Pearson Edexcel

Mark Scheme (Results)

October 2024

Pearson Edexcel International Advanced Level
In Accounting (WAC12) Paper 01
Unit 2: Corporate and Management Accounting

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October 2024
Question Paper Log Number P78377A
Publications Code WAC12_01_2410_MS

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) AO1(1)AO2 (16) AO3 (6)

AO1: One mark for correct identification of factory rent.

AO2: Sixteen marks for calculation of material cost, direct labour cost, workings of supervisor labour, management salaries, workings for power and total production costs.

AO3: Six marks for workings in calculation of supervisor labour and power.

Material

$\frac{£572\ 000}{22\ 000}$ = £26.00 per unit or $\frac{£624\ 000}{24\ 000}$ AO2(1) = £26 per unit AO2(1)

Material cost of 25 000 units = 25 000 x £26 = £650 000 AO2(1o/f)

Direct labour

$\frac{£275\ 000}{22\ 000}$ = £12.50 per unit or $\frac{£300\ 000}{24\ 000}$ AO2(1) = £12.50 per unit AO2(1)

Direct labour cost of 25 000 units = 25 000 x £12.50 = £312 500 AO2(1o/f)

Supervisor labour

£82 880 - £82 640 = £240

24 000 units - 22 000 units = 2 000units

Variable cost per unit = $\frac{£240 \text{ AO2(1)}}{2\ 000 \text{ AO2(1)}}$ = £0.12 per unit AO2(1o/f)

Fixed cost at output of 22 000 must be £82 640 - (22 000 x £0.12)

= £82 640 - £2 640 AO3(1o/f)
= £80 000 AO2(1o/f)

Supervisor labour cost of 25 000 units = £80 000 + (25 000 x £0.12) AO3(1o/f)

= £80 000 + £3 000

= £83 000 AO3(1o/f)

Management salaries

At output of 25 000 units, an extra manager is employed

Therefore management salaries = £126 000 + $\frac{£23\,000}{12}$ = **£127 917** AO2(1)

Power

£10 470 - £9 910 = £560

24 000 units - 22 000 units = 2 000units

Variable cost per unit = $\frac{£560 \text{ AO2(1)}}{2\,000 \text{ AO2(1)}}$ = £0.28 per unitAO2(1o/f)

Fixed cost at output of 22 000 must be £9 910 - (22 000 x £0.28)

= £9 910 - £6 160 AO3(1o/f)
= £3 750 AO2(1o/f)

Power cost of 25 000 units = £3 750 + (25 000 x £0.28) AO3(1o/f)

= £3 750 + £7 000

= £10 750 AO3(1o/f)

Factory Rent

Fixed at £3 900 per month AO1(1)

	November
Units produced	25 000
	£
Material	650 000
Direct labour	312 500
Supervisor labour	83 000
Management salaries	127 917
Power	10 750
Factory rent	3 900
Total production costs	1 188 067 AO2(1o/f)

(b) **AO1(3)**

AO1: Three marks for correct identification of cost classification.

Cost	Classification
Material	Variable
Direct labour	Variable **both** AO1(1)
Supervisor labour	Semi-variable
Management salaries	Semi-fixed **both** AO1(1)
Power	Semi-variable
Factory rent	Fixed **both** AO1(1)

(c) **AO2 (2)**

AO2: Two marks for correct calculation of forecast net profit for November 2024.

Revenue = 25 000 x £74.99 = £1 874 750 AO2(1)

Less Total costs = £1 188 067

Net profit = £686 683 AO2(1 o/f)

(d) **AO1(6) AO2 (4)**

AO1: Six marks for correct calculation of total fixed costs and total variable costs per unit.

AO2: Four marks for correct calculation of break-even point.

Fixed costs	£
Supervisor labour	80 000
Management salaries	127 917 AO1(1o/f)
Power	3 750
Rent	3 900AO1(1o/f)
Total Fixed costs	215 567 AO1(1o/f)

Variable costs per unit	£
Material	26.00
Direct labour	12.50 AO1(1o/f)
Supervisor labour	0.12
Power	0.28AO1(1o/f)
Total variable costs per unit	38.90 AO1(1o/f)

Contribution per unit = £74.99 - £38.90

= £36.09 AO2(1o/f)

Break even point = $\frac{\text{Total Fixed costs}}{\text{Contribution per unit}}$

= $\frac{£215\,567}{£36.09}$ AO2(1o/f) AO2(1o/f)

= 5 974 units AO2(1o/f)

(e) **AO1(2)**

AO1: Two marks for calculation of margin of safety in sales units.

(i) Margin of safety in sales units = Actual output - break-even point output

= 25 000 - 5 974 units AO1(1o/f)

= 19 026 units AO1(1o/f)

AO1(2) AO2(1)

AO1: Two marks for insertion of figures into formula to calculate of margin of safety as a percentage of sales.

AO2: One mark for calculation of margin of safety as a percentage of sales.

(ii) Margin of safety as a percentage of sales = $\frac{\text{Margin of safety in sales units}}{\text{Sales units}}$

= $\frac{19\,026}{25\,000}$ x 100 AO1(1o/f) AO1(1)

= 76.1% AO2(1o/f)

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

Control of fixed costs.

It is possible for Cushway plc to set management salaries, and managers will be willing to work for this salary.

It may be possible for Cushway plc to negotiate with the owner of the premises to fix a monthly rent charge.

It is unlikely that Cushway plc or a business, are able to negotiate a price for the power it is using. It is probable that the price will be set by the power supplier at a national level.

It may be possible to negotiate with the bank over any interest rate charged on any loans. However, this is likely to be determined by the interest rate set by the central bank.

It is possible to decide the length of life of a non-current asset,thus controlling the depreciation charge per year.

Case for control of variable costs.

It is possible for Cushway plc to set direct wages, and labour will be willing to work for this rate.

It may be possible for Cushway plc to negotiate with trade unions and arrive at an agreed labour rate. The agreed rate is likely to be determined by supply and demand for labour in the area.

It may be possible for Cushway plc to negotiate with suppliers for the price of raw materials.

Conclusion

It is easier for Cushway plc or any business, to control fixed or variable costs.

Conclusion should reflect argument put forward.

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) 5 (AO2) 1

AO1: Five marks for correct insertion of non-current assets, current assets, current liabilities and goodwill

AO2: One mark for calculation of purchase price.

Purchase price for Five Counties Insurance plc

	Five Counties Insurance plc £m
Property	39 both
Plant and equipment	3 (1)AO1
Fixtures and fittings	2.5 both
Motor vehicles	1.7 (1)AO1
Inventory	3 both
Trade receivables (21 – 2.4)	18.6 (1)AO1
Less	
Trade payables	(3) both
Other payables	(2) (1)AO1
	62.8
Plus goodwill	6 (1)AO1
Purchase Price	68.8 (1o/f)AO2

6 marks

(a)(ii)

(AO2) 3

AO2 : Three marks for correct calculation of number of shares.

Purchase Price = £68 800 000 (1o/f)AO2
£1.20 (1)AO2

= 57 333 333 shares (1o/f)AO2

3 marks

(b)(i)

(AO1) 4 (AO2) 2 (AO3) 2

AO1: Four marks for entries of non-current assets, current assets, current liabilities, and figure for purchase consideration.

AO2: Two marks for figure for loss on realisation, and balancing the account.

AO3: Two marks for narratives for loss on realisation and purchase consideration.

<u>Safestay plc   Realisation Account</u>

	£m		**£m**
Property	32	Trade payables	5
Plant & Equipment	3	Other payables	2
Fixtures and Fittings	4		
Vehicles	3 (1)AO1 all four	Bank loan	15 (1)AO1 all three
Inventory	2	Guardstrong plc (1)AO3 (Purchase Consideration)	40.8(1)AO1
Trade receivables	18	Sundry Shareholders (Loss on Realisation) (1)AO3	1.2 (1o/f)AO2
Cash	<u>2</u> (1)AO1 all three		
	64		64 (1o/f)AO2

8 marks

(ii)

(AO1) 3 (AO2) 2 (AO3) 3

AO1: Three marks for figures for entries of purchase consideration, retained earnings, and share capital and share premium.

AO2: Two marks for figure for loss on realisation, and balancing the account.

AO3: Three marks for narratives for purchase consideration, retained earnings, and loss on realisation.

Safestay plc Sundry Shareholders Account

	£m		**£m**
Guardstrong plc (1)AO3 (Purchase Consideration)	40.8 (1)AO1	Share Capital	35
Retained earnings (1)AO3	3 (1)AO1	Share Premium	10 both (1)AO1
Realisation Account (1)AO3 (Loss on Realisation)	1.2 (1o/f)AO2		
	45		45(1o/f)AO2

8 marks

(c)(AO1) 2 (AO2) 15 (AO3) 1

AO1: Two marks heading and bank loans entry.

AO2: Fifteen marks for figures for each non-current asset, total of non-current assets, current assets entries, total of current assets, total of all assets, total capital and reserves, total current liabilities, total equity and liabilities, workings for calculating total number of share.

AO3: One mark for figure calculated for share premium.

Statement of Financial Position of Guardstrong plc at 1 October 2024			(1)AO1
ASSETS	**£m**	**£m**	
Non-current assets			
Property	73	both	
Plant and equipment	5	(1)AO2	
Fixtures and fittings	5.7	(1)AO2	
Motor vehicles	4.1	(1)AO2	
Goodwill	7	(1)AO2	
		94.8	(1)AO2
Current Assets			
Inventory	5	both	
Trade receivables	34.8	(1)AO2	
Cash	2	(1)AO2	
		41.8	(1)AO2
Total assets		136.6	(1)AO2
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary shares of £1 each **(W1)(4)**	91.333	See W1	
Share premium	18.266	See W1	
		109.6	(1o/f)AO2
Non-current liabilities			
Bank loans	15		(1)AO1
		15	
Current Liabilities			
Trade payables	8		
Other payables	4		
		12	All four
Total Liabilities		27 (o/f)	(1)AO2

Total Equity and Liabilities		136.6	(1o/f)AO2

(c)(AO1) 2 (AO2) 15 (AO3) 1

AO1: Two marks heading and bank loans entry.

Working 1

Number of shares given to members of Five Counties Insurance plc = 57 333 333 (1o/f)AO2

Number of shares given to members of Safestay plc = 34 000 000 (1)AO2

Total number of shares = 91 333 333 (1o/f)AO2

91 333 333 shares gives a total premium of 91 333 333 (o/f) x £0.20 = £18 266 66 (1o/f)AO3

(18)

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

Evaluation of the merger. Possible answers could include:

For the merger

Guardstrong plc should enjoy benefits of horizontal integration as both companies in the merger are in the same line of business ie insurance companies.

Guardstrong plc should enjoy economies of scale as a larger company eg discounts for bulk buying.

Guardstrong plc should be able to reduce costs eg reduce staff costs or close some branches, maybe where there are two branches in one town.

The book value of Five Counties Insurance plc before adjustments for the merger was £56m, but the company was valued at £68.8m for the merger. This represents an increase of £12.8m for the merger.

The value of Five Counties Insurance plc after adjustments was £62.8m, but the company was valued at £68.8m for the merger. This represents an increase of £6m for the merger.

Five Counties Insurance plc shareholders benefitted from goodwill of £6m. This was £5m higher than the goodwill of £1m offered to Safestay plc.

Against the merger

Shareholders in Five Counties Insurance plc will see a dilution of ownership as there will be more shareholders in the new company. This will result in a reduction in their voting power.

Safestay plc has items on its statement of financial position that could be of concern to shareholders in Five Counties Insurance plc. For example, the balance on retained earnings is negative. It also has a bank loan that is 50% higher than the bank loan to Five Counties Insurance plc.

Other points

It is not known what the stock market will think of the merger. If the market likes the merger then shares are likely to rise and Kerena will see an increase in the value of her shareholding. If the market does not like the merger the value of Kerena's shareholding will fall.

Conclusion

Candidates may argue for or against the merger, but the conclusion should reflect their argument.

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

12 marks

Total for Question 2 = 55 marks

Q3. Mark scheme

(a) **(i) (AO1) 2 (AO2) 1 (AO3)1**

AO1: One mark for correct calculation of final dividend.

One mark for correct calculation of total ordinary dividend.

AO2: One mark for correct for correct calculation of dividend paid per ordinary share.

AO3: One mark for correct recognition of number of shares.

$$\text{Dividend paid per share} = \frac{\text{Total ordinary dividend}}{\text{Issued ordinary shares}}$$

Final dividend = (£0.018 x 20 000 000) **(1)**AO3 = £360 000 **(1)**AO1

Dividend per share = $\frac{£240\,000 + £\,360\,000}{20\,000\,000}$ **(1o/f)**AO1 = 3pper share **(1o/f)**AO2

(4)

(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.

$$\text{Dividend yield} = \frac{\text{Dividend per share}}{\text{Market price of share}} \times 100$$

= $\frac{3\text{ p}}{£1.20}$ x 100 **(1o/f)**AO1 = 2.5% **(1o/f)**AO2

£1.20 **(1)**AO1

(3)

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

AO1 : One mark for correct insertion of total ordinary dividend.

AO2 : One mark for correct calculation of net profit after tax.

One mark for correct calculation of dividend cover.

AO3 : Two marks for correct calculation of irredeemable preference dividend and insertion of net profit after tax less irredeemable preference dividend.

$$\text{Dividend cover} = \frac{\text{Net profit after tax – Irredeemable preference dividend}}{\text{Total ordinary dividend}}$$

Net profit after tax = £6 400 000 - £1 200 000 = £5 200 000 **(1)**AO2

Irredeemable preference dividend = (£20 000 000 x 5%) = £1 000 000 **(1)**AO3

$$\text{Dividend cover} = \frac{(£5\ 200\ 000 – £1\ 000\ 000)\ \textbf{(1)}\text{AO3}}{£600\ 000\ \textbf{(1o/f)}\text{AO1}} = 7 \text{ times } \textbf{(1o/f)}\text{AO2}$$

(5)

(iv) (AO2) 3

AO2 : Three marks for correct insertion of net profit after tax minus irredeemable preference dividend, the number of ordinary shares issued, and the correct calculation of earnings per ordinary share.

$$\text{Earnings per ordinary share} = \frac{\text{Net profit after tax – Irredeemable preference dividend}}{\text{Issued ordinary shares}}$$

$$= \frac{£4\ 200\ 000\ \textbf{(1o/f)}\ \text{AO2}}{20\ 00\ 000\ \textbf{(1o/f)}\text{AO2}} = 21 \text{ pence per share } \textbf{(1o/f)}\text{AO2}$$

(3)

(v) (AO2) 3

Three marks for correct insertion of the market price of share and the earnings per share and for correct calculation of price/earnings ratio.

$$\text{Price/earnings ratio} = \frac{\text{Market price of share}}{\text{Earnings per share}}$$

$$= \frac{£1.20\ \textbf{(1)}\text{AO2}}{£0.21\ (21p)\ \textbf{(1o/f)}\ \text{AO2}} \qquad = 5.71\ \text{times}\ \textbf{(1o/f)}\text{AO2}$$

(3)

(vi)(AO2) 2 (AO3) 4

[AO2] : Two marks for correct calculation and insertion of capital employed and correct calculation of return on capital employed.

[AO3] : Four marks for correct listing of items to give capital employed, correct calculation and insertion of net profit after interest and bank interest, debenture interest, and redeemable preference share interest.

$$\text{Return on Capital employed} = \frac{\text{Net profit before interest and tax}}{\text{Capital employed}} \times 100$$

Bank loan interest = (8% x £5 000 000) = £400 000

Debenture interest = (12% x £10 000 000) = £1 200 000

Redeemable preference shares interest = (6% x £8 000 000) = £480 000

Capital employed

Ordinary shares	10 000 000
Share premium	10 000 000
Irredeemable preference shares	20 000 000
Redeemable preference shares	8 000 000
General reserve	15 000 000
Foreign exchange reserve	5 000 000
Profit and loss reserve	3 200 000
Bank loan	5 000 000
Debenture	10 000 000**(1)**AO3
Capital Employed	86 200 000

$$= \frac{(£6\,400\,000 + £400\,000\ \textbf{(1)}\ \text{AO3} + £1\,200\,000\textbf{(1)}\text{AO3} + £480\,000\ \textbf{(1)}\text{AO3})}{£86\,200\,000\textbf{(1)}\text{AO2}} \times 100$$

= 9.84% **(1o/f)**AO2

(6)

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

Performance is good

Aberdeen Industrials plc has paid out a dividend of 3 pence (o/f) per share to a shareholder holding a 50 pence share. This is quite generous.

The profit of Aberdeen Industrials plc can cover the dividends paid out in the year a total of seven times (o/f). The advantage of this is that funds are being kept in the company and could be used for expansion etc.

The earnings per share are 21 pence per share (o/f). Given that Aberdeen Industrials plc shares have a face value of 50 pence, this performance is good.

The return on capital employed of Aberdeen Industrials plc is 9.84% (o/f). This is quite a good return and shows the company would probably be a good investment.

Performance is not good

The dividend yield is only 2.5% (o/f) which is quite low. It may be possible to get a better return by depositing in a savings account.

The profit of Aberdeen Industrials plc can cover the dividends paid out in the year a total of seven times (o/f). Some shareholders may think that dividends paid could be more generous.

The market price of Aberdeen Industrials plc is 5.71 times (o/f) greater than the earnings per share, which shows the market has little confidence in the company. This is a bad sign.

Conclusion

Aberdeen Industrials plc appear to have performed quite well in the financial year ended 30 September 2024. Key ratios such as return on capital employed and earnings per share are good.

(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.
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 and perhaps non-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 and perhaps non-financial information and an appropriate decision is made.

(**Total for Question 3 = 30 marks)**

Q4 (a)

AO1: Five marks for correct calculation of staff costs, electricity and paper and ink.

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

Revenue		Days	Customers	Price	Total
Revenue		300	8	£98	£235 200
				(1)AO2	(1)AO2
Costs					
-		Pay	Hours	Days	
Staff costs		£12.40	8.5	300	£31 620
				(1)AO1	(1)AO1
		Cost	Jobs a day	Days	
Electricity		£35	8	300	£84 000
				(1)AO1	(1)AO1
Paper and ink			Cost	Jobs	
			£45	2400	£108 000
					(1)AO1
			Cost	Months	
Other costs			£240	12	£2 880
					(1)AO2
Total costs					£226 500
					(1o/f)AO2
Net Cash Flow					£8 700
					(1o/f)AO2

Net Present Value

Year	Net Cash Flow	Discount Factor 8%	Discounted Cash flow	
0	-£ 27,000	1	-£27,000	(1)AO2
1	£8 700	0.926	£8 056	
2	£8 700	0.857	£7 456	
3	£8 700	0.794	£6 908	
4	£8 700	0.735	£6 395	
5	£9 750	0.681	£6 640	(1o/f)AO2
Net	Present	Value	£8 455	(1o/f)AO2

13 marks

Performance is good

Aberdeen Industrials plc has paid out a dividend of 3 pence (o/f) per share to a shareholder holding a 50 pence share. This is quite generous.

(b) AO2 (4)

AO2: Four marks for correct calculation of annual profit.

Depreciation $\frac{(£27000 - £1050)}{5}$ = £ 5 190 (1)AO2

Annual Profit

Net Cash Flow	£8 700	(1)AO2
Depreciation	£5 190	(1o/f)AO2
Annual Profit	£3 510	(1o/f)AO2

4 marks

(c) AO3 (7)

AO3 : Seven marks for calculating the internal rate of return

Internal rate of Return

= Lower rate + (% difference between rates) x $\frac{\text{(NPV using lower \% rate)}}{\text{(Difference between NPVs)}}$

= 8% (1)AO3 + ((20 – 8)(1)AO3 x $\frac{\text{8 455)(1o/f)AO3}}{\text{(8 455 (1o/f)AO3 + 987)(1)AO3}}$

= 8% + (12 x 0.896)(1o/f)AO3

= 18.75% (1o/f)AO3

7 marks

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

In favour of project

The project for Narayanganj Printworks plc has a net present value of £8 454 (o/f)which is a positive value and shows the project is worthwhile investing in.

The net present value calculation takes inflation into account.

The internal rate of return of the project is 18.75% (o/f) which is a healthy return.

The initial investment is £27 000, which a company of the size of Narayanganj Printworks plc would be able to raise.

The director is correct when he states the revenue generated from this printing machine is over £200 000 per year.

Against project

All of the figures are only estimates. We cannot say for certain they will be correct. Will Narayanganj Printworks plc be sure of this number of customers.

There may be changes in the future regarding competition, the price of electricity or ink etc.

Conclusion

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

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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.

6 marks

(**Total for Question 4 – 30 marks)**

Q5. Mark scheme

(a)

(i) **AO1 (1) AO3 (1)**

AO1 : One mark for basic definition of fixed overheads.

AO2 : One mark for development.

Fixed overheads do not change with output,(1)AO1 but they do change over time. (1)AO3**(2)**

(ii) **AO1 (2) AO3 (2)**

AO1 : One mark for identification of each fixed cost.

AO2 : One mark for each development.

Maximum of two examples.

Answers could include:

Rent (1)AO1 may be decreased in annual negotiations depending on supply and demand for property. (1)AO3

Salaries (1)AO1 may be decreased if the company is making a loss. (1)AO3

Depreciation (1)AO1 may decrease if non-current assets are sold. (1)AO3

(4)

(b) AO1 (1) AO2 (7)

AO1 : One mark for correct revenue variance.

AO2: One mark each for correct calculation of variance for material, labour, variable overheads, cost of sales, gross profit, fixed overheads and profit or loss.

	BUDGET £	ACTUAL £	VARIANCE £	
Revenue	124500	99200	25300 ADV	(1)AO1
Less				
Material Costs	51320	50478	842 FAV	(1)AO2
Labour Costs	12288	11550	738 FAV	(1)AO2
Variable Overheads	17250	17980	730 ADV	(1)AO2
= Cost of Sales	80858	80008	850 FAV	(1)AO2
Gross Profit	43642	19192	24450 ADV	(1)AO2
Less Fixed Overheads	27750	26340	1410 FAV	(1)AO2
Net Profit (Loss)	15892	(7148)	(23040) ADV	(1)AO2

(8)

(b) AO1 (1) AO2 (7)

(c) (i)AO2 (3) AO3 (2)

AO2 : One mark each for calculation of actual hours, standard hours and labour efficiency variance.

AO3 : One mark each for correct formula and correct substitution into formula.

Labour Efficiency Variance = (Actual Hours - Standard hours) x Standard Rate (1)AO3

Actual hours = (7 x 4 x 40) + (7 x 5) = 1 155 hours (1)AO2

Standard hours = (8 x 4 x 40) = 1 280 hours (1)AO2

Labour Efficiency Variance = (1 155 - 1 280) x 9.60 (1o/f)AO3

= £1 200 Favourable(1o/f)AO2

(5)

(ii) **AO1 (1)AO2 (2) AO3 (2)**

AO1 : One mark for both actual rate and standard rate.

AO2 : One mark each for calculation of actual hours, and labour rate variance.

AO3 : One mark each for correct formula and correct substitution into formula

Labour Rate Variance = (Actual Rate - Standard Rate) x Actual Hours (1)AO3

Actual rate = £10.00

Standard rate = £9.60 both (1)AO1

Actual hours = (7 x 40 x 4) + (7 x 5) = 1 155 hours (1)AO2

Labour Rate Variance = (£10.00 - £9.60) x 1 155 (1o/f)AO3

= £462 Adverse (1o/f)AO2**(5)**

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

Labour has performed well.

The labour efficiency variance of TopCrust plc is £1 200 favourable which shows the labour force has worked well. They were one worker short out of a total of eight for the month of October. However, they only had to work 5 hours overtime to complete the work of the departed worker, in order to achieve the monthly production target.

Labour has not performed well

TopCrust plc may think that the labour force has not done well, as the labour rate variance was £462 adverse. This was due to the pay rise of 40 pence per hour at the start of October. However, the workforce responded to the pay rise by completing the work of the departed worker, under budget.

Conclusion

Overall, the labour variance was £738 favourable which shows the remaining workers performed well.

(6)

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding that are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide-ranging, using financial and perhaps non-financial information and an appropriate decision is made.

(Total for Question 5 = 30 marks)

Q6 Mark scheme

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

AO1: Five marks for correct transfer to General reserve and Retained earnings reserve and entry of Loss for the year.

AO2: Twelve marks for correct entries for Total equity at start of year, final dividend for 2023, revaluation of property, four entries concerning the redemption of shares, final dividend, balance of retained earnings at year end, figures in six rows of total equity, all other balances at the year end, and the total equity at the year end.

AO3: Two marks for correct entry of headings Capital redemption reserve and Revaluation reserve. One mark for correct entry in the Capital redemption reserve.

<u>Statement of Changes in Equity for y/e 30 September 2024</u>

Figures are in £ millions	**£1 Ordinary Share Capital £m**	**Share Premium £m**	**Retained Earnings £m**	**General Reserve £m**	**Foreign Exchange Reserve £m**	**Capital Redemption Reserve £m** (1)AO3	**Revaluation Reserve £m** (1)AO3	**Total Equity £m**
Balance at 1 October 2023	30	6	7.03	2.5	2			47.53 (1)AO2
(i) Transfer			(1.5) (1)AO1	1.5 (1)AO1				---
(ii) 2023 Final Dividend			(0.63) (1)AO2					(0.63)
(iii) Revaluation of property							0.44 (1)AO2	0.44
(iv)Redemption of shares	(3) (1)AO2	(0.6) (1)AO2	(3.6) (1o/f)AO2			3.6 (1o/f)AO3		(3.6) (1o/f)AO2
(v) Transfer			0.8 (1)AO1		(0.8) (1)AO1			---
(vi) Final Dividend			(2.1) (1o/f)AO2					(2.1)
(vii) Comprehensive Loss for the Year			(0.087) (1)AO1					(0.087) (1o/f)AO2 All six
Balance at 30 September 2024	27	5.4	(0.087) (1o/f)AO2	4	1.2	3.6	0.44 (1o/f)AO2(all)	41.553 (1o/f)AO2

20 marks

(b) (i)AO3 (2)
AO3: Two marks for explaining the term capital reserve. Answers may include:

Capital reserves may arise from issuing shares at a premium, a company buying back its own shares without issuing new shares, or revaluing assets, (1) AO3

Capital reserves could be used for an issue of bonus shares. (1) AO3

Capital reserves cannot be used to pay out dividends. (1) AO3

(ii) AO3 (2)
AO3: One mark for identifying each capital reserve to a maximum of two marks.

Examples of capital reserves: Share premium, (1) AO3 Capital redemption reserve, (1) AO3 and Revaluation reserve. (1) AO3

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

<u>Argument for the decision</u>

There were £2.1m in Retained earnings reserve. There were 27m shares is issue at the year end. So the dividend per share was:

$$\frac{£27m}{£2.1m} = 7.78 \text{ pence per share}$$

Paying a dividend of 7.78 pence per share will keep Akamas plc shareholders happy. This will be a return of 7.8 pence on a share with a market value of £1.20 per share which gives a dividend yield of 7.78/120 x 100 = 6.5%
This could be considered a healthy return.

Although the Retained earnings account now has a negative balance, other revenue reserve accounts can be transferred to retained earnings to make the account have a positive balance. These revenue reserves are General reserve and Foreign exchange reserve. These two reserves of Akamas plc contain £5.2 m in total.

If the retained earnings balance is positive, further dividends may be paid out of this reserve.

Argument against the decision

Emptying the Retained earnings account of Akamas plc the day before the financial year end may result in a very small balance being shown in the final accounts. Because Akamas plc has a loss for the year, the Retained earnings account balance will be negative. This will not encourage further investment and could cause a fall in the share price.

We do not know the cash position of Akamas plc. However, as the company has made a trading loss, the cash position is not likely to be healthy. Therefore paying out 7 pence per share is likely to drain cash reserves of the company.

Conclusion

Using all the funds in the Retained earnings account of Akamas plc the day before the financial year end is not a good idea. If directors really wanted to do distribute all the funds, they could have waited until the next financial year.

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6 marks

Total for Question 6 = 30 marks

Total Score for Section B = 90 marks

Total score for Paper = 200 marks

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