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Mark Scheme (Results)

October 2022

Pearson Edexcel International Advanced Level
In Accounting (WAC12) Paper 01
Unit 2: 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(a)(i)

(AO1) 16 (AO2) 21 (AO3) 6

AO1 : One mark for correct treatment and insertion of factory labour, direct materials, discount received, opening and closing inventory, delivery costs, discount allowed, terminal payments, motor lorries running expenses, rent on shops, delivery staff wages, shop staff wages, auditors fees, head office expenses, head office wages, and heading for statement of profit or loss and other comprehensive income.

AO2 : One mark for correct calculation, treatment and insertion of oven depreciation total, factory electricity, factory gas, shops electricity, shops gas, fuel, marketing, head office electricity, head office gas, bank loan interest, debenture interest, revenue, total cost of sales, gross profit, other income, distribution costs, administrative expenses, financial cost, profit on ordinary activities before tax, corporation tax, and profit on ordinary activities after tax.

AO3: Three marks for calculation of factory depreciation, one mark for calculating value of oven depreciation at start of year, and two marks for calculating lorries depreciation.

Statement of Profit or Loss and Other Comprehensive Income for Sunnieside Bakeries plc for y/e 30 September 2022			
			(1)AO1
Revenue	10 804 740	(1)AO2	
Cost of sales	(5 547 600)	(1o/f)AO2	
Gross profit	5 257 140	(1o/f)AO2	
Other Income	2 700	(1)AO2	
Distribution costs	(2 680 925)	(1o/f)AO2	
Administrative expenses	(1 595 100)	(1o/f)AO2	
Financial cost	(88 500)	(1o/f)AO2	
Profit on ordinary activities before tax	895 315	(1o/f)AO2	

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Corporation tax	(119 000)	(1)AO2	
Profit on ordinary activities after tax	776 315	(1o/f)AO2	
Total 27 marks			**11**
(W1) Factory Depreciation			
5 680 000 (1)AO3 = 142 000 (1) AO3			
40 (1)AO3			
(W2) Oven Depreciation			
(1 800 000 - 420 000) = 1 380 000 (1)AO3 x 25%	= 345 000	(1)AO2	
(W3) Lorries Depreciation			
(385 000 / 8) (1)AO3 = 48 125 (1)AO3			
W1 Cost of Sales			
Factory labour	1 760 000	(1)AO1	
Direct Materials	2 650 000	(1)AO1	
Less Discount Received	(21 000)	(1)AO1	
Factory Depreciation	142 000	(3)(W1)	
Oven Depreciation	345 000	(2)(W2)	
Opening Inventory	82 000	(1)AO1	
Less Closing Inventory	(89 000)	(1)AO1	
Factory electricity	63 600	(1)AO2	
Factory gas	615 000	(1)AO2	
	5 547 600		**12**
W2 Distribution Costs			
Delivery costs	211 000	(1)AO1	
Discount Allowed	43 000	(1)AO1	
Shops electricity	84 800	(1)AO2	
Shops gas	164 000	(1)AO2	
Fuel	145 000	(1)AO2	
Terminal payments	96 000	(1)AO1	
Marketing	292 000	(1)AO2	
Depreciation on motor lorries	48 125	(2)(W3)	
Motor lorries running expenses	82 000	(1)AO1	
Rent on shops	380 000	(1)AO1	
Delivery staff wages	525 000	(1)AO1	
Shop staff wages	610 000	(1)AO1	
	2 680 925		**13**
W3Administrative Expenses			
Auditors fees	26 500	(1)AO1	

Head office electricity	63 600	(1)AO2	
Head office gas	41 000	(1)AO2	
Head office expenses	480 000	(1)AO1	
Head office staff wages	984 000	(1)AO1	**5**
	1 595 100		
W5 Financial cost			
Bank loan interest	30 000	(1)AO2	
Debenture interest	58 500	(1)AO2	
	88 500		**2**

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

Case for ICT

Saves Sunnieside Bakeries plc 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.

Spreadsheets can be used 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 of Sunnieside Bakeries plc at the year end.

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

Packages can complete invoices, purchase orders, requisition notes, delivery notes, etc. The presentation for Sunnieside Bakeries plc could be a clearer, standard format, which should be useful.

An Electronic Point of Sale could be used to reduce the need for handling cash, saving time and money. This could also be linked to inventory giving information regarding levels and re-ordering etc.

Case Against ICT

High financial cost of hardware, software, staff training, running costs, maintenance etc for Sunnieside Bakeries plc.

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 discover and correct.

Security risks if management of Sunnieside Bakeries 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 Sunnieside Bakeries plc staff time. Back-up copies should be kept in case these issues occur

Conclusion
Should conclude that ICT is very advantageous for Sunnieside Bakeries plc.

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

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Q2. Mark scheme

(a) (AO1) 5

AO1: Five marks for correct calculation of material cost, labour cost and budgeted total cost.

Time taken to produce one dress = 8 hours / 12 = 0.666 hour (40 mins) (1)AO1

Labour cost of one dress = £6.90 x 40/60 = £4.60 (1o/f)AO1

Material cost of one dress = 4.2 metres x £3.60 per metre = £15.12 (1)AO1

Budgeted cost of one dress = £4.60 + £15.12 = £19.72 (1o/f)AO1

Budgeted cost of 2 484 dresses = (£19.72 x 2 484) = £48 984.48 (1o/f)AO1

(5)

(b)

(i) (AO1)1 (AO2) 3 (AO3)3

AO1: One mark for correct insertion of standard price

AO2: Three marks for correct calculation and insertion of standard quantity, insertion of actual quantity, and material usage variance.

AO3: Three marks for correct calculation of actual quantity.

Standard quantity = 2 484 x 4.2 metres = 10 432.8 metres

Actual quantity = Issued column

= 2 400 + 2 400 + 2 300 (1)AO3 + 2 000 + 1 800 (1)AO3 = 10 900 metres (1)AO2

Material usage variance = (Standard quantity – Actual quantity) x Standard price

= (10 432.8 (1) AO2 - 10 900) (1) AO2 x £3.60 (1) AO1

= £1 681.92 Adverse (1) AO3 **(7)**

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(ii) **(AO2) 4 (AO3)3**
AO2: Four marks for correct insertion of standard price, insertion of material used over actual quantity, insertion of actual quantity, and calculation of material price variance.
AO3: Three marks for correct calculation of value of actual quantity of material used.

Total value of material issued and used = sum of third column in Issues section of Card

= £8 640 + £8 640 + £8 280 (1)AO3 + £7 300 + £6 570 (1)AO3 = £39 430 (1)AO3

Material price variance = (Standard price – Actual price) x Actual quantity

= (£3.60 (1) AO2 -£39 430) (1o/f) AO2 x 10 900 (1o/f) AO2
10 900(o/f)

= £190 Adverse (1o/f) AO2 **(7)**

(iii)(AO1) 3
AO1: Three marks for correct calculation of total material variance and label

Total material variance = Material usage variance + Material price variance
= £1 681.92 Adverse (1o/f) AO1 + £190 Adverse (1o/f) AO1
= £1 871.92 Adverse (1o/f) AO1 (3)

(c)
(i)(AO2) 7
AO2: Seven marks for correct calculation of labour efficiency variance.

Standard quantity = 2 484 x 40 = 1656 hours
60

Actual quantity =
Normal hours = 45 x 40 = 1 800 (1)AO2

Less hours lost due to power failure = 45 x 2 = (90) (1)AO2

Plus extra hours overtime = 45 x 1 = 45 (1)AO2
= Actual hours = 1 755

Labour efficiency variance = (Standard quantity – Actual quantity) x Standard rate

= (1 656 hours(1) AO2 - 1 755)(1o/f) AO2 x £6.90 (1) AO2

= £683.10 Adverse (1o/f) AO2 (7)

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(ii) (AO2) 7
AO2: Seven marks for correct calculation of labour rate variance

Calculation of actual payment
At Normal rate = 45 x 38 hours x £6.90 = £11 799.00 (1)AO2

At overtime rate = 45 x 1 x (£6.90 x 1.25) = £388.13(1)AO2

Total actual payment = £12 187.13

Labour rate variance = (Standard rate – Actual rate) x Actual quantity

= (£6.90 (1) AO2- £12 187.13 (1o/f) AO2) x 1 755 (1) AO2
1755 (1) AO2

= £77.63 Adverse (1o/f) AO2

(7)

(iii)(AO1) 3
AO1: Three marks for correct calculation of total labour variance and label

Total labour variance = Labour efficiency variance + Labour rate variance

= £683.10 Adverse(1o/f) AO3 + £77.63 Adverse (1o/f) AO3

= £760.73 Adverse (1o/f) AO1 **(3)**

(d)(i)(AO1) 2
AO1: One mark for each correct identification of an advantage up to a maximum of two.

It clearly shows receipts, issues and the running balance in separate columns. (1) AO1

The balance column tells the company when inventory levels are low and more needs to be ordered.

(1) AO1

May reduce the possibility of fraud or theft as purchases, issues and balances are shown. (1) AO1

(2)

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(d)(ii)(AO1) 2
AO1: One mark for each correct identification of a disadvantage up to a maximum of two.

The card only shows what has been issued to production, not how much inventory has been used by production. (1) AO1

The card must be kept up-to-date otherwise inaccurate figures may be used when calculating variances etc. (1) AO1

(2)

(e) AO1 (1) AO2 (1) AO3 (4) AO4 (6)
Own figure rule applies.

Performance of Potuvill Textiles plc.

Good performance
Workers of Potuvill Textiles plc were not paid any wage when the power cut occurred, being sent home instead.
This meant the total wages paid was lower than originally budgeted (but higher than expected for this output level).

Poor performance
Output of 2 484 for Week 41 was 216 below the expected output of 2 700

More material was used than was budgeted to be used for this level of output. The material usage variance was £1 682 adverse. This may have been due to poorly skilled workers or low quality material.

Potuvill Textiles plc may have to improve training or recruit higher skilled workers.

The price paid for some of the material was higher than budgeted. The material price variance was £190 adverse. However, we do not know the reason for the rise in price and it may be beyond the control of the Potuvill Textiles plc. Future budgets may need to reflect this higher price. The higher price may be due to the world market price of material or poor performance of the purchasing department. The purchasing department may have to improve their performance in the future. Perhaps they could make a contract to buy with fixed future prices.

Labour efficiency variance was £683 adverse. In the 39 hours available to labour, they did not produce the expected quantity of dresses. Production was 67 units short of expectations.

The adverse wage rate variance of £77 was due to the overtime being worked and paid at a higher rate than normal hours. Overtime may have been worked due to the low

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efficiency of the workers, and because of the time lost due to the power cut. Perhaps Potuvill Textiles plc need to install their own back up emergency generator, or change power supplier, if possible.

Other points

Perhaps the production department did perform well and it was an unrealistic budget that resulted in adverse variances.

Conclusion

The performance was poor. All four variances were adverse. The power cut does not fully explain the shortfall in production. Action needs to be taken which may involve a change in management.

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	0	A completely incorrect response.
Level 1	2- 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 2 - 55 marks

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Q3 Mark scheme

(a)(i)
AO1 (3) AO2 (1) AO3 (2)
AO1 : Three marks for correct balance entered at start of year, balance at end of year, and account totals.
AO2 : One mark for correct own figure to transfer to statement of comprehensive income.
AO3 : One mark for each correct calculation and entry of transfers to disposals.

Provision for Depreciation account

Date	Details	£ 000		Date	Details	£ 000	
				Oct 1	Balance b/d	2 987	(1)AO1
2022				2022			
Apr 30	Disposals	265	(1)AO3				
May 31	Disposals	219	(1)AO3	Sept 30	Statement of Comprehensive Income /Income Statement	263	(1o/f)AO2
Sep 30	Balance c/d	2 766	(1)AO1				
		3 250				3 250	(1o/f)AO1

6 marks

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(a)(ii)
AO1 (2) AO2 (11) AO3 (2)
AO1 : Two marks for correct entry for profit from operations and tax paid.
AO2 : One mark for correct calculation and insertion of interest on bank overdraft and bank loan (in two positions), depreciation, operating cash flow before working capital changes, increase in inventories, decrease in trade receivables, decrease in trade payables, cash generated from operations, and net cash from operating activities.
AO3 : One mark for each correct calculation and entry of profit on sale of non-current asset and loss on sale of non-current asset.

Statement of Cash Flows for y/e 30 September 2022		
Cash Flows from operating activities		
Profit from operations (412 (1)AO1+ 11(1)AO2 + 25(1)AO2)	448 000	
Add Depreciation	263 000	(1o/f)AO2
Less Profit on Sale of non-current asset	(155 000)	(1)AO3
Add Loss on Sale of non-current asset	72 000	(1)AO3
Operating cash flow before working capital changes	628 000	(1o/f)AO2
Less Increase in inventories	(118 000)	(1)AO2
Decrease in trade receivables	36 000	(1)AO2
Less Decrease in trade payables	(34 000)	(1)AO2
Cash generated from operations	512 000	(1o/f)AO2
Less Interest Paid (11 (1)AO2 + 25 (1o/f)AO2)	(36 000)	
Less Tax Paid	(305 000)	(1)AO1
Net Cash from Operating Activities	171 000	(1o/f)AO2

15 marks

(b) AO3 (3)
AO3: Three marks for correct calculation of cash flow used in financing activities.

sh flow from Operating activities	171 000	(o/f)	
sh flow from Investing activities	4 000	both (1)AO3	
sh flow used in Financing activities	(251 000)	(1)AO3	
Decrease in cash and cash equivalents	(76 000)	(1)AO3	

3 marks

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

For statement – liquidity improved

Profit after interest was £412 000

Company has generated £171 000 (o/f) from Operating activities.

Investing activities show an inflow of £4 000.

The current ratio at the start of the year was 2.30:1 which is very healthy. This improved to 2.32:1 by the end of the year.

Working capital has risen from £1 368 000 in 2021 to £1 387 000 in 2022, a rise of £19 000

Against statement – liquidity worsened

Cash and cash equivalents have fallen from £65 000 to an overdraft of £11 000, a fall of £76 000

Maybe the current ratio is to high, being above 2:1

The Liquidity ratio has fallen from 0.927:1 in 2021 to 0.832:1 in 2022.
This is below a benchmark of 1:1

Financing activity shows a loan of £500 000 was taken out. Interest and repayments on the loan may be high in the next four years. What was this loan for?

The loan is £500 000 inflow to the company, but the Financing total was an outflow of £251 000.
What was the reason for the difference, ie outflow of over £751 000? Perhaps a redemption of shares? Or the payment of a very large dividend?

<u>Conclusion</u>
Company has probably not improved its liquidity position over the year.

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Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide-ranging, using financial and perhaps non-financial information and an appropriate decision is made.

6 marks

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

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Question 4

(a) AO1(4)						
AO1: Four marks for correct calculation and insertion of sum from directors and private investors,						
investment fund and bank loan, flotation, and total sum.						
Capital Budget for Glowtherme plc						
	£ 000					
Directors	600	both				
Private investors	1500	(1)AO1				
Investment Fund	2700	both				
Bank loan	600	(1)AO1				
Flotation	3600	(1o/f)AO1				
Total	9000	(1o/f)AO1				
						4 marks

(b) AO1(1) AO2 (3) AO3 (1)						
AO1: One mark for correct calculation of units sold for cash						
AO2: One mark each for sales value, and for each two months cash received from sales.						
AO3: One mark for correct calculation of discount allowed.						
Cash Budget extract						
	Month 1	Month 2		Month 3	Month 4	
Sales units	150	250		300	320	
Units sold for cash	45	75		90	96	(1)AO1
Sales value	27000	45000		54000	57600	(1o/f)AO2
Less 5% discount allowed	(1350)	(2250)		(2700)	(2880)	(1o/f)AO3
Cash received from cash sales	25650	42750	(1o/f)AO2	51300	54720	(1o/f)AO2
						5 marks

(c) AO2(9) AO3 (6)						

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AO2: One mark for correct calculation of units sold on credit, sales value, payment received from sales of month 1 and month 2, and month 3 and month 4.						
AO3: One mark each for total sales value at the end of the month, total payments received by the end of the month, and total debtors at the end of the month.						
Trade Receivables budget						
	Month 1	Month 2		Month 3	Month 4	
Sales units	150	250		300	320	All four
Units sold on credit	105	175		210	224	(1)AO2
Credit Sales value	63000	105000	(1o/f)AO2	126000	134400	(1o/f)AO2
Payment received for month 1 sales	5250	5250	(1o/f)AO2	5250	5250	(1o/f)AO2
Payment received for month 2 sales		8750	(1o/f)AO2	8750	8750	(1o/f)AO2
Payment received for month 3 sales				10500	10500	(1o/f)AO2
Payment received for month 4 sales					11200	(1o/f)AO2
Total sales made by month end	63000	168000	(1o/f)AO3	294000	428400	(1o/f)AO3
Total payments received by month end	5250	19250	(1o/f)AO3	43750	79450	(1o/f)AO3
Total debtors at month end	57750	148750	(1o/f)AO3	250250	348950	(1o/f)AO3
						15 marks
The mark will apply to both months if there are two months figures to the left.						

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

Case For flexible budgets

Allows good decision making as "like is compared to like" eg costs can be compared to revenues at the same sales or output levels.

Flexible budgets may save Glowtherme plc time and money by allowing "management by exception" ie management need to take action only if there is a variance at a particular level of output or sales.

The targets are realistic if the budget is flexible and this may improve the motivation of Glowtherme plc employees.

Glowtherme plc is a new company and they may not be sure exactly what the predicted sales volume will be. Producing just one budget for a possible output level may not be helpful

Any variances are more meaningful if the volume element is eliminated.

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Case Against flexible budgets

Drawing up a series of budgets at different output levels will take time which may cost Glowtherme plc money.

Figures are only estimates so may be misleading or the action taken in response is inappropriate.

Conclusion

Should relate to points made above ie flexible budgets are a very useful tool.

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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)

Question 5 Mark scheme

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(a)AO1 (2)
AO1 : One mark for any two reserves correct, one further mark for a third reserve.

Three capital reserves are
Share premium Revaluation reserve Capital redemption reserve. (1)A01 x 2
2 marks

(b)AO1 (1)
AO1 : One mark for three reserves correct

Three revenue reserves are Retained earnings, General reserve, and Foreign Exchange reserve.
(1)A01 1 mark

(c)AO2 (2)
AO2 (2) Two marks for correct calculation of premium per share.

£45 million of shares at £0.50 per share = 90 million shares (1)A02

Premium per share = $\frac{\text{£18 million}}{\text{90 (o/f)million shares}}$ = £0.20 premium per share (1o/f)A02
2 marks

(d)AO2 (2)
AO2 (2) Two marks for correct calculation of percentage of property revaluation.

Property revaluation $\frac{\text{£4m}}{\text{£25 m}}$ (1)A02 both = 16% upward revaluation. (1)A02
2 marks

(e)AO1 (1)
AO1 : One mark for correct identification of possible reason for transfer.

Transfer could be to protect against movements in the value of foreign currencies. (1)A01
1 mark

(f)AO2 (2)
AO2 (2) Two marks for correct calculation of interim dividend per share.

Interim dividend per share = $\frac{\text{£0.72 million}}{\text{90 million shares}}$ (1)A02 both = £0.008 (0.8 pence) per share (1)A02
2 marks

(g)AO1 (1)

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AO1 : One mark for correct identification of possible reason for transfer.

Transfer could be to put funds aside for a purchase of property (or another non-current asset) (1)A01

Or to guard against a future uncertainty or unexpected liability.

1 mark

(h)AO3 (3)
AO3 : One mark for correct explanation of term and one mark for each correct identification of a reason.

Capital redemption is when shares are redeemed ie bought back, from shareholders. (1)A01

This may occur because the company does not require all of the funds at its disposal. (1)A01

Or, the company may wish to see an improvement in some ratios eg return on capital employed.

(1)A01

3 marks

(i)AO3 (2)
AO3 : Two marks for correct explanation of reason why transfer is made.

A transfer to the Capital Redemption Reserve is made to protect the creditors by creating a creditor's buffer. (1)A03

This means all of the funds cannot be withdrawn from the business from capital reserves. (1)A03

2 marks

(j)AO2 (4)
AO2 (4) Four marks for correct calculation of final dividend per share.

Number of shares = 45 m – 9m = 36 million (1)A02 x 2 = 72 million shares (1o/f)A02

Final dividend per share = £0.936 million (1)A02 both = £0.013 (1.3 pence) per share (1o/f)A02
72(o/f)million shares

4 marks

(k)AO2 (2) AO3(2)

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AO2 : Two marks for not including in profit and updated value of property.
AO3 : Two marks for correct explanation of why revaluation is not included.

The revaluation will not be included in the profit figure this year. (1)A02

The upward revaluation is classed as an unrealised gain. (1)A03 When the property is sold the gain is realised and added to the profit.(1)A03

If the upward revaluation is £4m, then the property is valued at £29 million (1)A02

4 marks

(l) AO2 (1) AO3 (2) AO4 (3)
For paying a final dividend

Shareholders receive cash when the dividend is paid which they can spend how they wish.

If healthy dividends are paid, the market may like this and this may cause the share price of Beddokk Supermarkets plc to rise.

If bonus shares are issued, there are more shares on the market so the price of the shares may fall.

For issuing bonus shares

Shareholders may be able to look forward to more dividends in the future as they hold more shares.

No funds leave Beddokk Supermarkets plc. The company may have liquidity problems or be short of cash. If dividends are paid, this will see funds leaving the company.

Conclusion

Some shareholders would prefer to receive cash at the present time when paid a dividend.

Some shareholders would be happy to receive bonus shares now, with larger dividends in the future.

Level	Mark	Descriptor

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

6 marks
Total for Question 5 = 30 marks

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Question 6
(a) **(a) AO1(5) AO2(6)**

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AO1: Five marks for calculation of revenue, total variable costs, contribution, other fixed overheads and profit.
AO2: Six marks for calculation of costs for materials and labour, delivery, power and semi-variable overheads (variable), rent and insurance, depreciation, and semi-variable overheads (fixed).

Statement of Profit or Loss for G-Round Wheels Limited for y/e 30 september 2022						
				£	£	
Revenue	(108000	x 4.95)			534600	(1)AO1
Less Variable costs						
Materials	(1.13	x 108000)		122040	both	
Labour	(5	x 150	x 48)	36000	(1)AO2	
Delivery	(108000	÷ 50)	x 34	73440	(1)AO2	
Power	(5	x 48	x 54)	12960	both	
Semi-Variable overheads	(108000	x 0.17)		18360	(1)AO2	
Total variable costs					262800	(1o/f)AO1
Contribution					271800	(1o/f)AO1
Less Fixed cost						
Rent	(4150	x 12)		49800	Both	
Insurance	(220	x 12)		2640	(1)AO2	
Depreciation	(28000	÷ 7)		4000	(1)AO2	
Semi-Variable overheads	(2125	x 12)		25500	(1)AO2	
Other fixed overheads				27840	(1)AO1	
Total fixed costs					109780	
Profit for year					162020	(1o/f)AO1
Workings						
Sales units	(450	x 5	x 48)	=108000		**11 marks**

(b)(i) **AO2 (3)**						
AO2: Three marks for calculation of break-even point in sales revenue.						

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Break-even point						
In sales revenue						
Contribution/sales ratio =	271800(o/f)	x 100	= 0.51	(1o/f)AO2		
	534600 (o/f)					
Break even point	109780 (o/f)	(1o/f)AO2=	£215 932	(1o/f)AO2		
	0.51(o/f)	both				
						3 marks
(ii)						

AO2: Three marks for calculation of break-even point in sales units.

In sales units	£215 932	(1o/f)AO2=	43 623	units	(1o/f)AO2	
	4.95	(1)AO2			**3 marks**	
(iii) AO3 (3)						

AO3: Three marks for calculation of margin of safety.

Margin of safety	£534 600	(1o/f)AO3	- 215 932	(1o/f)AO3	= £318 668	(1o/f)AO3
						3 marks

(c) **AO3 (4)**

AO3: Four marks for calculation of decrease in variable costs required to maintain ratio.

Present contribution/sales (c/s) ratio = 0.51 (o/f)

Next year's sales = 108 000 (o/f) x £4.45 per unit = 480 600 (1o/f)AO3

Contribution must = 480 600 (o/f) x 0.51 (o/f) = £245 106 (1o/f)AO3

Therefore variable costs must be £480 600 (o/f) - £245 106 (o/f) = £235 494 (1o/f)AO3

This year variable costs are £262 800 (o/f)

Therefore decrease in variable costs must be £262 800 (o/f) - £235 494 (o/f) = £27 306 (1o/f)AO3

4 marks

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

Possible to decrease variable costs
It may be possible to decrease labour costs if unemployment is high and jobs are scarce.

It may be possible to decrease material costs if G-Round Wheels Ltd is a skilled negotiator and can agree a lower price. If supply in the market exceeds demand, then the company will be in a stronger position when negotiating.
G-Round Wheels Ltd may be able to find an alternative delivery company at a lower price.

G-Round Wheels Ltd may be able to find an alternative power supplier at a lower price.

We are not told what the semi-variable overheads are. However, they may include costs such as telephone. G-Round Wheels Ltd may be able to find an alternative telephone supplier at a lower price.

Not possible to decrease variable costs
It may not be possible to decrease labour costs if unemployment is low and labour is scarce.

It may be not be possible to decrease material costs if G-Round Wheels Ltd is not a skilled negotiator and is unable to agree a lower price. If demand in the market exceeds supply, then the company will be in a weaker position when negotiating to decrease prices..

G-Round Wheels Ltd may be unable to find an alternative delivery company at a lower price.

G-Round Wheels Ltd may be unable to find an alternative power supplier at a lower price.

We are not told what the semi-variable overheads are. However, they may include costs such as telephone. G-Round Wheels Ltd may not be able to find an alternative power supplier at a lower price. The telephone company may have a monopoly in the area.

Conclusion
It may or may not be possible to decrease the variable cost of G-Round Wheels Ltd.

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6 marks

Total for Question 6 - 30 marks

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