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Mark Scheme (Results)

January 2020

Pearson Edexcel International Advanced Subsidiary

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.

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Q1 Mark Scheme								
(a) AO1 (15) AO2 (5)				600000				
						Resale		
Inflows	Sales	Days	Weeks	Vehicles	Price	Value	Total (£)	
Year 1	50	6	50	10	2.50		375 000	(1)AO1
Year 2	65	6	50	10	3.00		585 000	(1)AO1
Year 3	65	6	50	10	3.00		585 000	Both
Year 4	80	6	50	10	3.50		840 000	(1)AO1
Year 5	80	6	50	10	3.50	50 000	890 000	(1)AO1
							4 marks	
Depreciation								
	600 000	-	50 000	=	550 000	(1)AO1	110 000	(1)AO1
					5	(1)AO1		
							3 marks	
Drivers Pay	Sales	Days	Weeks	Vehicles	Pay		Total (£)	
Year 1	50	6	50	10	0.50		75 000	(1)AO1
Year 2	65	6	50	10	0.50		97 500	Both
Year 3	65	6	50	10	0.50		97 500	(1)AO1
Year 4	80	6	50	10	0.50		120 000	Both
Year 5	80	6	50	10	0.50		120 000	(1)AO1
							3 marks	

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Running costs	Per week	weeks	Vehicles		Deprectn		Total	
Year 1	800	50	10	400 000	110 000		290 000	(1ot 1
Year 2	800	50	10	400 000	110 000		290 000	(1of)AO1
Year 3	900	50	10	450 000	110 000		340 000	(1of)AO1
Year 4	900	50	10	450 000	110 000		340 000	(1of)AO1
Year 5	1 000	50	10	500 000	110 000		390 000	(1of)AO1
								5 marks
				Running				
Cash Flow	Inflow		Drivers	Costs	Total	NCF		
Year 1	375 000		75 000	290 000	365 000	10 000	(1of)AO2	
Year 2	585 000		97 500	290 000	387 500	197 500	(1of)AO2	
Year 3	585 000		97 500	340 000	437 500	147 500	(1of)AO2	
Year 4	840 000		120 000	340 000	460 000	380 000	(1of)AO2	
Year 5	890 000		120 000	390 000	510 000	380 000	(1of)AO2	
							5 marks	
								20 marks

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(b) Payback Calculation								
			Cumulative					
AO1 (1) AO2 (6)	NCF	Cumulative	Balance					
Year 1	10 000	10 000	(590 000)	Calculation				
Year 2	197 500	207 500	(392 500)	600 000	Less	355 000	=	245 000
Year 3	147 500	355 000	(245 000)					(1of)AO2
Year 4	380 000	735 000	135 000	245 000	(1of)AO2	X 12 (1) AO2	7.74 months	
Year 5	380 000			380 000	(1of)AO2			
		(1of)AO1						
					Payback	= 3 years	7.74 months	
						(1of)AO2	(1of)AO2	7 marks
(c)NPV AO2 (7)	NCF		20% Disc Factor					
Year 0	(600 000)		1		(600 000.00)	(1)AO2		
Year 1	10 000		0.833		8 330.00	(1of)AO2		
Year 2	197 500		0.694		137 065.00	(1of)AO2		
Year 3	147 500		0.579		85 402.50	(1of)AO2		
Year 4	380 000		0.482		183 160.00	(1of)AO2		
Year 5	380 000		0.402		152 760.00	(1of)AO2		
					(33 282.50)	(1of)AO2		7 marks

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(d)ARR AO2 (3) AO3 (6)								
Profit for Year	Revenue		Costs		Profit			
1	375 000		475 000		(100 000)			
2	585 000		497 500		87 500			
3	585 000		547 500		37 500	(1of)AO2		
4	840 000		570 000		270 000			
5	840 000		620 000		220 000			
Total	3 225 000		2 710 000		515 000	(1of)AO2		
Average annual	=		515 000	(1of)AO3	=	103 000	(1of)AO2	
Profit			5					
Average	=		(600 000	+ 50 000)		(1of)AO3 =	325 000	(1of)AO3
Investment				2				
Accounting	=		103 000	X	100	(1of)AO3	31.69	%
rate of return			325 000	(1of)AO3			(1of)AO3	9 marks

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Mark scheme

Q1 (e)
[1 AO1] [1 AO2] [4 AO3] [6 AO4]
Answers may include:

Case for investment

The investment pays back within 5 years – after 3 years and 7.74 months.

The accounting rate of return is a very healthy 31.69%. This is higher than the cost of capital.

The new vehicles are electric and replacing older diesel models. This is a much more environmentally friendly type of vehicle and will help the community. This may result in extra customers, who may wish to ensure they have green credentials.

Future legislation may enforce vehicles to be electric or ban non-electric vehicles from town centres etc.

Case against the investment

The net present value of the project is negative at minus £33 282.50 The NPV method is a preferred method a evaluating a project, as it takes account of the time value of money.

The payback method and the accounting rate of return do not take account of the falling value of money over time.

The company is already struggling in a competitive market – will this result in even more problems?

Other considerations

The cost of capital for the company is very high, as the company and the project are high risk. If HK Parcels shop around, will they be able to find a bank that is willing to lend at a lower cost of capital?

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Could HK Parcels fund the project via a share issue? Shareholders will probably settle for a lower retu than 20%.

The project anticipates that drivers will not have a pay rise per parcel for 5 years. Will drivers be happy with this, or will there be industrial action? However, it is estimated that drivers will earn more as the number of deliveries per day rises over time.

The figures given are just estimates. Will the revenues and costs be different to the predicted figures?

Conclusion:

Investment may or may not be financially worthwhile. NPV says do not invest. Payback and ARR says invest. Future legislation may point the way to electric vehicles.

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.

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Level 2	4 - 6	Elements of knowledge and understanding, which may be applied to the scenario. Chains of reasoning are present, but may be incomplete or invalid. A generic or superficial assessment is present.
Level 3	7 - 9	Accurate and thorough understanding, supported by relevant application to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects. An attempt at an assessment is presented, using financial and maybe non-financial information, in an appropriate format and communicates reasoned explanations.
Level 4	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and maybe non-financial information and makes an informed decision.

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Q2 Mark scheme

(a) (i) **AO1 (3) AO3 (1)**

AO1: Three marks for correct entry of balances and purchase.

AO3: One mark for correct entry of disposal

Property, plant and equipment Account

1 Jan 2019	Balance b/d	2 262 000 (1) AO1	21 Jan	Disposals	19 000 (1)AO3
15 Feb	Bank – (purchase)	35 000 (1) AO1	31 Dec	Balance c/d	2 278 000 (1)AO1
		2 297 000			2 297 000
1 Jan 2020	Balance b/d	2 278 000			

(4 marks)

(ii) AO1 (3) AO3 (1)

AO1: Three marks for correct entry of balances and disposal.

AO3: One mark for correct entry of depreciation for the year to SoCI.

Provision for Depreciation Account

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		£			£
21 Jan	Disposals	14 000 (1)AO1	1 Jan 2019	Balance b/d	381 000 (1) AO1
31 Dec	Balance c/d	385 000 (1) AO1	31 Dec	Statement of Comprehensive Income	18 000 (1)AO3
		399 000			399 000
			1 Jan 2020	Balance b/d	385 000

(4 marks

2 (b) AO1 (10) AO2 (21) AO3 (4)

AO1: One mark each for correct entry of profit after interest before tax, each of the five current asset items, interest paid on debenture and loan, and cash balances at start and end of year.

AO2: One mark for correct calculation of operating cash flow before WC changes, cash generated from operations, net cash from operating activities, payments for intangible and tangible assets, proceeds from sale of tangible assets, net cash used in investing activities, issue of ordinary shares and premium, redemption of bank loan and issue of debenture, and net cash used in financing activities. Two marks each for calculation of interest paid, final, interim and preference dividends.

AO3: One mark each for correct inclusion of depreciation, and taxation paid, and two marks for correct calculation of loss on sale of non-current asset.

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(b) Statement of Cash Flows for y/e 31 December 2019			
	£		
Cash Flows from operating activities			
Profit after interest before tax	263 050	(1)AO1	
Add interest paid (16 000 (1) AO2 + 15 000 (1) AO2)	31 000		
Add Depreciation	18 000	(1)AO3	
Add Loss on Sale of Non-current Asset (W1)	3 000	(2) AO3	
Operating cash flow before working capital changes	**315 050**	(1o/f)AO2	
Increase in inventories	(15 000)	(1)AO1	
Decrease in trade receivables	52 000	(1)AO1	17
Increase in Other receivables	(5 000)	(1)AO1	
Increase in trade payables	17 000	(1)AO1	
Decrease in other payables	(5 000)	(1)AO1	
Cash generated from operations	**359 050**	(1o/f)AO2	
Less Interest Paid: Debenture	(16 000)	(1o/f)AO1	
: Bank Loan	(15 000)	(1o/f)AO1	
Less Tax Paid	(104 000)	(1)AO3	
Net Cash from Operating Activities	**224 050**	(1o/f)AO2	
Cash Flows from Investing Activities			
Payments to acquire intangible non-current asset	(12 000)	(1)AO2	
Payments to acquire tangible non-current assets	(35 000)	(1)AO2	
Proceeds from sale of tangible non-current assets	2 000	(1)AO2	**4**

Net Cash Used in Investing Activities	**(45 000)**	(1o/f)AO2	
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Cash Flows from Financing Activities			
Issue of Ordinary shares	50 000	(1)AO2	
Issue of Ordinary shares - premium	20 000	(1)AO2	
Redemption of bank loan	(400 000)	(1)AO2	
Issue of debenture	300 000	(1)AO2	
Dividends Paid : Final 2018 (900 000 x 2.1p) AO2	(18 900)	(2) AO2	**11**
Interim 2019 (950 000 x 1.4p) AO2	(13 300)	(2) AO2	
Preference (60 000 x 4.75p) AO2	(2 850)	(2)AO2	
Net Cash Used in Financing Activities	**(65 050)**	(1o/f)AO2	
Net increase in cash and cash equivalents	**114 000**	(1)AO2	
Cash and cash equivalents at the beginning of the year	(25 000)	(1)AO1	**3**
Cash and cash equivalents at the end of the year	89 000	(1)AO1	35 Marks
W1 - Loss on sale of Non-current asset			
Purchase price of Non-current asset	19 000		
Less Depreciation to date	(14 000)		
Carrying value	5 000	(1)AO3	
Sold for	2 000		
Therefore loss	3 000	(1)AO3	

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Q2 (c)
[1 AO1] [1 AO2] [4 AO3] [6 AO4]
Answers may include:

Case for role of auditors

Companies must "comply or explain". They may be able to justify an alternative approach to corporate governance in writing. Auditors may have a department or number of staff specialising in corporate governance. Auditors could advise or prepare the "alternative approach".

Corporate governance has 5 key areas:

Section A: Leadership – lead by an effective board, who are responsible for success of company, clear division of responsibilities, with non-executive directors who should challenge. The Chairman is responsible for the Board. No individual should be able to make all the decisions.
An auditor could note in the Audit Report, or enquire about division of responsibilities. For example, is the Chief Executive Officer also the Chairman?

Section B: Effectiveness – board should have an appropriate balance of skills, experience, independence, and knowledge to carry out duties effectively. Appointment to the board should be formal, rigorous and transparent. There should be induction, self-evaluation, and re-election.
An auditor could note in the Audit Report (or ask) to check that re-election of board members at regular intervals does take place.

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Section C: Accountability

The board should present a balanced and understandable assessment of the company's position a prospects. The board is responsible for risk and internal controls, and should have sound risk management. The board should maintain an appropriate relationship with the company's auditor.

An auditor could note in the Audit Report (or ask about): In our opinion, insufficient checks were made when taking over another company. Risk management was not sound.

Section D: Remuneration

Levels of remuneration should attract, retain and motivate directors of the required quality. However, a company should avoid paying more than is necessary. Director's remuneration should be partly linked to individual and corporate performance. No director should be involved in deciding their own remuneration.

An auditor could note in the Audit Report (or ask): One director sits on the Remuneration Committee and was involved in setting their own remuneration.

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Section E: Relations with shareholders

The board is responsible for ensuring a satisfactory dialogue with shareholders takes place, based on mutual understanding of objectives. Investors should be encouraged to participate at the AGM.

An auditor could note in the Audit Report (or ask) about sufficient notice being given concerning the date of the AGM.

Case against the role of auditors

Auditors providing services in relation to corporate governance are likely to be expensive. It is possible they may not provide value for money.

It may be that a company will benefit from outside corporate governance specialists, as auditors may be reluctant to challenge a company too strongly for fear of losing audit and other work.

Conclusion:

It is hoped that auditors who provide specialist advice in the area of corporate governance provide a beneficial service. **(12 Marks)**

Level	Mark	Descriptor
	0	A completely incorrect response.
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Level 2	4 - 6	Elements of knowledge and understanding, which may be

		applied to the scenario. Chains of reasoning are present, but may be incomplete or invalid. A generic or superficial assessment is present.
Level 3	7 - 9	Accurate and thorough understanding, supported by relevant application to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects. An attempt at an assessment is presented, using financial and maybe non-financial information, in an appropriate format and communicates reasoned explanations.
Level 4	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and maybe non-financial information and makes an informed decision.

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Q3. Mark scheme

(a) AO1 (1) AO2 (7)

AO1: One mark for correct formula stated

AO2: Seven marks for correct calculation of gearing ratio

Gearing ratio = $\frac{\text{Fixed cost capital (debt)}}{\text{Total Capital employed (debt + equity)}}$ x 100 **(1)** AO1

$$= \frac{7.5\ \textbf{(1)}\text{AO2} + 5\ \text{(1)AO2}}{(7.5 + 5)\ \textbf{(1)}\text{AO2} + (13.5 + 27)\ \textbf{(1)}\text{AO2} + (2.6 + 3.4 + 3.5)\ \textbf{(1)}\text{AO2}} \times 100\ (£m)$$

$$= \frac{12.5}{62.5} \times 100\ \textbf{(1)}\text{AO2} = 20\%\ \textbf{(1)}\text{AO2}$$

Other formulas are accepted.

8 marks

(b) AO1 (4) AO3 (5)

AO1: Four marks for correct entries of ordinary shares, share premium and bank.

AO3: Five marks for correct calculation of shares to be redeemed and entries concerning capital redemption reserve.

$\frac{13\ 500\ 000}{}$ = 1 500 000 shares to be redeemed **(1)**AO3

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The Journal

	Debit £ '000	Credit £ '000
£1 Ordinary shares	1 500 **(1)**AO1	
Bank		1 500 **(1)** AO1
Share premium	3 000 **(1)**AO1	
Bank		3 000 **(1)**AO1
Retained earnings General reserve (Total of £4.5m from revenue reserves, without exceeding limit of each reserve)	2 000 **(1)**AO3 2 500 **(1)**AO3	
Capital Redemption Reserve **(1)**AO3		4 500 **(1)**AO3

9 marks

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(c) AO2 (5) AO3 (2)

AO2: Five marks for correct calculation of total dividend and amount Rupjit receives.

AO3: Two marks for correct calculation of total final dividend.

Number of shares = 13 500 000 - 1 500 000 = 12 000 000 **(1)** AO2

4% of 12 000 000 = £480 000 **(1o/f)**AO2

Final dividend = (£480 000 - £150 000) **(1o/f)**AO3 = £330 000 **(1o/f)**AO3

Final dividend per share = $\frac{\text{£330 000}}{\text{12 000 000}}$ **(1o/f)**AO2 = £0.0275 (2.75 pence) **(1o/f)**AO2

Rupjit receives 64 000 x 2.75 pence = £1 760 **(1o/f)**AO2

7 marks

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

Answers may include :

Case For :

Redemption of shares will improve the figure for return on capital employed – a key ratio on which performance of Kishorgonj Holdings plc is judged.

Future dividends may be reduced which should improve cash flow. This year savings were 4% x 1.5m = £60 000

Kishorgonj Holdings plc may have surplus funds/excess working capital etc so may afford/be in a position to

Kishorgonj Holdings plc may have surplus funds/excess working capital etc so may afford/be in a position to redeem shares.

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Case Against :

Worsens the gearing ratio and this may deter future investment in Kishorgonj Holdings plc.

Company may not have surplus funds / excess working capital etc so may not be in an appropriate liquidity position. Working capital is reduced by £1.5m.

May upset shareholders who will receive lower future dividends. Also, shareholders are receiving the same amount that they paid for the share (£3), so have made no capital gain.

Conclusion:

Redemption of ordinary shares may be an advantage/disadvantage to Kishorgonj Holdings plc (as argued above)

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.

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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

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Q4 Mark Scheme

(a) AO1 (3)

AO1: Three marks for correct revenue figures

Revenue Budget

	January	February	March	April	May	June
Revenue (£)	472 000	464 000 **(1)**AO1 both	456 000	448 000 **(1)**AO1 both	440 000	432 000 **(1)**AO1 both

(b) AO2 (4)

AO2: Four marks for correct revenue figures

Revised Revenue Budget

	January	February	March	April	May	June
Revenue (£)	504 000 **(1)**AO2	529 200 **(1o/f)**AO2	555 660 **(1 o/f)**AO2	583 443	583 443	583 443 **(1 o/f)**AO2 all three

(1) AO3