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Mark Scheme (Results)

Summer 2024

Pearson Edexcel International Advanced Level In Accounting (WAC11) 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] 3
AO1 : Three marks for correct calculation and insertion of inputs.

Purchases							
Budget in litres	July		August		September		
Chemical X	4400		4400		4400	AO1(1) all three	
Chemical Y	8800		8800		8800	AO1(1) all three	
Water	30800		30800		30800	AO1(1) all three	
	44000		44000		44000		**3 marks**

(a) (ii) [AO2] 6
AO1 : Six marks for correct calculation and insertion of cost inputs.

Purchases							
Budget (£)	July		August		September		
Chemical X	20944		20944		20944	AO1(1o/f) all three	
Chemical Y	24200		24200	AO1(1o/f)both	25168	AO1(1o/f)	
Water	32340	AO1(1o/f)	33957		33957	AO1(1o/f) both	
Total	77484		79101		80069	AO1(1o/f) all three	**6 marks**

(b) [AO1 3 [AO2] 1
AO1: Three marks for figures for Y, July water and correct addition of monthly totals.
AO2: One mark for correct calculation of August and September water figures.

Trade Payables							
Budget (£)	July		August		September		
One month credit - Y	24200		24200		25 168	AO1 (1o/f) all 3	
Two months credit - water	32340	AO1 (1o/f)	66297		67 914	AO2 (1o/f) both	
Total	56540		90497		93 082	AO1 (1o/f) all 3	
							4 marks

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(c) [AO1] 2
AO1: Two marks for correct calculation of sales figures

(c) Sales							
Budget (litres)	July		August		September		
Total sales	42000	AO1(1)	42000		42000	AO1(1) both	
							2 marks

(d) [AO2] 4
AO2: Four marks for correct figures to calculate inventory.

Inventory							
Budget (litres)	July		August		September		
Opening inventory	0		2000		4000	AO2 (1o/f)all	
Add Production	44000		44000		44000	AO2 (1)all	
Less Total sales	42000		42000		42000	AO2 (1o/f)all	
Closing Inventory	2000		4000		6000	AO2 (1o/f)all	
							4 marks

(e) [AO2] 10
AO2: Ten marks for correct figures to calculate trade receivables.

Trade Receivables							
Budget (£)	July		August		September		
Alpha	195000	AO2(1)	195000		195000	AO2 (1)both	
Beta	200000	AO2(1)	200000		200000	AO2 (1)both	
Gamma	175500	AO2(1)	200000		200000	AO2 (1)both	
Delta	200000	AO2(1)	200000		200000	AO2 (1)both	
	770500	AO2 (1o/f)	795000		795000	AO2 (1o/f)both	
							10 marks

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(f) [AO2] 8 [AO3] 6
AO2: Eight marks for cash received from Alpha, Beta, Celta, August and totals for each month.
AO3: Six marks for calculation of cash received from Celta in September and Delta for each month.

Cash Budget (extract)							
Cash Received (£)	July		August		September		
Alpha	0		195000		195000	AO2(1o/f) both	
Beta	34000	AO2(1)both	234000		234000	AO2(1o/f) both	
Gamma	0	AO2(1)	151000	AO2(1)	175500	AO3(3o/f) [W1]	
Delta	14500	AO3(1)	214500	AO3(1o/f)	214500	AO3(1o/f)	
	48500	AO2(1o/f)	794500	AO2(1o/f)	819000	AO2(1o/f)	
							14 marks

[W1] Gamma – cash received in September

Three month sales (3 x 9000 x £19.50) = 526 500
Less credit limit (200 000)
= 326 500 AO3 (1)
Less payments to date (151 000) AO3 (1o/f)
= Amount that must be paid 175 500 AO3 (1o/f)

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(g) [AO1] 1 [AO2] 1 [AO3] 4 [AO4] 6

FOR - Budgets as a management tool for forecasting, planning and control.
Preparing a budget ensures management forecast and focus on future possibilities and likely outcomes. For example, PH plc may focus on the level of sales and expected sales revenues.

Some budgets are under the direct control of management. This will mean that management can accurately forecast the likely figures. For example, PH plc has forecast total sales to be 42 000 cubic litres per month. The company will have to plan to ensure it has sufficient capacity to produce this level of output.

Some costs are under management control, for example rate paid to purchase the inputs.

Budgets allow a business to forecast how a level of costs impacts on profit, for example direct labour. This may result in management deciding on an appropriate level of pay rise. Another example could be PH plc ensuring the rise in input costs are taken into account when planning the future price setting of the acid.

Variances can be analysed, and remedial action taken. For example, PH plc may not be happy with the forecast level of sales. This may result in a marketing campaign to boost sales.

Budgets may act as a yardstick against which performance may be measured. This helps senior management in control of other staff of the company. For example, the Production Department has to meet a production target of 44 000 cubic litres of acid in the month of July.

Budgets ensure that different departments are co-ordinated, integrated and controlled. For example, the purchasing, production, and logistics department of PH plc must be co-ordinated to ensure the smooth running of the company.

AGAINST - Budgets as a management tool for forecasting, planning and control.
Forecasting may not be accurate. For example, sales for PH plc could be affected if one of the four customers, e.g., Alpha plc, goes out of business. This would result in sales not being made. This is out of the control of PH plc.

Forecasts may be unrealistic. For example, production targets for PH plc may be set too high and may not be met. This could result in contracts to supply not being met.

Some costs are out of management control. For example, PH plc may not be able to control the price of water or other inputs. This means that management can only make an informed guess when preparing figures.

Some figures or costs may not change each month or year. Therefore, drawing up budgets is a waste of time and money and does not help planning or control. For example, the production or sales figures for PH plc may stay the same each year.

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Conclusion

Budgets are a useful management tool for forecasting, planning and control.

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 mark

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Q2 (a) (i) [AO1] 2 [AO2] 4 [AO3] 1
AO1: One mark each for balance b/d at start of financial year 2023 and 2024
AO2: One mark each for May entry in Application and allotment account, first call, second call and third and final call.
AO3: One mark for August entry for Application and allotment account

Ordinary Share Capital Account

		£ 000			£ 000
2023			2023		
			1 April	Balance b/d	65 000 (1)AO1
			May 3	Application & Allotment	1 200 (1)AO2
			Aug 31	Application & Allotment	2 400 (1)AO3
			Nov 18	First Call	3 600 (1)AO2
2024			2024		
			Jan 31	Second Call	3 000(1)AO2
Mar 31	Balance c/d	77 000	Mar 15	Third + Final Call	1 800 (1)AO2
		77 000			77 000
			April 1	Balance b/d	77 000 (1o/f)AO1
					7 marks

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(ii) [AO1] 2 [AO3] 1
AO1: One mark each for balance brought down to start the year and balance brought down to start next financial year.
AO3: One mark for entry for Application and allotment account.

Share Premium Account

		£ 000			£ 000
2023			2023		
			April 1	Balance b/d	13 000 (1)AO1
2024			Aug 31	Applctn&Allotmnt	2 400(1)AO3
Mar 31	Balance c/d	15 400			
		15 400			15 400
			April 1	Balance b/d	15 400 (1o/f)AO1
					3 markS

(iii) [AO2] 2 [AO3] 4
AO2: One mark each for May entries for Ordinary share capital allotments and monies received.
AO3: One mark each for return of monies in July, balances due on allotment in August, and and transfers to ordinary share capital account and share premium account in August.

Application and Allotment Account

		£ 000			£ 000
2023			2023		
May 3	Ordinary Share Capital	1 200 (1)AO2	May 3	Bank	1 356 (1)AO2
July 24	Bank	156 (1)AO3	Aug 31	Bank	4 800 (1)AO3
Aug 31	Ordinary Share Capital	2 400 (1)AO3			
	Share Premium	2 400(1)AO3			____
		6 156			6 156
					6 marks

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(iv) [AO1] 1 [AO2] 2
AO1: One mark for balancing off account.
AO2: One mark each for receipt of monies and transfer to Ordinary share capital account.

First Call Account

		£ 000			£ 000
2023			2023		
Nov 18	Ordinary Share Capital	3 600(1)AO2	Nov 18	Bank	3 600(1)AO2
		3 600			3 600 (1o/f)AO1 both
					3 marks

(v) [AO2] 2
AO2: One mark each for receipt of monies and transfer to Ordinary share capital account.

Second Call Account

		£ 000			£ 000
2024			2024		
Jan 31	Ordinary Share Capital	3 000(1)AO2	Jan 31	Bank	3 000(1)AO2
		3 000			3 000
					2 marks

(vi) [AO1] 1 [AO2] 2
AO1: One mark for balancing off account.
AO2: One mark each for receipt of monies and transfer to Ordinary share capital account.

Third and Final Call Account

		£ 000			£ 000
2024			2024		
Mar 15	Ordinary Share Capital	1800(1)AO2	Mar 15	Bank	1 800(1)AO2
		1 800			1 800 (1o/f)AO1 both
					3 marks

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(vii) [AO2] 6
AO2: One mark each for entries concerning applications in May, rejected applications in May, balances due on allotment in August, first call, second call and third call.

Bank Account

		£ 000			£ 000
2023			2023		
May 3	Application and Allotment account	1 356 (1)AO2	July 24	Application and Allotment account	156 (1)AO2
Aug 31	Application and Allotment account	4 800 (1)AO2			
Nov 18	First Call account	3 600 (1)AO2			
2024					
Jan 31	Second Call account	3 000 (1)AO2			
Mar 15	Third + Final Call	1 800 (1)AO2			**6 marks**

(b) [AO1] 1
AO1: One mark for correct answer of rights issue.

The share issue was a rights issue. (1) AO1

(c) [AO1] 4
AO1: Two marks for each difference between a bonus issue and a rights issue and each development.

A bonus issue of shares does not involve shareholders paying any money for the shares to the company. (1)AO1
A rights issue of shares does involve shareholders paying money for the shares to the company. (1)AO1

A bonus issue of shares will only be made to existing shareholders. (1)AO1
If the rights issue is not fully subscribed, then the company may look to involve new shareholders from outside the company. (1)AO1

A bonus issue of shares would be made in a fixed ratio according to the number of shares held. (1)AO1
A rights issue would not be carried out in a ratio of shares held. (1)AO1

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(d) [AO1] 2
AO1: Two marks for one similarity of a bonus issue and a rights issue and development.

A bonus issue and a rights issue both result in the number of ordinary shares issued increasing, (1)AO1 which will result in a reduction in the gearing ratio in both cases. (1)AO1

(e) [AO2] 6
AO1: One mark for calculation of long term liabilities.
AO2: Five marks for correct calculation of new gearing ratio.

Long term liabilities = 22% of £200 million = £44 million (1)AO1

Share issue increases equity by £12 mil (ordinary shares) (1)AO2 and £2.4 mil (share premium) (1)AO2giving a total increase of £14.4 mil.

Equity and long term capital must = £214.4 mil

Therefore, gearing ratio must equal $\frac{£44}{£214.4}$ x 100 (1o/f)AO2 = 20.52% (1o/f)AO2

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

<u>Case for Ordinary shares / Against a debenture</u>

It is fairly straightforward to ask existing shareholders of Gallanna Homes plc if they would like to purchase more shares.

No “outside” parties having any influence on the running of the company eg a place on the board, which a debenture holder may request if they provide funds.

Shareholders of Gallanna Homes plc do not have to be paid dividends, which is useful if the company is short of funds.

No interest has to be paid, so the profits of Gallanna Homes plc will be higher than issuing a debenture. This will also help cash flow and liquidity. The interest paid on a debenture could be substantial, having to be paid at intervals of six months.

Gallanna Homes plc may have to offer non- current assets as security to the debenture holders. These would be forfeited if the company fails to pay the interest or to pay back the debenture. These could be property or vehicles which would seriously affect the running of the company.

Issue of shares results in lower gearing, which decreases the risk to Gallanna Homes plc.

The issue of a debenture will increase the gearing for the company.

If the share issue is not fully subscribed, the shares may be taken up by a party who have underwritten the share issue. However, the party may charge a fee for underwriting.

A debenture has to be repaid after a certain time period, but ordinary shares do not have to be repaid.

An asset may have to be offered as security if a debenture is issued. Failure to pay back the debenture may result in forfeiting the asset. No assets have to be offered as security when issuing ordinary shares.

Case against Ordinary shares / For a debenture

Administration costs involved in the issue of ordinary shares would be greater than the administration costs of issuing a debenture.

A share issue may not be fully subscribed. If the company have the share issue underwritten, then a fee will be charged. If Gallanna Homes plc then turn to a bank for funding, the bank may see the company as high risk and charge a high interest rate.

Debenture may be better if funding is required for only a limited time.

Conclusion

Should relate to points made above and conclude that the decision to issue ordinary shares was a good or bad decision.

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12 marks

Total for Question 2 = 55 marks

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Q3 (a) (i) [AO1] 2
AO1 : One mark for each example.

Factory (1)AO1
Warehouse (1)AO1

(ii) [AO1] 2
AO1: One mark each for a correct reason for inventory increasing.

Answers may include**:**
Company is having difficulty selling inventory. (1)AO1
Company decided to hold a larger inventory. (1)AO1
Inflation has increased the value of items in inventory. (1)AO1
More goods are being produced. (1)AO1

(iii) [AO3] 2
AO3: One mark for each example of an item that could be included under Other Income.

Answers may include:
Profit made on buying and selling shares in other companies**.** (1)AO1
Rental income from properties owned. (1)AO1
Profit made on disposals of non-current assets. (1)AO1
Dividends received (1)AO1
Commission received (1)AO1
Interest received (1)AO1

(iv) [AO2] 2
AO2: Two marks for correct calculation of percentage of discount received.
$\frac{3\,210}{128\,400}$ x 100 (1)AO2 = 2.5% (1)AO2

(v) [AO3] 2
AO3: One mark each for a reason why allowance for irrecoverable debts has increased.

Answers may include:
Country is going through a recession. (1)AO3
A customer is having trouble paying an outstanding bill. (1)AO3
A customer who owes money has gone into administration. (1)AO3
Sales and/or trade receivables have increased. (1)AO3
The credit period has been extended (1)AO3
The percentage of credit sales used to calculate irrecoverable debts has increased. (1)AO3

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(vi) [AO2] 3
AO2: Three marks for correct calculation of percentage of corporation tax.

£269 000 - £29 000 = £240 000 (1)AO2

£45 600 x 100 (1)AO2 = 19% (1o/f)AO2
£240 000 (o/f)

(vii) [AO3] 3
AO3: One mark for each point made.

An audit is when the financial records and statements of an enterprise are examined by an appointed, independent auditor. (1)AO3
This is to ensure the accounts show a true and fair view (1)AO3
This is a statutory obligation for a company/required by the Companies Act. (1)AO3
This is because the company is using the funds provided by outside sources i.e., shareholders. (1)AO3
The examination is to prevent errors /fraud / to ensure the correct tax is being paid. (1)AO3
The auditor will charge a fee for this service provided.

(b) (i) [AO2] 4
AO2: Four marks for correct completion of entries of Balance b/d, Balance c/d, Disposal, and Statement of Comprehensive Income.

Motor Lorries Provision for Depreciation Account

		£ 000			**£ 000**
31 March 2024	Disposal of motor lorry	11 (1)AO2	1 April 2023	Balance b/d	22 (1)AO2
31 March 2024	Balance c/d	33	31 March 2024	Statement of Comprehensive Income/Income statement	22 (1)AO2
		44 000			44 000
			1 April 2024	Balance b/d	33 (1o/f)AO2

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(ii) [AO1] 1 [AO2] 3
AO1: One mark for correct completion of Bank entry.
AO2: Three marks for correct completion of entry of motor lorry, Statement of Comprehensive Income, and Depreciation.

Disposal of Motor Lorries Account

		£ 000			**£ 000**
31 March 2024	Motor Lorry	30 (1)AO2	31 March 2024	Bank	19.5 (1)AO1
31 March 2024	Statement of Comprehensive Income / Income statement	0.5 (1)AO2	31 March 2024	Provision for Depreciation of Motor Lorry	11 (1o/f)AO2
		30.5			30 .5

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

For importance

This will benefit users of accounts because they can see that profits or losses from the Discontinued Operations will not be expected to be realised in the future. This allows reader to predict more accurately future expected performance.

This may help future potential investors / shareholders/ creditors etc with decision making, e.g., buy more shares /allow credit.

Should be beneficial if required to be shown by FRS3 / IFRS 5

Against importance

Adds more figures and details to the accounts so makes them more difficult to understand, especially for those with little accounting knowledge.

Takes time to add extra detail to the accounts and therefore this means extra expense.

Evaluation
Should conclude that it is important to show Discontinued Activities.

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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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Q4 (a) [AO1] 3
AO1: Three marks for calculating number of units in closing inventory.

Calculation of units in closing inventory			
Opening inventory	95000	both	
Plus production	2390000	(1)AO1	
Less Sales (12 x 200 000)	(2400000)	(1)AO1	
= Closing inventory	85000	(1o/f)AO1	

3 marks

(b) [AO2] 9 [AO3] 5
AO2: One mark each for revenue, opening inventory, direct materials, semi-variable costs fixed
and variable elements, fixed overheads, total closing inventory, cost of goods sold and net profit.
AO3: Two marks for calculation of direct labour cost and three marks for calculation of value of
closing inventory per unit.

Statement of Profit or Loss and other Comprehensive Income				
	£	**£**	**£**	
Revenue (2 400 000 x £4.30)			10 320 000	(1)AO2
Opening inventory (95 000 x £3.50)		332500	(1)AO2	
Direct Materials (2 390 000 x £0.31)	740900	(1)AO2		
Direct Labour (2 390 000 x £10.80/5) (1)A03	5162400	(1)AO3		
Semi-variable costs - Fixed	286800	(1)AO2		
Semi-variable costs - Variable (2 390 000 x £0.42)	1003800	(1)AO2		
Fixed overheads (£114 000 x 12)	1368000	(1)AO2		
		8 561 900		
Less Closing inventory (85 000 x £3.58)		(304 300)	(1o/f)AO2	
Cost of Goods sold			8 590 100	(1o/f)AO2
Net profit			1 729 900	(1o/f)AO2

W1 Calculation of value of closing inventory per unit	£8,561,900	(1o/f)AO3	= £3.58	(1o/f)AO3
	2390000	(1)AO3		

14 marks

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(c) [AO2] 3
Three marks for calculation of marginal cost per unit.

Marginal cost of producing one memory card		
Direct materials	£0.31	both
Semi- variable cost	£0.42	(1)AO2
Direct labour (£10.80/ 5)	£2.16	(1)AO2
Total marginal cost	£2.89	(1)AO2

3 marks

(d) [AO1] 2 [AO3] 2
AO1: 1 mark for each point made.
AO3: 1 mark for each development.

Disadvantages of marginal costing

Not recommended by SSAP 9 and IAS 2. AO1 If used to prepare financial statements, it is argued they would not give a true and fair view / be signed off by auditors. AO3

Not all costs are allocated to the products. AO1 This would mean this method is not suitable for fixing prices / accepting possible orders etc in the long run. AO3

4 marks

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

Answers may include:

For accepting the offer
The price of £3.50 covers the marginal cost of producing one memory card, which is £2.89 (o/f). This would mean a contribution of £0.61 per unit is being made to pay off the fixed costs.

It is possible that PulseWaves plc may go out of business if they are having financial problems. If this happens, it could mean that Bangla Red Sun Electronics plc have no customers as PulseWaves plc are their only customers. This may result in Bangla Red Sun Electronics plc going out of business.

If PulseWaves plc can survive the next three months, then the normal price of £4.30 could be charged in the future.

Bangla Red Sun still make a profit for the year.
This will be £1 729 900 - £480 000 = £1 249 000

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Against accepting the offer

The suggested price is £0.80 per card below the normal selling price.

The contribution towards paying off fixed costs falls from £1.41 per unit to £0.61 per unit.

The price of £3.50 does not cover the total cost of producing one memory card. In the long run, this selling price would not be sustainable for Bangla Red Sun Electronics plc.

The profit for Bangla Red Sun will fall by £0.80 x 200 000 x 3 months = £480 000

Conclusion

It may be that Bangla Red Sun Electronics plc has to accept the selling price has to be reduced for a three month period. However, in the long term, this price would not be acceptable.

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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

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Q5 (a) [AO1] 3 [AO2] 4 [AO3] 1
AO1: One mark each for rent, insurance and loan interest, and other fixed costs.
AO2: One mark each for variable costs per sale, and three marks for calculating break-even point in units.
AO3: One mark for calculating contribution per sale.

Fixed Costs				
Rent (£490 x 12)	£5 880	(1)A01		
Insurance	£440	both		
Loan interest (£225 x 12)	£2 700	(1)A01		
Other fixed costs (£165 x 12)	£1,980	(1)A01		
	£11 000			
Variable costs per sale	£27.50	(1)A02		
Contribution per sale (£55 - £27.50)	£27.50	(1)A03		
Break-even point in paintings per year	£11 000	(1o/f)A02	= 400	(1o/f)A02
	£27.50	(1o/f)A02		
			8 marks	

(b) [AO2] 3
AO2: Three marks for calculating profit.

Commission earned (11 x 52 x £27.50)	£15 730	(1)A02	
Less			
Fixed costs	£11 000	(1o/f)A02	
Profit	£4 730	(1o/f)A02	
			3 marks

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(c) [AO1] 2 [AO2] 2 [AO3] 3
AO1: One mark for loan interest and other fixed costs, and website costs.
AO2: One mark each for insurance, and depreciation.
AO3: Three marks for calculating break-even point in units.

Fixed Costs				
Insurance (£440 x 70%)	£308	(1)A02		
Loan interest (£225 x 12)	£2 700	both		
Other fixed costs (£110 x 12)	£1 320	(1)A01		
Website (£45 x 12)	£540	(1)A01		
Depreciation on shed (£5 000/20)	£250	(1)A02		
	5118			
Break-even point in paintings per year	£5 118	(1o/f)A03	= 171	(1o/f)A03
	£30	(1)A03		
				7 marks

(d) [AO2] 3
AO2: Three marks for calculating profit.

Commission earned (10 x 52 x £30)	£15 600	(1)A02	
Less			
Fixed costs	£5118	(1o/f)A02	
Profit	£10 482	(1o/f)A02	
			3 marks

(e) [AO3] 3
AO3: Three marks for calculating margin of safety in units.

Sales units (10 x 52)	520	(1)A03	
Break-even point sales units	171	(1o/f)A03	
Margin of safety in sales units	349	(1o/f)A03	
			3 marks

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(f) [AO2] 1 [AO3] 2 [AO4] 3
Answers may include:

For closing the shop

The shop makes a profit of £4 730 but working from home is likely to make a profit of £10 482. This is an increase of £5 752.

The profit margins are shown below in percentage terms, and show a higher figure for selling from home.

Shop $\frac{£4\ 730}{£31\ 440}$ = 15% Home $\frac{£10\ 482}{£31\ 200}$ = 33.6%

The shop needs to sell 400 paintings a year to break-even, but working from home only requires 171 paintings to be sold.

The margin of safety for the shop is 172 paintings (572 – 400), but for home selling is 349 paintings (520 – 171) which is greater than the shop by 177 paintings**.**

Expenses if based in the shop are £11 000 but only £5 118 if based at home. This is a saving of £5 882.

Against closing the shop

The figures given e.g., for sales, if based at home are only estimates. Will they be realised? Perhaps they will be lower as there will be no "passing" trade (customers who are walking past the shop and see a painting they like and decide to buy).

The estimated sales figure for selling from home is £31 000 which is lower for than the figure for the shop which is £31 460 by £260

Will present customers who buy from the shop, change their buying habits and buy paintings over the internet? Is the internet a suitable medium for buying paintings?

Conclusion

Despite the possibility of projected sales not being realised, it would appear that closing the shop and selling from home over the internet is likely to be a worthwhile move.

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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. 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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Q6 (a) (i) [AO1] 5 [AO2] 6
AO1: One mark for correct entry of repayment of bank loan, issue of debenture, preference share working and total and net cash from financing.
AO2: Two marks each for correct calculations of redemption of ordinary shares, final dividend, and interim dividend.

Cash Flow from Financing Activities		
Redemption of ordinary shares (2 000 000 x £0.50)	(1 000 000)	(1) AO2
Share premium (2 000 000 x £0.125)	(250 000)	(1) AO2
Repayment of bank loan	(200 000)	(1) AO1
Issue of debenture	500 000	(1) AO1
Dividends Paid : Final 2023 (16 000 000 x 1.1p) (1) AO2	(176 000)	(1o/f) AO2
Interim 2024 (14 000 000 x 0.4p) (1) AO2	(56 000)	(1o/f) AO2
Preference (1 500 000 x 5p) (1) AO1	(75 000)	(1o/f) AO1
Net Cash Used in Financing Activities	**(1 257 000)**	(1o/f) AO1
		11 marks

(a) (ii) [AO2] 2 [AO3] 7
AO2: One mark each for payment to acquire tangible fixed assets, and net cash used in investing activities total.
AO3: Seven marks for calculation of sale price of property.

Cash Flow from Investing Activities	**£**	
Payments to acquire tangible fixed assets	(2 200 000)	(1) AO2
Proceeds from sale of tangible fixed assets	1 029 000	W1 (7)
Net Cash Used in Investing Activities	**(1 171 000)**	(1o/f) AO2
		9 marks
W1 Calculation of Sale price of property		
PPE at cost 31 March 2023	15 431 000	(1) AO3
Plus purchase of PPE in year	2 200 000	(1) AO3
	17 631 000	(1) AO3
Less PPE at cost 31 March 2024	(16 817 000)	(1) AO3
Cost price of property sold	814 000	(1o/f) AO3
Plus profit on sale	215 000	(1) AO3
Sale price of property	1 029 000	(1o/f) AO3

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(b) [AO2] 4
AO2: Four marks for calculation of cash flow from operating activities

Calculation of Cash flow from Operating activities	**£**	
Decrease in Investing activities	(1 171 000)	(1o/f) AO2
Decrease in Financing activities	(1 257 000)	(1o/f) AO2
Decrease in cash and cash equivalents	210 000	(1) AO2
Increase in Operating activities	**2 218 000**	(1o/f) AO2
		4 marks

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

Handled well

The bank loan has seen £200 000 paid back in the year. This should reduce future interest payments by Kowloon Tong plc.

Ordinary shares have been redeemed which will reduce the dividends in the future.
The redemption totalled £1million of ordinary shares and a share premium of £250 000

The preference shares have been paid their 5% dividend in full.

Ordinary shareholders in Kowloon Tong plc have received a return of 1.1p + 0.4p = 1.5p on their 50p shares. This is a return of 3%. This may be good or bad, as more information is required e.g., inflation, returns on shares in other companies, economic conditions etc.

Handled poorly

A debenture of £500 000 has been taken out. This is despite Kowloon Tong plc increasing retained earnings by over £2 million. The debenture interest rate is 9%, which is higher than the 8% of the bank loan. The interest on the debenture is £45 000 per year.

Cash and cash equivalents have fallen from £186 000 asset at the start of the year to £24 000 liability at the end of the year. This is a fall of £210 000

Conclusion

Candidates may argue in favour of Kowloon Tong plc performing well regarding their sources of finance or not performing well. Argument should support their decision.

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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 6 = 30 marks

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