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Pearson Edexcel

Mark Scheme (Results)

October 2023

Pearson Edexcel International Advanced Level
In Accounting (WAC12)
Paper 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 Mark scheme				
(a)(i) [AO1] 8 [AO2] 6				
AO1: One mark each for managers salaries, other fixed costs, power and rent, total fixed costs				
and total variable costs per unit. One mark for delivery costs, direct labour and materials per				
unit. One mark for patent and power per unit.				
AO2: Three marks for calculation of contribution per unit. Three marks for calculation of				
break-even point in units.				
Fixed Costs	£			
Managers Salaries	816000	**(1)**AO1		
Other Fixed Costs	420000	**(1)**AO1		
Power	87000	**(1)**AO1		
Rent	900000	**(1)**AO1		
Total fixed costs	2223000	**(1o/f)**AO1		
Variable costs per unit	£			
Delivery	18.00			
Direct Labour	62.50	all three		
Materials	130.00	**(1)**AO1		
Royalties	20.00	both		
Power	4.00	**(1)**AO1		
Total variable costs per unit	234.50	**(1)**AO1		
Contribution per unit =	Selling price -	Variable costs		
=	£320.00 **(1)**AO2 -	£234.50	**(1o/f)**AO2	
=	£85.50	**(1o/f)**AO2		
Break even point	Total Fixed Costs	**(1o/f)**AO2		
	Contribution per unit			
=	2223000			
	£85.50	**(1o/f)**AO2		
=	26 000 units	**(1o/f)**AO2	**[14]**	

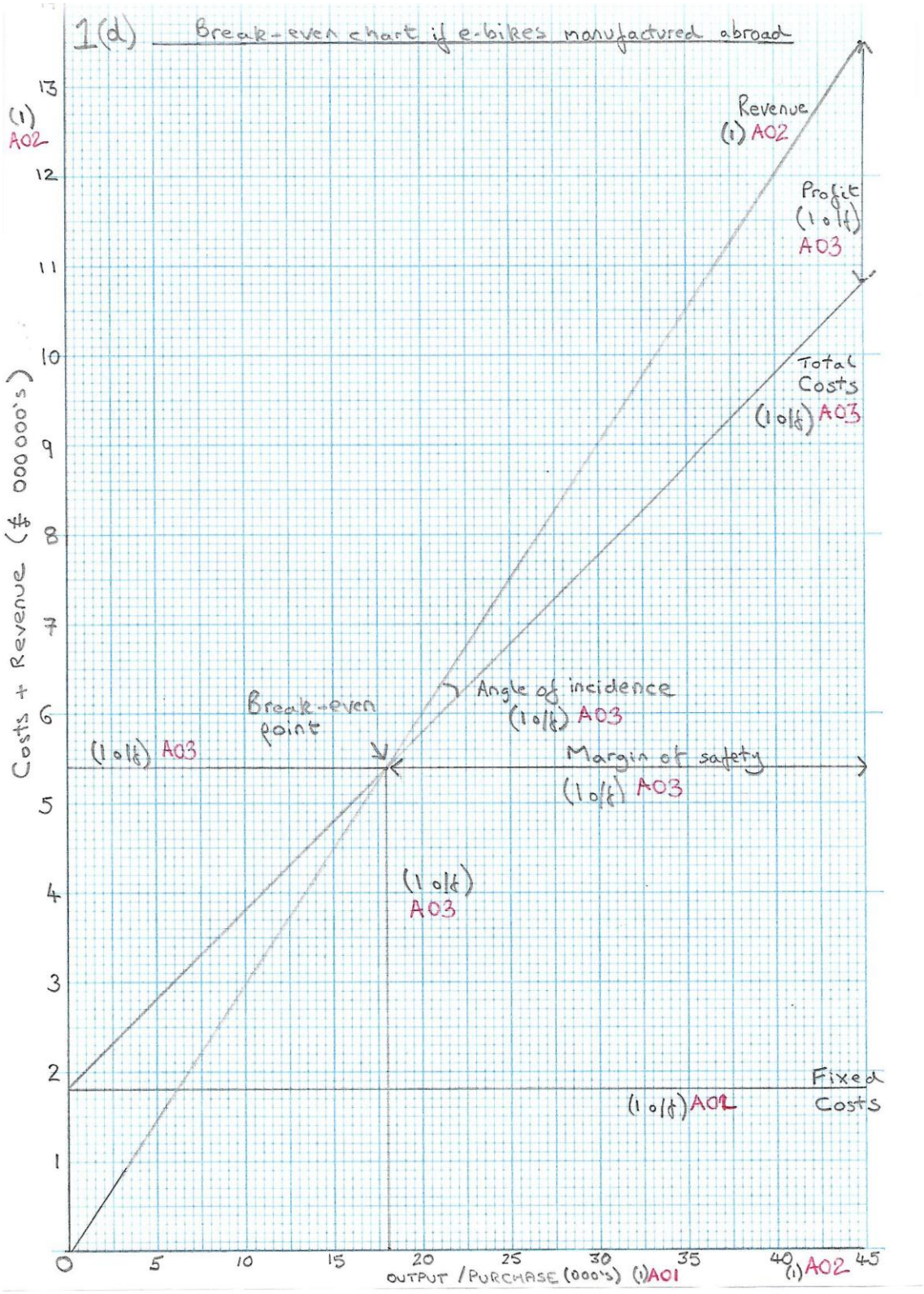
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(a)(ii)[AO2] 2				
AO1: Two marks for calculation of break-even point in revenue.				
Break even point in revenue	=	26 000 x	£320	**(1o/f)**AO2
	=	£8 320 000	**(1o/f)**AO2	
				[2]
(b) (i) [AO2] 4				
AO2: Four marks for calculation of margin of safety in units.				
Volume of sales =	45000 x 95% =	42 750 units	**(1)**AO2	
Margin of safety in units =	42 750 **(1o/f)**AO2 -	26 000	**(1o/f)**AO2	
=	16 750 units	**(1o/f)**AO2		
				[4]
(b) (ii) [AO2] 3				
AO2: Three marks for calculation of margin of safety as a percentage of sales.				
Margin of safety as a				
percentage of sales =	16 750 x 100**(1o/f)**AO2 =	39.18%	**(1o/f)**AO2	
	42 750**(1o/f)** AO2			
				[3]
(c) [A01] 2 [A02] 4				
AO1: Two marks for insertion of fixed costs and closing inventory.				
AO2: Four marks for calculation of revenue, variable costs, cost of goods sold and profit for the year.				
Profit for the year			**£**	
Revenue	(£320.00 x 42 750)		13 680 000	**(1o/f)**AO2
Less				
Variable costs	(£234.50 x 45 000)	(10 552 500)	**(1o/f)**AO2	
Fixed Costs		(2 223 000)	**(1o/f)**AO1	
Plus closing inventory		683 775	**(1)**AO1	
Cost of goods sold			(12 091 725)	**(1o/f)**AO2
			-	
Profit for year			1 588 275	**(1o/f)**AO2
				[6]

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(d) [AO1] 4 [AO2] 4 [AO3] 6				
AO1: One mark for both axes labelled, correct addition of fixed costs, and variable costs, and total costs.				
AO2: One mark for each scale, and correct drawing of fixed costs and sales revenue on the graph.				
AO3: One mark each for correct drawing on the graph of total costs, break-even point in units				
and revenue, profit, margin of safety in units and the angle of incidence.				
Workings for graph				
Fixed Costs	£			
Managers Salaries	744000			
Other Fixed costs	346000			
Power	60000			
Rent	650000			
Total Fixed costs		= £1 800 000	**(1)**AO1	
Variable costs per unit	£			
Delivery	18.00			
Purchase cost	157.00			
Royalties	20.00			
Shipping cost	5.00			
Total variable costs per unit	200.00			
Total variable costs	(45 000 x £200)	= £9 000 000	**(1)**AO1	
Total fixed and variable costs		£10 800 000	**(1o/f)**AO1	

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(e) [AO1] 1 [AO2] 1 [AO3] 4 [AO4] 6
Own figure rule may apply

For manufacturing in the UK
There are no shipping costs if the e-bikes are manufactured in the UK. These total £5 per e-bike and would total £225 000 for 45 000 e-bikes.

It may be easier to control the quality of the goods produced in the UK as direct supervision is possible. There are also less likely to be any problems with reliability of delivery.

PedalPower plc must be a UK company. If the e-bikes are manufactured in the UK, this would provide jobs in the UK.

There is not likely to be any political upheaval in the UK which may affect production.

For the manufacturing abroad
The break-even point if manufactured abroad is 18 000 units, which is lower than the break-even point of 26 000 units if manufactured in the UK. The difference is 8 000 units. A lower break-even point would be useful if the number of sales units is not as high as expected.

The profit is £2.7 million if the e-bikes are manufactured abroad and this is higher than the £1.588 million profit if the e-bikes are manufactured in the UK.
The difference is £1.112 million for production and sales of 45 000 e-bikes.

The contribution per bike for manufacturing abroad is £300 - £200 = £100
The contribution per bike for manufacturing ain the UK is £320 - £234.50 = £85.50

The margin of safety for e-bikes being manufactured abroad is 27 000 units. This is higher than the margin of safety of 16 750 for e-bikes being manufactured in the UK.

Every fixed cost (manager's salaries, other fixed costs, power and rent) are lower if the e-bikes are manufactured abroad. Fixed costs if manufactured at home total £2 223 000, and £1 800 000 if manufactured abroad.
The difference is £423 000 cheaper if manufactured abroad.

The purchasing cost if manufactured abroad is £157 per e-bike. If manufactured in the UK, the materials and labour total £192.50. Manufacturing abroad is cheaper by £35.50 per e-bike. This makes a total difference of £1 597 500 for all e-bikes.

Other points
The cost figures given are only estimates. It may not be possible to predict exactly the cost figures.

It is not possible to exactly predict the quantity of sales figures for the e-bikes.

The delivery costs to retailers in the UK and the payments to the patent holder are the same wherever the e-bikes are manufactured.

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Exchange rates may fluctuate which may affect figures stated. This could also affect transport costs, cost of materials etc.

Will there be any sustainability and ethical issues with production abroad. Will there be any problems with pollution, sourcing materials, working conditions of employees etc.

Evaluation

Manufacturing abroad has a lower predicted break-even point (o/f), and a higher predicted profit (o/f). This means PedalPower plc should manufacture the e-bikes abroad (o/f).

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.

(Total for Question 1 = 55 marks)

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Q2 Mark scheme
(a) [AO1] 14 [AO2] 23 [AO3] 6
AO1: One mark for three non-current assets, investment property, trademark, inventories, other receivables, cash, ordinary shares, share premium, foreign exchange reserve, debenture, bank loan, bank overdraft, trade and other payables, and statement title.
AO2: One mark for land, factory, plant and equipment, motor vehicles, total PPE, total non-current assets, total current assets, total assets, three marks for calculation of revaluation reserve, retained earnings, total equity, taxation due (NCL), total dividend payable, total current liabilities, total equity and liabilities, six marks for calculation of retained earnings.
AO3: One mark for inserting a revaluation reserve,inserting a provision for damages payable, debenture interest, bank loan interest, inserting dividend payable and the correct figure,trade and other payables total, and income tax payable.

Statement of Financial Position of Matara Clothing plc at 30 September 2023				(1)AO1
ASSETS	**£**	**£**	**£**	
Non-current assets				
Property, Plant & Equipment				
Land	1679000	(1)AO2		
Factory	892500	(1)AO2		
Plant and equipment	43200	(1)AO2		
Machinery	180000			
Fixtures and Fittings	12500	All three		
Computer Equipment	45000	(1)AO1		
Motor vehicles	48000	(1)AO2		
		2900200	(1o/f)AO2	
Investment property				
Investment property	1235000	(1)AO1		
		1235000		
Other Intangible Assets				
Trademark	55000	(1)AO1		
		55000		
			4190200	(1o/f)AO2
Current Assets				
Inventories		64000	(1)AO1	
Trade and Other Receivables				
Trade receivables	167000	both		
Other receivables	9800	(1)AO1		
		176800		

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Cash and Cash Equivalents				
Cash		23000	(1)AO1	
			263800	(1o/f)AO2
Total Assets			**4 454 000**	(1o/f)AO2

EQUITY AND LIABILITIES				
Equity				
Share Capital				
Ordinary shares of £1		2000000	(1)AO1	
Other Reserves				
Share Premium	200000	(1)AO1		
Revaluation reserve (1) AO3	261500	(1o/f)AO2		
General reserve	40000	both		
Foreign exchange reserve	30000	(1)AO1		
Retained earnings	506450	(1o/f)AO2		
		1037950		
			3037950	(1o/f)AO2
Non-Current Liabilities				
Long Term Borrowings				
9% Debenture 2027		800000	(1)AO1	
Taxation		185000	(1)AO2	
Provisions				
Damages payable		100000	(1)AO3	
			1085000	(1o/f)AO2
Current Liabilities				
Bank overdraft	27800	(1)AO1		
Bank loan	50000	(1)AO1		
		77800		
Trade and other Payables				
Trade payables	110000	Both		
Other payables	3500	(1)AO1		
Debenture Interest	36000	(1)AO3		
Bank loan Interest	12750	(1)AO3		
Dividend payable	24000	(1)AO3		
		186250	(1o/f)AO2	
Current Tax Payable		67000	(1)AO3	
			331050	(1o/f)AO2
Total Equity and Liabilities			**4454000**	(1o/f)AO2

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Workings for revaluation reserve		
Increase in factory value	42500	(1)AO2
Increase in land value	219000	(1)AO2
Value of revaluation reserve	261500	
Workings for retained earnings		
Balance before adjustments	255650	(1)AO2
Plus Profit for year	298000	(1)AO2
Less motor vehicle depreciation	-16000	(1)AO2
Less plant and equipment depreciation	-7200	(1)AO2
Less final dividend	-24000	(1)AO2
Retained earning after adjustments	506450	

(c) AO2(7)
A02: Seven marks for calculating cost
(b) [AO1] 1 [AO2] 1 [AO3] 4 [AO4] 6

For usefulness of Auditors Report to users of accounts

Auditors are independent scrutineers of the accountswho may report that the accounts have been prepared "correctly", in accordance with International Accounting Standards.

Auditors must report that the accounts give a True and Fair view or do not give a True and Fair view.

For a company, auditors state whether the accounts have been prepared in accordance with the requirements of company law.

The report should state whether or not the business is a going concern and has a future on financial grounds. This may help shareholders with decision-making.

Auditors are reporting on how the Directors have used the funds invested by the shareholders.The auditor's duty is to the shareholders.

Auditors may give tax authorities confidence that the tax computation is correct.

Professional supervisory bodies exist to give guidelines to auditors concerning practices and standards eg Auditing Practices Board, Financial Reporting Council

Auditors should be professionally qualified eg Chartered Accountants or Certified Accountants. This should hopefully guarantee integrity and competence.

Stakeholders will be able to judge how much reliance they can place on the accuracy of the financial statements and this will (hopefully) help them to make better-informed decisions.

Against usefulness of Auditors Report to users of accounts

Auditors may not be very independent, going along with the wishes of clients,in order to keep their custom. Auditors may also be employed to carry out other duties on behalf of the client which auditors would prefer not to lose.

Auditors could be misled by the directors and provide an inaccurate report.

Auditors do not guarantee that material fraud has not occurred. If auditors were required to guarantee that material fraud had not occurred, then the cost of the audit would probably be unacceptably high.

The public think that a clean Audit Report means all is well with the company but this may not actually be the case. This is known as the "expectation gap".

Conclusion

Should relate to the points made above
e.g., Auditors' Report is important and of value. **12 marks**

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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) [AO1] 3							
AO1: Three marks for calculation of monthly selling prices and sales revenue for the month							
Revenue Budget (£s)							
	January		**February**		**March**	**April**	
Rugs sold	2700		2100		2200	2400	All 4
Selling price per rug (£)	£80		£80		£84	£84	**(1)**AO1
Sales Revenue	£216,000		£168,000	**(1)**AO1	£184,800	£201,600	**(1o/f)**AO1
				both			both
							3 marks
(b) [AO2] 7							
AO2 : Seven marks for calcualtion of opening inventories, production for monthly sales, production for closing inventory, and total							
production for the month.							
Production Budget (rugs)							
	January	**February**		**March**	**April**		
Less Opening inventory	(1620)	(1260)	**(1o/f)**AO2	(1320)	(1440)	**(1o/f)**AO2	both
Production for Sales in Month	2700	2100	both	2200	2400	**(1)**AO2	All 4
Production for Closing inventory	1260	1320	**(1)**AO2 both	1440	1080	**(1)**AO2	both
Total production in month	2340	2160	**(1o/f)**AO2	2320	2040	**(1o/f)**AO2	both
			both				
							7 marks

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(c) [AO1] 2 [AO2] 1 [AO3] 1								
AO1 : Two marks for calculation of total labour cost for the month..								
AO2 : One mark for calculation of labour cost per unit.								
AO3: One mark for correct insertion of production in units for the month.								
Workings	**January**		**February**		**March**	**April**		
Production in month	2340		2160		2320	2040	**(1o/f)**AO3	All 4
Labour cost per rug	£24		£24		£24	£24	**(1)**AO2	All 4
Cash budget extract (£s)								
	January		**February**		**March**	**April**		
Total payment to labour	£56,160		£51,840	**(1o/f)**AO1	£55,680	£48,960	**(1o/f)**AO1	both
				both				
								4 marks

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(d) [AO2] 4 [AO3] 6								
AO2 : Four marks for calculation of material purchases for production for teach month, and total material purchases for each month.								
AO3: Six marks for calculation of material purchases for the opening inventory and the closing inventory.								
Material purchases budget (£s)								
	January		**February**					
Less Opening inventory	(£33,696)	**(2o/f)**AO3	(£31,104)	**(2o/f)**AO3				
For production for month	£67,392	**(1o/f)**AO2	£62,208	**(1o/f)**AO2				
Closing inventory	£31,104	**(1o/f)**AO3	£33,408	**(1o/f)**AO3				
Material purchases for month	£64,800	**(1o/f)**AO2	£64,512	**(1o/f)**AO2				
Example of workings - January								
Opening inventory = 40m x £0.72 x 50% x 2340 (monthly production) **[1o/f]**AO3 = £33 696 **[1o/f]**AO3								
For production for month = 40m x £0.72 x 2340 = £67 392								
Closing inventory = 40m x £0.72 x 50% x 2160 (next month's production) = £31 104								
Example of working - February								
Opening inventory = 40m x £0.72 x 50% x 2160 (monthly production) **[1o/f]**AO3 = £31 104**[1o/f]**AO3								
						10 marks		

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(e)

Argument for the order shown

Preparation of budgets should start with the likely number of sales units. This is known as a critical or limiting factor. Very often, the number of sales units will determine the figures to be included in the other budgets.

The next step would be to prepare a budget showing expected sales revenue in Pounds (£s).

The preparation of the production budget would be next. This would be prepared using the number of units expected to be sold, together with the planned units for opening and closing inventory.

The next stage would be to prepare budgets for inputs, such as raw material purchases, and possible even labour. It is possible that the amount paid to labour goes straight into the cash budget.

Argument against the order shown.

It is possible that the amount paid to labour each month could be shown in a separate labour budget, before inclusion in the cash budget.

It is likely that the material purchases budget in pounds, is drawn up before the figures calculated are used in the cash budget. The cash budget is likely to be the final budget drawn up after all other budgets have been prepared.

Evaluation

The order shown is generally correct. The only proviso is that it would not be possible to complete the preparation of the cash budget without further figures being supplied.

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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)

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Q4

(a) (AO1) 5 (AO2) 9

AO1: Five marks for calculation of hours, number of in total, maintenance costs and correct insertion of other overheads.

AO2: Nine marks for calculation of revenues from cars, lorries and in total, staff costs in total, depreciation, total costs, and annual profit.

Revenues			Number	Price per	Number	Revenue	
	Hours		per hour	vehicle	of days	per year (£)	
Cars 7am - 8 pm	13	both	275	£5	365	6524375	**(1o/f)**AO2
Cars 8pm - 7am	11	**(1)**AO1	90	£5	365	1806750	**(1o/f)**AO2
Lorries 7am - 8pm	13	both	38	£8	365	1442480	**(1o/f)**AO2
Lorries 8pm - 7am	11	**(1)**AO1	12	£8	365	385440	**(1o/f)**AO2
Total revenue						10159045	**(1o/f)**AO2
Costs							
		No of staff		Daily	Number		
		per day		pay rate	of days		
Staff		15	**(1)**AO1	75	365	410625	**(1o/f)**AO2
Maintenance				1000	365	365000	**(1)**AO1
Other overheads						450000	**(1)**AO1
			Cost	Years			
Depreciation			20000000	/5		4000000	**(1)**AO2
Total costs						(5225625)	**(1o/f)**AO2

Budgeted net profit						4933420	**(1o/f)**AO2

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(b) (AO2) 3 (AO3) 1
AO2: Three marks for insertion into, and calculation of formula to find accounting rate of return.
AO3: One mark for correct statement of formula.

Accounting rate of return = Annual net profit x 100 **(1)**AO3
Initial outlay

= £4 933 420 x 100 **(1o/f)**AO2 = 24.67% **(1o/f)**AO2
£20 000 000 **(1)**AO2

(4)

(c) (AO3) 6
AO3: Six marks for correct calculation of payback period.

Payback period

	Net Cash Flow	Cumulative	
Initial investment		(£20 000 000)	both
Year 1	£8 933 420	(£11 066 580)	**(1o/f)**AO3
Year 2	£8 933 420	(£2 133 160)	both
Year 3	£8 933 420	£6 800 260	**(1o/f)**AO3

Payback period = 2 years 2 133 160 x 12 months **(1o/f)**AO3
8 933 420 **(1o/f)**AO3

= 2 years **(1o/f)**AO3 2.87 months **(1o/f)**AO3

(6)

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

For the project
The accounting rate of return looks very healthy at 24.67%

The payback period is very short at just less than two years and three months.

Against the project
The figures are only estimates for Roadway Construction plc and may not be correct. Revenues for the motorway may be lower especially if society tries to move away from fossil burning fuels. Perhaps long journeys would be made by train.

Costs such as maintenance may increase over the five years.

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Other points

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 by Roadway Construction plc discount the value of money.

Conclusion

The project is probably worth investing in as the non-discounted methods of project appraisal show a healthy return and a payback of about two years and three months.

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.

6 marks

(Total for Question 4 = 30 marks)

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Q5. Mark scheme
(a) [AO1] 4 [AO3] 5
AO1: Four marks for correct reasons for creation of reserve
AO2: Five marks for correct examples of use of reserve

	Created	**Used**
(i) Retained earnings	Trading profits built up over past and present years (1) AO1	Dividends paid to ordinary shareholders (1) AO3
(ii) Foreign Exchange reserve	Transfer from Retained earnings/ profits (1) AO1	Funds put aside to cover adverse movements in exchange rates by companies who trade internationally. (1) AO3
(iii) Share premium reserve	Issue of ordinary shares above their nominal value (1) AO1	Write off preliminary expenses on formation of the company, or a share issue. Or, pay a premium on the redemption of shares or debentures. Or, issue bonus shares (1)AO3
(iv) Revaluation reserve	Upward revaluation of non-current asset. (1) AO1	When the asset is sold (1) AO3 The amount of the revaluation is transferred to profit and loss. (1) AO3

(9)

(b) [AO2] 7
AO2: Seven marks for correct calculation of gearing ratio.

$$\text{Gearing ratio} = \frac{\text{Fixed cost capital}}{\text{Capital employed}} \times 100$$

$$= \frac{£24\,000\,000 \text{ (1) AO2} + £36\,000\,000 \text{ (1) AO2} + £10\,000\,000 \text{ (1) AO2}}{£24\,000\,000+£46\,500\,000+£36\,000\,000+£60\,000\,000 - £16\,500\,000+£10\,000\,000+£15\,000\,000} \times 100$$

For capital employed, (1)AO2 mark award for first three correct entries.
Next two correct entries (1)AO2 mark
Final two correct entries (1)AO2 mark

$$= \frac{£70\,000\,000}{£175\,000\,000} \times 100 = 40\% \text{ (1o/f)AO2}$$

(7)

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(c) [AO2] 4
AO2: Four marks for calculating the total interest paid in the year by the company.

Interest payments:
Bank loan £24 000 000 x 8% = £1 920 000 (1)AO2
Mortgage loan £36 000 000 x 11% = £3 960 000 (1)AO2
Redeemable preference shares £10 000 000 x 5% = £500 000(1)AO2

Total interest paid = £6 380 000 (1o/f)AO2

(4)

(d) [AO1] 1 [AO2] 1 [AO3] 2
AO1: One mark for both date and narrative.
AO2: One markcorrect amount of transaction.
AO3: One mark each for naming account to be debited and credited.

Date	Details	Debit	Credit
12 July	General reserve (1)AO3	20 000 000	
2023	£0.50 Ordinary shares (1)AO3		20 000 000
	Being a bonus issue of £0.50 ordinary shares on terms of one share issued for every three shares held. (1)AO1		(1)AO2 both

(e) [AO2] 1[AO3] 2 [AO4]3

Argument in favour of present gearing ratio
Yau Tong Trading plc's gearing ratio at the start of the year is not above 50% o/f which is regarded as a benchmark figure.

Above 50% is regarded as high gearing which is considered risky. This is because large interest payments have to be made, as well as capital payments to repay the amount borrowed.

Argument against present gearing ratio
Although not above 50%, Yau Tong Trading plc's gearing ratio of 40% is quite high. There will be large capital repayments every year.

Annual interest repayments will be high, at £6.38 million per year.

Actions to improve gearing ratio
Making profits will reduce the debit balance in the profit and loss reserve or even result in a credit balance.

Paying off or reducing loans will reduce liabilities and improve the gearing ratio.

Issuing shares by a rights issue will reduce the gearing ratio.

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However, the issue of bonus shares by Yau Tong Trading plc, does not improve the gearing ratio as the general reserve reduces.

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.

(6)

(Total for question 5 = 30 marks)

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Question 6

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

AO1: One mark for correct calculation of interim dividend

One mark for correct insertion of total ordinary dividend and issued ordinary shares

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

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

Interim dividend = £0.005 x 80 000 000 = £400 000 **(1)**AO1

$$\text{Dividend per share} = \frac{\text{£400 000 + £ 1 680 000}}{\text{80 000 000}} = \text{2.6p per share}$$ **(1)**AO2 **(1)**AO1

(3)

(ii) (AO1) 2 (AO2) 1

AO1 : Two marks for correct insertion of market price of share and dividend per share.

AO2 :One mark for correct calculation of dividend yield.

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

$$= \frac{\text{2.6 p (1o/f)AO1}}{\text{£1.30 (1)AO1}} \times 100 = \text{2\% (1o/f)AO2}$$

(3)

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

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

AO2 : One mark for correct calculation of dividend cover.

AO3 : Two marks for correct insertion of net profit after tax and preference dividends.

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

$$= \frac{\text{(£3 200 000 – £610 000) (1)AO3 - £480 000 (1)AO3}}{\text{£2 080 000 (1o/f)AO1}} = \text{1.01 times (1o/f)AO2}$$

(4)

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(iv) [AO2 3] [AO3 5]
[AO2] : Three marks for correct insertion share capital, reserves, and correct calculation of return on capital employed.
[AO3] : Five marks for correct insertion of net profit after interest, correct calculation of interest to add back for bank loan and debenture, and correct insertion of profit and loss reserves, bank loan and debenture.

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

Bank loan interest = (6% x £20 000 000) = £1 200 000
Debenture interest = (10% x £25 000 000) = £2 500 000

= (£3 200 000(1) AO3 + £1 200 000(1)AO3 + £2 500 000 (1)AO3) x 100
(£80 000 000+£40 000 000(1)AO2+£12 000 000 +£6 700 000(1)AO3+£20 000 000 +£25 000000(1)AO3)

= £6 900 000 x 100 (1)AO2 = 3.76% (1o/f)AO2
£183 700 000

(8)

(v) (AO2) 6
AO2 : Three marks for correct insertion of net profit after tax minus preference dividend, number of ordinary shares issued, and correct calculation of earnings per ordinary share.
Three marks for correct insertion of market price of share and earnings per share and for correct calculation of price/earnings ratio.

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

= £2 110 000 **(1o/f)** AO2 = 2.64 pence per share **(1o/f)**AO2
80 000 000 **(1)**AO2

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

= £1.30 **(1)**AO2 = 49.24 times **(1o/f)**AO2
£0.0264 (2.64p) **(1o/f)** AO2

(6)

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

Argument for selling shares

For the year ended 30 September 2023, Dhara received a 2% return in the form of dividends (revenue gain) on her money invested, as shown by the dividend yield. A return of 3% in a bank account would be a higher return.

If she sold the shares for £1 300, she would receive an extra £13 return in a year in the bank account. The shares give a return of £26, the bank account a return of £39

Argument for holding the shares

The market price of the shares at the end of the year is £1.30, which is higher than the issue price of £1.00 per share. The market must have some confidence in Rajshahi Electronics plc for the share price to be at this value.

The high price/earnings ratio shows the market has confidence in Rajshahi Electronics plc which may result in good returns in the future. The share price may rise in the future.

The dividend cover shows that the company are paying out nearly all of this year's profit in the form of dividends. This policy would benefit shareholders if repeated in the future.

Two years ago, the shares were bought for £1.35 per share. If she sells now, Dhara will make a loss of 1000 x £0.05 = £50

Dhara will have to pay a commission to stockbrokers who sell the shares on her behalf.

Other points

We do not know if the share price trend for the year is an upward movement or downward movement.

What is likely to happen to the share price in the future?

Conclusion

Candidates may argue in favour of selling or holding onto the shares. Argument should support their decision.

(6)

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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.

(6)

(Total for Question 6 - 30 marks)

(Total for Section B = 90 marks)

TOTAL FOR PAPER = 200 MARKS

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