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Mark Scheme (Results)

October 2020

Pearson Edexcel Internatonal Advanced Level
In Accounting (WAC12/01)
Paper 1: Corporate and Management Accounting

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October 2020
Publications Code WAC12_01_2010_MS
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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.

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Question Number	Answer	Mark
1(a)	**AO1 (6)** **AO1: Six marks for correct calculation of market value of company.** **Calculation of value of Tyche Insurance plc** (£000) Book value of company 13 800 **(1)AO1** **Revaluations** Property 1 850 **(1)AO1** Computers (600) **(1)AO1** Fixtures and fittings (220) **(1)AO1** Inventory (40) **(1)AO1** Market value of company 14 790 **(1o/f)AO1**	**(6)**

Question Number	Answer	Mark
1 (b)	**AO2 (3)** **AO2: Three marks for correct calculation of total value of offer.** Number of shares in Tyche Insurance plc = 10 000 000 / 0.8 **(1) AO2** = 12 500 000 shares **(1) AO2** Value of offer = 12 500 000 o/f x £1.40 = £17 500 000 **(1o/f) AO2**	**(3)**

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<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>1 (c)</td><td>AO2 (3)
AO2: Three marks for correct calculation of goodwill.

Calculation of goodwill

<table>
<tr><td>Value of offer</td><td>£17 500 000</td><td>(1o/f)AO2</td></tr>
<tr><td>Value of Tyche Insurance plc</td><td>£14 790 000</td><td>(1o/f)AO2</td></tr>
<tr><td>Goodwill</td><td>£2 710 000</td><td>(1o/f)AO2</td></tr>
</table>
</td><td>(3)</td></tr>
</table>

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>1 (d)</td><td>AO1 (4)
AO1: Four marks for explanation of reasons for paying goodwill.

Reasons for willingness to pay goodwill:

Insurance companies have a large number of existing customers (1)AO1whose details will be kept by the company being taken over/who may not shop around when renewing policy (1)AO1

The larger company may gain from economies of scale(1)AO1for example marketing economies, only having to advertise one company, not two(1)AO1

Managerial expertise being purchased (1)AO1for example senior staff with expertise/experience running a large company(1)AO1</td><td>(4)</td></tr>
</table>

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Question Number	Answer	Mark
1 (e)	**AO3 (4)** **AO3: Four marks for correct calculation of value of offer from Apollo plc.** Value of offer: 12 500 000 ÷ 10 shares = 1 250 000 **(1)AO3** (1 250 000o/f x 4) **(1**) **AO3** x (£1 + £2.58) **(1)AO3** = £17 900 000 **(1o/f**)**AO3**	**(4)**

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<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>1 (f)</td><td>
AO1 (6), AO2 (15), AO3 (2)
AO1: Six marks for calculation of furniture, trade receivables, cash and cash equivalents,trade payables and other payables and inclusion of share premium.
AO2: Fifteen marks for calculation of property, plant and equipment, computers, fixtures and fittings, goodwill, inventory, total assets, ordinary shares, general reserve, retained earnings, mortgage, bank loan, and total equity and liabilities.
AO3: Two marks for calculation of share premium.

Statement of financial position of Apollo plc at 1 June 2020
<table>
<tr><td></td><td>£'000</td><td></td></tr>
<tr><td><u>Assets</u></td><td></td><td></td></tr>
<tr><td>Non-current assets</td><td></td><td></td></tr>
<tr><td>Property, plant and equipment</td><td>64050</td><td>(1)AO2</td></tr>
<tr><td>Computers</td><td>11100</td><td>(1)AO2</td></tr>
<tr><td>Fixtures and fittings</td><td>3480</td><td>(1) AO2</td></tr>
<tr><td>Furniture</td><td>2310</td><td>(1) AO1</td></tr>
<tr><td>Intangible assets (Goodwill) (1)AO2</td><td><u>3110</u></td><td>(3o/f) AO2</td></tr>
<tr><td></td><td>84050</td><td></td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td>Current assets</td><td></td><td></td></tr>
<tr><td>Inventory</td><td>740</td><td>(1) AO2</td></tr>
<tr><td>Trade receivables</td><td>22100</td><td>(1) AO1</td></tr>
<tr><td>Cash and cash equivalents</td><td>6 240</td><td>(1) AO1</td></tr>
<tr><td></td><td><u>29080</u></td><td></td></tr>
<tr><td>Total assets</td><td><u>113 130</u></td><td>(1o/f) AO2</td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td><u>Equity</u></td><td></td><td></td></tr>
<tr><td>Ordinary shares of £1 each</td><td>55000</td><td>(1o/f) AO2</td></tr>
<tr><td>Share premium (1) AO1</td><td>12900</td><td>(2o/f) AO3</td></tr>
<tr><td>General reserve</td><td>3500</td><td>(1) AO2</td></tr>
<tr><td>Retained earnings</td><td><u>20180</u></td><td>(1) AO2</td></tr>
</table>
</td><td></td></tr>
</table>

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Total equity	91 580		
Liabilities			
Non-current liabilities			
Mortgage	13890	**(1) AO2**	
Bank loan	2900	**(1) AO2**	
	16790		
Current liabilities			
Trade payables	3790	**(1) AO1**	
Other payables	970	**(1) AO1**	
	4760		
Total equity and liabilities	**113 130**	**(1o/f) AO2**	

Workings

Value of offer	£17 900 000	**(1o/f)AO2**
Value of Tyche Insurance plc	£14 790 000	**(1o/f)AO2**
Goodwill	£3 110 000	**(1o/f)AO2**

Ordinary share premium
= (£2.58 premium x 5 000 000 o/f shares) **(1o/f)AO2**
= £12 900 000 **(1o/f)AO2**

(23)

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Question Number	Indicative Content	ark
1 (g)	**AO1 (1), AO2 (1), AO3 (4), AO4 (6)** Answers may include: <u>Offer from Zeus plc</u> <u>Case For</u> This offer is wholly in cash. Shareholders in Tyche Insurance plc will be certain of the amount they will receive. Shareholders could invest this cash elsewhere if they wanted to or they could spend the cash. The offer is from a bank. This may result in lateral economies of scale which would benefit Zeus plc and their shareholders in the future. <u>Case Against</u> The offer is less than the offer from Apollo plc. It is £400 000 less than Apollo's offer. Cash will go down in value in real terms due to inflation. There is no statement of financial position of Zeus available to view. <u>Offer from Apollo plc</u> <u>Case For</u> The offer is greater than Zeus plc by £400 000. This offer is £17 900 000 and Zeus is only £17 500 000. The offer is in shares of Apollo plc. The offer is based on the market price. The shares could go up in value, which means the shareholders make further gains. Shares in Apollo plc may pay out dividends in the future. The offer is from another insurance company. This should ensure horizontal economies of scale which will benefit Apollo plc and their shareholders in the future. <u>Case Against</u> The offer is in shares of Apollo plc. The offer is based on the market price. The shares could go down in value, which means the shareholders will lose out. <u>Decision</u> Shareholders made the correct decision accepting the offer from Apollo plc as it was a higher offer and there appears to be potential for economies of scale, capital growth and future dividends.	**(12)**

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Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-3	Isolated elements of knowledge and understanding that isrecall based.Weak or no relevant application. Generic assertions may be present.
Level 2	4 - 6	Elements of knowledge and understanding that are applied to accounting. 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 throughout by relevant application, maybe to the scenario. Some analysis 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 maybe by relevant and application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced and wide ranging and well contextualised, using financial and perhaps non-financial information, and makes an informed conclusion.

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Question Number	Answer	Mark
2 (a)	**AO1 (4)** **AO1: Four marks for correct calculation of annual production in therms.**	**(4)**

Gas Production	**Archton**	**East Downs**	**Kingham**	**Waverley**
Annual production (therms)	138 700**(1)AO1**	116 800 **(1) AO1**	156 950 **(1) AO1**	98 550 **(1) AO1**

Question Number	Answer	Mark
2 (b)	**AO1 (2), AO2 (4), AO3 (4)** **AO1: Two marks for correct inclusion of managers salaries and totalling of fixed costs.** **AO2: Four marks for correct calculation of depreciation for each site.** **AO3: Four marks for correct calculation of head office costs.**	**(10)**

	Archton		**East Downs**		**Kingham**		**Waverley**	
Managers Salaries	47 000		44 000		82 000		38 000	**(1) AO1** All 4
Head Office Overheads	600 000	**(1) AO3**	400 000	**(1) AO3**	600 000	**(1) AO3**	200 000	**(1) AO3**
Depreciation	160000	**(1) AO2**	136000	**(1) AO2**	200000	**(1) AO2**	128000	**(1) AO2**
Total Fixed Costs	807 000		580000		882 000		366 000	**(1o/f) AO1** All 4

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Question Number	Answer	Mark
2 (c)	**AO1 (9), AO2 (4)** **AO1: Nine marks for correct calculation of sales revenue, inclusion of direct materials, direct labour, other variable costs, fixed costs and totalling costs.** **AO2: Four marks for correct calculation of profit or loss for each site.**	**(13)**

	Archton		**East Downs**		**Kingham**		**Waverley**	
Therms per year	138700		116800		156950		98550	
Revenue (Sales)	9431600	**(1o/f) AO1**	7942400	**(1o/f) AO1**	1067260 0	**(1o/f) AO1**	6701400	**(1o/f) AO1**
Costs								
Direct materials	5409300		4788800		6278000		3646350	**(1) AO1** – all 4
Direct labour	2912700		2102400		2982050		1675350	**(1) AO1** – all 4
Other variable costs	1803100		1284800		1412550		985500	**(1) AO1** – all 4
Fixed costs	807000	-	580000	-	882000	-	366000	**(1o/f) AO1** – all 4
Total costs	10932100		8756000		1155460 0		6673200	**(1o/f) AO1** – all 4
Profit (Loss)	(1500500)	**(1o/f) AO2**	(813600)	**(1o/f) AO2**	(882000)	**(1o/f) AO2**	28200	**(1o/f) AO2**

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Question Number	Answer	Mark
2 (d)	**AO1 (1), AO2 (13), AO3 (2)** **AO1: One mark for correct inclusion of revenue per therm.** **AO2: Thirteen marks for correct calculation of direct materials, direct labour, other variable costs, and total variable costs for each site, per therm.** **AO3: Two marks for correct calculation of contribution per therm.**	**(16)**

Per therm	**Archton**		**East Downs**		**Kingham**		**Waverley**	
Revenue (Sales)	68		68		68		68	**(1) AO1** -all 4
Direct materials	39	**(1o/f) AO2**	41	**(1o/f) AO2**	40	**(1o/f) AO2**	37	**(1o/f) AO2**
Direct labour	21	**(1o/f) AO2**	18	**(1o/f) AO2**	19	**(1o/f) AO2**	17	**(1o/f) AO2**
Other variable costs	13	**(1o/f) AO2**	11	**(1o/f) AO2**	9	**(1o/f) AO2**	10	**(1o/f) AO2**
Total variable costs	73		70		68		64	**(1o/f) AO2** -all 4
Contribution	-5		-2	**(1o/f) AO3** both	0		4	**(1o/f) AO3** both

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Question Number	Indicative Content	Mark
2 (e)	**AO1 (1), AO2 (1), AO3 (4), AO4 (6)** Answers may include: <u>Future of Archton</u> Revenue per therm does not cover variable costs. The government subsidy of £2 per therm next year will not make any difference, revenue per therm will still not cover variable costs. Marginal costing theory says the field should be shut down now. <u>Future of East Downs</u> Revenue per therm does not cover variable costs. Marginal costing theory says the field should be shut down now. However, the government subsidy of £2 per therm will mean, revenue per therm will equal variable costs. The field could continue in the short term. However, when fixed costs are taken into account the field makes a loss in the long term and should close down. <u>Future of Kingham</u> Revenue per therm is equal to variable costs. Marginal costing theory says the field could continue in the short term, but not the long term. However, the government subsidy of £2 per therm will mean revenue per therm will cover variable costs next year. But £2 per therm means a subsidy of £313 900 which does not cover the loss of £882 000. So, in the long term, this field should close down. <u>Future of Waverley</u> Revenue per therm does cover variable costs. Marginal costing theory says the site should continue to operate in the short term. The government subsidy of £2 per therm will not make any difference, revenue per therm will still cover variable costs. This field makes an overall profit and should continue in the long run. <u>Head Office costs</u> It is worth noting that head office costs may not reduce in proportion to the ratio given. Eg if Archton closes down, there may not be a reduction in Head Office costs of £600 000. It may be that other fields see an increase in the apportionment of Head Office costs. This may alter the decision whether the field should stay open or close in the long run.	**(6)**

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<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>3 (a)(i)</td><td>AO1 (5)
AO1: Five marks for correct allocation of each item.

<table>
<tr><th>Item</th><th>Found under</th></tr>
<tr><td>An electricity bill owing</td><td>Other payables (1)AO1</td></tr>
<tr><td>A reel of clothused for making t-shirts</td><td>Inventory (1) AO1</td></tr>
<tr><td>An amountto cover costs and damages in a court case</td><td>Provisions (1)AO1</td></tr>
<tr><td>An amount set aside to cover movements in currency values</td><td>Foreign exchange reserve (1)AO1</td></tr>
<tr><td>A patent</td><td>Intangibles (1)AO1</td></tr>
</table></td><td>(5)</td></tr>
</table>

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>3 (a)(ii)</td><td>AO3 (2)
AO3: Two marks for correct explanation of term “other receivables”.

Other receivables are monies owed to the company, other than monies owed by trading customers(1)AO3
eg rents received from a property rented out (1)AO3

Or, it also include monies paid in advance for bills by the company(1)AO3eg insurance paid in advance(1)AO3.

Max 2</td><td>(2)</td></tr>
</table>

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Question Number	Answer	Mark
3 (a)(iii)	**AO2 (2)** **AO2: Two marks for correct calculation of cash balance.** £117 000 + £85 000 **(1)AO2** = £202 000 **(1)AO2**	**(2)**

Question Number	Answer	Mark
3 (a)(iv)	**AO2 (2)** **AO2: Two marks for correct calculation of interest owing.** 9% x £800 000 = £72 000 **(1)AO2**/ 12 = £6 000 **(1)AO2**	**(2)**

Question Number	Answer	Mark
3 (a)(v)	**AO3 (2)** **AO3: Two marks for correct explanation reasons for allocation.** The 8.75% bank loan has more than one year to run **(1)AO3** The 9% bank loan has less than one year to run **(1)AO3**	**(2)**

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Question Number	Answer	Mark
3 (a)(vi)	**AO3 (1)** **AO3: One mark for correct explanation of use of funds.** These are set aside to be used for any, non-specific purpose eg to meet future liabilities such as a tax bill. **(1)AO3** Or, transferred back to retained earnings and paid as dividends **(1)AO3** Or, used to issue bonus shares. **(1)AO3** Max 1	**(1)**

Question Number	Answer	Mark
3 (a)(vii)	**AO2 (2)** **AO2: Two marks for correct calculation of loss for the year.** (£645 000 + £1 028 000) **(1)AO2** = £ 1 673 000 loss for the year **(1)AO2**	**(2)**

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Question Number	Answer	Mark
3 (b)(i)	**AO2 (3), AO3 (1)** **AO2: Three marks for correct completion of entries of property, plant and equipment, bank, and statement of profit and loss.** **AO3: One mark for correct completion of entry of depreciation.**	**(4)**

Disposal of Property, Plant and Equipment Account

April 4 2019	Property, plant and equipment	3 000 000 **(1) AO2**	April 4 2019	Bank	3 200 000 **(1) AO2**
March 312020	Statement of comprehensive income	600 000 **(1) AO2**	April4 2019	Depreciation of property, plant and equipment	400 000 **(1) AO3**
		_____ 3 600 000			_____ 3 600 000

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Question Number	Answer	Mark
3 (b)(ii)	**AO2 (3), AO3 (1)** **AO2: Three marks for correct completion of entries of disposal of property, plant and equipment , statement of profit and loss and balance at end of year.** **AO3: One mark for correct completion of entry of balance b/d at start of year.**	**(4)**

Property, Plant and Equipment Accumulated Depreciation Account

April 4 2019	Disposals of property, plant and equipment	400 000 **(1o/f)** **AO2**	April 1 2019	Balance b/d	800 000 **(1)** **AO3**
March 31 2020	Balance c/d	1 500 000 **(1o/f)** **AO2**	March 31 2020	Statement of comprehensive income	1 100 000 **(1)** **AO2**
		1 900 000			1 900 000

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Question Number	Indicative Content	Mark
3(c)	**AO2 (1), AO3 (2), AO4 (3)** <u>For the debenture being the most beneficial</u> The interest rate is lower than the bank loan by 2.5%. This means in a year the interest paid will be £82 500 lower than the bank loan. The interest payments are likely to be paid every six months, rather than monthly. The non-payment of interest for five months may help the cash flow of Negombo plc, especially if their sales are seasonal. <u>For the bank loan being the most beneficial</u> The loan is loan for five years, not ten. The total interest paid is lower with the bank loan. The bank loan pays £288 750 per year for five years which is £1 443 750 in total. The debenture pays £206 250 per year for ten years which is £2 062 500 in total The bank loan pays £618 750 less in total. The interest payments will be paid every month, rather than every six months. The payment of smaller interest amounts every month may help the cash flow of Negombo plc, rather than pay one large sum every six months. The bank loan may be quicker and easier to arrange. <u>Decision</u> There is a strong argument for stating the bank loan is better, as the total interest paid is lower than the debenture. Or, debenture is better as there is a smaller annual outflow of cash, reducing the drain on cash	**(6)**

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

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		of reasoning, showing causes and/or effects related to the scenario, although these may be incomplete or sometimes invalid. An attempt at an assessment is presented, using financial and maybe non-financial information, in an appropriate format and communicates reasoned explanations.
Level 3	5-6	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 informed conclusion.

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<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>4 (a)(i)</td><td>AO1 (4)
AO1: Four marks for correctcalculation of hours check-out tills are open in one day.

Check-out till hours open in one day

<table>
<tr><th>Number of check-out tills</th><th>Hours open</th><th>Total</th><th></th></tr>
<tr><td>1</td><td>24</td><td>24</td><td>both</td></tr>
<tr><td>1</td><td>20</td><td>20</td><td>(1) AO1</td></tr>
<tr><td>4</td><td>18</td><td>72</td><td>both</td></tr>
<tr><td>10</td><td>12</td><td>120</td><td>(1) AO1</td></tr>
<tr><td>8</td><td>9</td><td>72</td><td>both</td></tr>
<tr><td>6</td><td>6</td><td>36</td><td>(1) AO1</td></tr>
<tr><td></td><td>Total</td><td>344</td><td>(1o/f) AO1</td></tr>
</table>
</td><td>(4)</td></tr>
</table>

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>4 (a)(ii)</td><td>AO1 (1)
AO1:One mark for correct calculation of hours check-out tills are open in a week.

Check-out till hours open in one week:
(344 o/f hours x 7 days) =2 408 hours(1o/f) AO1</td><td>(1)</td></tr>
</table>

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Question Number	Answer	Mark
4 (b)(i)	**AO2 (2)** **AO2: Two marks for correctcalculation ofnumber of staff required per day.** Number of staff required per day: 344**(1o/f) AO2** = 43 staff **(1o/f) AO2** 8	**(2)**

Question Number	Answer	Mark
4 (b)(ii)	**AO2 (2)** **AO2: Two marks for correct calculation of number of staff required for one week.** Number of staff required for one week: 2408**(1o/f) AO2** = 60.2 staff **(1o/f) AO2** 40	**(2)**

Question Number	Answer	Mark
4 (c)(i)	**AO2 (2)** **AO2: Two marks for correct calculation of budgeted number of customers for one week.** Budgeted number of customers for one week: = (2 408 o/f x 9 per hour)**(1o/f) AO2** = 21 672 customers**(1o/f) AO2**	**(2)**

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Question Number	Answer	Mark
4 (c)(ii)	**AO2 (2)** **AO2: Two marks for correctcalculation of standard cost of one customer.** Standard cost of one customer: £8.28**(1) AO2** = £0.92**(1) AO2** 9	**(2)**

Question Number	Answer	Mark
4 (c)(iii)	**AO2 (2)** **AO2: Two marks for correctcalculation ofbudgeted cost of serving all customers in a week.** Budgeted cost of 21 672 o/f customers: = 21 672 o/f x £0.92o/f **(1o/f) AO2** = £19 938.24 **(1o/f) AO2** OR = 2408 o/f hours x £8.28 **(1o/f) AO2** = £19 938.24**(1o/f) AO2** Max 2	**(2)**

Question Number	Answer	Mark
4 (d)(i)	**AO3 (3)** **AO3: Three marks for correctcalculation ofvariance and label.** Labour efficiency variance = (Standard hours – Actual hours)x Standard rate = (2 408 o/f - 2 493)**(1o/f)AO3** x £8.28 **(1)AO3** = £703.80 Adverse **(1o/f)AO3**	**(3)**

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Question Number	Answer	Mark
4 (d)(ii)	**AO3 (4)** **AO3: Four marks for correctcalculation of variance and label.** Labour rate variance = (Standard rate – Actual rate)x Actual quantity hours = (£8.28**(1)AO3**£20 830.74 **(1)AO3**) x 2 493 **(1)AO3** 2493 = £188.70 Adverse **(1)AO3**	**(4)**

Question Number	Answer	Mark
4 (d)(iii)	**AO2 (2)** **AO2: Two marks for correctcalculation of total variance and label.** Total labour variance = Labour efficiency variance +Labour rate variance = £703.80 Adverse + £188.70 Adverse**(1o/f)AO2** = £892.50 Adverse **(1o/f)AO2** OR Total labour variance =(Actual hours x Actual rate) – (Standard hours x Standard rate) = (2 493 x 8.355 o/f) - (2 408 o/f x 8.28) **(1o/f)AO2** = £20 829.02 - £19 938.24 = £890.78 Adverse **(1o/f)AO2**	**(2)**

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Question Number	Indicative Content	Mark
4 (e)	**AO2 (1), AO3 (2), AO4 (3)** <u>Good performance</u> All customers served with only about 85 hours of overtime. This could be regarded as good as some staff will always be ill, on holiday etc at any one time. Customer flow in the hypermarket may not be identical to the planned opening hours of the hypermarket, so overtime may have to be worked to reduce queues etc. <u>Poor performance</u> Labour efficiency variance is £703.80 adverse (o/f), which may mean check-out operators are not working fast enough to meet the target of 9 customers per hour. Labour rate variance is £188.70 adverse (o/f) which mean around 85 – 90 hours (o/f) of overtime have been worked. Is this due to the slow performance of the operators, or to cover for sickness etc? Total labour variance is £892.50 adverse (o/f) which means the check-out operators have been paid more than budgeted. <u>Decision</u> Check-out till operators have performed well / poorly.	**(6)**

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		and maybe non-financial information, in an appropriate format and communicates reasoned explanations.
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Question Number	Answer	Mark
5 (a)(i)	**AO2 (3)** **AO2: Three marks forcalculation ofearnings per ordinary share.** Earnings per ordinary share = Net profit after interest and tax Issued ordinary shares = £960 000**(1)AO2** = 6p per share**(1)AO2** 16 000 000**(1)AO2**	**(3)**

Question Number	Answer	Mark
5 (a)(ii)	**AO2 (3)** **AO2: Three marks forcalculation ofprice/earnings ratio.** Price/earnings ratio = Market price of share Earnings per share = 240p**(1)AO2** = 40 times **(1o/f)AO2** 6p**(1o/f)AO2**	**(3)**

Question Number	Answer	Mark
5 (a)(iii)	**AO2 (3), AO3 (1)** **AO2: Three marks forcalculation of dividend paid per ordinary share.** **AO3: One mark forcalculation of total dividend.** Dividend paid per share = Total ordinary dividend Issued ordinary shares Interim dividend = £112 000 Final dividend = £368 000 Total dividend = £480 000 **(1)AO3** = £480 000 **(1o/f)AO2** = 3p per share**(1o/f)AO2** 16 000 000**(1)AO2**	**(4)**

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Question Number	Answer	Mark
5 (a)(iv)	**AO3 (3)** **AO3: Three marks for calculation of dividend cover.** Dividend cover = Net profit after interest and tax Total ordinary dividend = £960 000**(1)AO3** = 2 times **(1o/f)AO3** £480 000 **(1o/f)AO3**	**(3)**

Question Number	Answer	Mark
5 (a)(v)	**AO3 (3)** **AO3: Three marks forcalculation of dividend yield.** Dividend yield = Dividend per share x 100 Market price of share = 3p **(1o/f) AO3** x 100 = 1.25% o/f**(1o/f) AO3** 240p**(1) AO3**	**(3)**

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Question Number	Answer	Mark
5 (a)(vi)	**AO1 (5), AO2 (3)** **AO1:Fivemarks forcalculation ofnet profit before interest and tax, and capital employed.** **AO2: Three marks forcalculation of return on capital employed.** Return on capital employed = Net profit before interest and taxx 100 Capital employed Net profit after interest and tax= £960 000 Interest on bank loan = 7% x £2 000 000 = £140 000 **(1)AO1** Interest on debenture = 9% x £8 000 000 = £720 000 **(1)AO1** Tax payable = £180 000 **(1) AO1** Net profit before interest and tax = £2 000 000 Issued share capital =16 000 000 x £1.50 = £24 000 000 **(1)AO1** Other reserves = £6 000 000 Bank loan = £2 000 000 Debenture = £8 000 000 **(1)AO1** all three Capital employed = £40 000 000 Return on capital employed =£2 000 000 **(1o/f) AO2**x 100 = 5% **(1o/f) AO2** £40 000 000 **(1o/f) AO2**	**(8)**

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Question Number	Indicative Content	Mark
5 (b)	**AO2 (1), AO3 (2), AO4 (3)** Ways to increase earnings per ordinary share: <u>Increase net profit.</u> Numerous ways to do this, under the general headings of increasing revenue and/or decreasing costs. For example, Bogra could run a marketing campaign to increase revenue and negotiating a discount on purchases could decrease costs. This method would be approved by Bogra shareholders and the stock market and is probably the best method. <u>Reduce interest payments</u> Bogra could reduce borrowings, by paying off loans etc. However the company would need to ensure they have enough liquid funds for this. This method would be approved by shareholders and the stock market and is a good method. <u>Reduce taxation</u> Accountants or the finance department of Bogra could find ways of reducing the tax bill of the company. For example they could move the company base to a low-tax location. This would not be popular with the public of the country the company is based in now. <u>Reduce number of ordinary shares issued</u>. Bogra could redeem some ordinary shares. However, the company would need to ensure they have the liquid funds to do this and not drain liquid resources. Those shareholders who have to sell the shares may not like this approach. It may also make Bogra look a smaller company. It would also increase the gearing ratio. <u>Decision</u> Increasing net profits is probably the best way to increase earnings per share.	**(6)**

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Question Number	Answer	Mark
6 (a)	**AO1 (4), AO2 (12)** **AO1: Four marks for monthly revenue totals, licence fee, total costs, overheads.** **AO2: 12 marks for monthly ticket revenue, refreshment revenue, and costs of staff wages, fuel, refreshments and depreciation and annual profit.**	**(16)**

Revenues						
	June		**July**	**August**	**Three months**	
Number of days operating	30		31	31		
Number of trips per day	7		8	8		
Ship capacity	120		120	120		
Percentage of occupancy	50%		80%	80%		
Cost of ticket	£5		£5	£5		
Monthly ticket revenue	£63000	**(1) AO2**	£119040	£119040	**(1)AO2** both	
Refreshments	£2		£2	£2		
Monthly refreshments revenue	£25200	**(1) AO2**	£47616	£47616	**(1)AO2** both	
Total monthly revenue	£88200		£166656	£166656	£421512	**(1o/f) AO1**
Costs						
Staff wages	£17100	**(1)AO2**	£17670	£17670	**(1) AO2** both	
Fuel	£18900	**(1)AO2**	£22320	£22320	**(1) AO2** both	
Licence	£1500		£1500	£1500	**(1) AO1**	
Refreshments	£12600	**(1o/f)AO2**	£23808	£23808	**(1o/f) AO2** both	
Total costs	£50100		£65298	£65298	£180696	**(1o/f) AO1**
			Less Annual	Depreciation	£86800	**(1) AO2**
			Less	overheads	£20000	**(1) AO1**
Annual Profit					£134016	**(1o/f) AO2**

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<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>6 (b)</td><td>AO2 (1), AO3 (2)
AO2: One mark forcalculation of formula to find accounting rate of return.
AO3: Two marks for correct insertion of figures into accounting rate of return formula.

Accounting rate of return = Annual net profit x 100
Initial outlay

= £134 016 o/f x 100(1o/f) AO3= 30.88%(1o/f) AO2
£434 000 (1) AO3</td><td>(3)</td></tr>
</table>

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>6 (c)</td><td>AO3 (5)
AO3: Five marks for calculation of payback period.

Payback period

<table>
<tr><th></th><th>Annual cash flow</th><th>Cumulative</th><th></th></tr>
<tr><td>Initial investment</td><td></td><td>(£434 000)</td><td></td></tr>
<tr><td>Year 1</td><td>£220 816</td><td>(£213 184)</td><td>(1)AO3</td></tr>
<tr><td>Year 2</td><td>£220 816</td><td>£7 632</td><td>(1)AO3</td></tr>
</table>

Payback period =
1 year(213 184 x12) months (1o/f)AO3
(220 816)

= 1year(1o/f) AO311.6 months (1o/f) AO3</td><td>(5)</td></tr>
</table>

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Question Number	Indicative Content	Mark
6 (d)	**AO2 (1), AO3 (2), AO4 (3)** <u>For the project</u> The accounting rate of return looks very healthy at 30.88%.(o/f) The payback period is quite short at less than two years.(o/f) <u>Against the project</u> The figures are only estimates for Avondale Marine Limited and may not be correct. Revenues for the ship may be lower especially if the weather is not warm. Costs such as fuel for the ship may increase over the five years. <u>Other points</u> What figures will be given by other methods of project appraisal? eg net present value, which discounts the value of money over time. Neither of the methods used discount the value of money.	**(6)**

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