial cost** | | | |
| Interest on bank loan | 21 000 | (1) AO2 | |
| Bank charges | 11 000 | (1) AO1 | |
| Interest on debenture | 120 000 | (1) AO3 | |
| | **152 000** | (1 o/f) AO1 | **4 marks** |

Accept bank charges as administrative expenses

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

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

Case for ICT

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

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

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

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

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

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

Case Against ICT

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

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

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

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

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

Should conclude that ICT is very advantageous.

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

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

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

Advantages of break-even analysis.
Answers could include.

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

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

4 marks

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

Disadvantages of break-even analysis.
Answers could include.
The analysis assumes that total fixed costs remain the same for all output levels (1). This is unrealistic, as there are likely to be stepped fixed costs, meaning total fixed costs will rise as output rises (1).
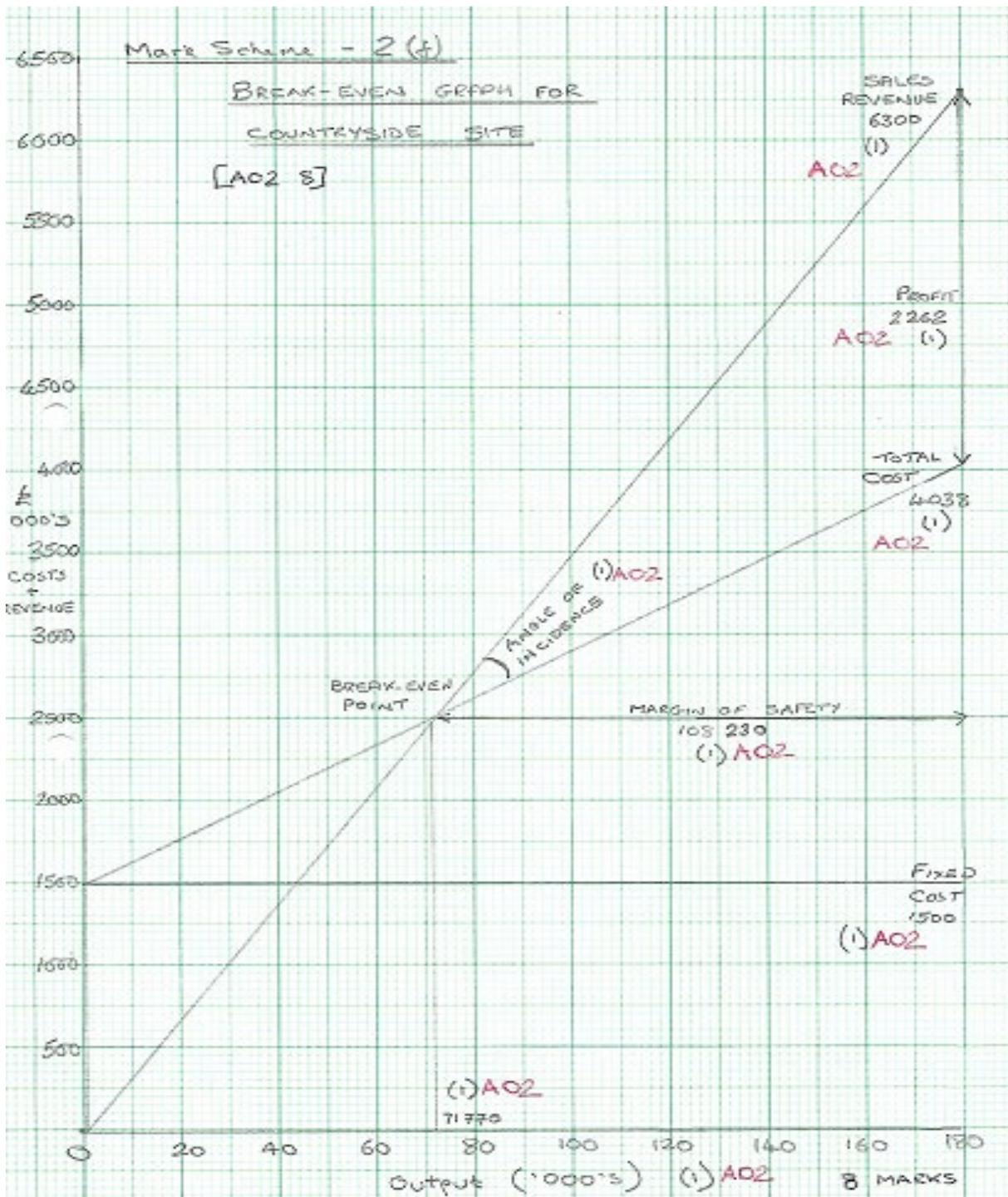
Break-even analysis assumes that the variable costs per unit remain the same for all levels of output (1). This is not likely to happen because, for example, discounts will be received as the purchase of raw materials increases (1).

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

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

4 marks

(f)



Mark Scheme – 2 (f)

BREAK-EVEN GRAPH FOR
COUNTRYSIDE SITE
[AO2 8]

SALES
REVENUE
6300
(1)
AO2

PROFIT
2 262
AO2 (1)

TOTAL
COST
4038
(1)
AO2

ANGLE OF
INCIDENCE (1)AO2

BREAK-EVEN
POINT

MARGIN OF SAFETY
105 230
(1) AO2

FIXED
COST
1500
(1)AO2

(1)AO2
71 770

(1) AO2

8 MARKS

8 marks

 (g) [AO1 1] [AO3 2]
**AO1: One mark, for basic point made.**
**AO3: Two marks, one mark for each point developed.**
The angle of incidence illustrates the relationship between total costs and sales revenue. (1)
The greater the angle, the greater the difference per unit between total costs and sales revenue. (1)
 A business would like the angle of incidence to be large, as the contribution and profit per unit sold will be large. (1)

10

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

Own figure applies

For the town centre site option 1

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

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

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

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

For the countryside site option 2

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

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

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

Other points

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

Conclusion

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

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

12 marks

| 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.<br>Chains of reasoning are present, but may be incomplete or invalid.<br>A generic or superficial assessment is present. |
|---|---|---|
| Level 3 | 7 - 9 | Accurate and thorough understanding, supported by relevant application to the scenario.<br>Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects.<br>An attempt at an assessment is presented, using financial and 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.<br>A coherent and logical chain of reasoning, showing causes and effects.<br>Assessment is balanced, wide ranging and well contextualised using financial and non-financial information and makes an informed decision. |

**Q3 Mark Scheme**

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

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

**(b) [AO1 4]**

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

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

Accepting the offer may lead to the closure of the factory and redundancies of the staff. (1 AO1)

Will they be able to find alternative employment? OR Depressing effect on local community. (1 AO1)

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

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

(c) **[AO4 6]**

own figure rule applies

For accepting offer

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

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

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

For rejecting offer

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

Conclusion

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

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely incorrect response. |
| Level 1 | 1-2 | Isolated elements of knowledge and understanding that are recall based. Generic assertions may be present. |
| Level 2 | 3-4 | Elements of knowledge and understanding. Some analysis is present, with developed chains of reasoning, showing causes and/or effects, although these may be incomplete or invalid. An attempt at an evaluation is presented using financial information, with a decision. |
| Level 3 | 5-6 | Accurate and thorough knowledge and understanding. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial information and an appropriate decision is made. |

**(d)  [AO3 6]**

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

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

**6 marks**

**Total for Question 3 - 30 marks**

**Question 4 Mark Scheme**

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

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

**(c) [AO4 6]**

**Case for liquidity handled well**

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

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

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

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

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

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

**Case for liquidity handled poorly**

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

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

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

**Conclusion**

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

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

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely incorrect response. |
| Level 1 | 1-2 | Isolated elements of knowledge and understanding that are recall based. Generic assertions may be present. |
| Level 2 | 3-4 | Elements of knowledge and understanding. Some analysis is present, with developed chains of reasoning, showing causes and/or effects, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial information, with a decision. |

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

**6 marks**

**Total for question 4 = 30 marks**

**Question 5 Mark scheme**

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

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

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

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

**6 marks**

**(d) [AO4  6]**

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

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

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

<u>Case for poor performance</u>

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

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

<u>Other points</u>

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

<u>Conclusion</u>

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

Own figure rule applies throughout answer.

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely incorrect response. |
| Level 1 | 1-2 | Isolated elements of knowledge and understanding that are recall based. Generic assertions may be present. |
| Level 2 | 3-4 | Elements of knowledge and understanding. Some analysis is present, with developed chains of reasoning, showing causes and/or effects, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial information, with a decision. |
| Level 3 | 5-6 | Accurate and thorough knowledge and understanding. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial information and an appropriate decision is made. |

**6 marks**

**Total 30 marks**

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

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

**[AO1]: Two marks for correct insertion of total ordinary dividend and issued ordinary shares**
**[AO2] : One mark for correct for correct calculation of dividend paid per ordinary share.**

    Dividend paid per share     =  Total ordinary dividend
                                 Issued ordinary shares

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

 **(ii)   [AO1 2] [AO2 1]**
**[AO1] : Two marks for correct insertion of market price of share and dividend per share.**
**[AO2] :One mark for correct calculation of dividend yield.**

Dividend yield            =  Dividend per share   x100
                           Market price of share

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

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

**[AO1] : One mark for correct insertion of total ordinary dividend.**
**[AO2] : One mark for correct calculation of dividend cover.**
**[AO3] : Two marks for correct for correct insertion of net profit after tax and preference dividends.**

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

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

   **(iv)    [AO2 3]**

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

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

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

**(v)    [AO2  3]**

**[AO2  3] : Three marks for correct insertion of market price of share and earnings per share and for correct calculation of price/earnings ratio.**

Price/earnings ratio    =   Market price of share
                              Earnings per share

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

**(vi)    [AO2  3] [AO3 5]**

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

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

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

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

**(b)  [AO4 6]**

<u>Dividend yield is a reflection of the success of the company</u>

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

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

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

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

<u>Conclusion</u>

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

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

| Level | Mark | Descriptor |
|---|---|---|
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| Level 1 | 1-2 | Isolated elements of knowledge and understanding that are recall based. Generic assertions may be present. |
| Level 2 | 3-4 | Elements of knowledge and understanding. Some analysis is present, with developed chains of reasoning, showing causes and/or effects, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial information, with a decision. |
| Level 3 | 5-6 | Accurate and thorough knowledge and understanding. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial information and an appropriate decision is made. |

**6 marks**

**Total for Question 6 - 30 marks**