



Mark Scheme (Results)

Summer 2017

Pearson Edexcel IAL Accounting
(WAC12)
Paper 01 Corporate and Management
Accounting

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General marking guidance

- All candidates must receive the same treatment. Examiners must mark the last candidate in exactly the same way as they mark the first.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than be penalised for omissions.
- Examiners should mark according to the mark scheme – not according to their perception of where the grade boundaries may lie.
- 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/indicative content will not be exhaustive.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, a senior examiner must be consulted before a mark is given.
- Crossed-out work should be marked unless the candidate has replaced it with an alternative response.

Question Number	Answer	Mark
1 (a)(ii)	<p>AO1 (6), AO2 (5), AO3 (5) AO1: Six marks for goodwill, bank and cash, general reserve, debenture, trade payables and bank loan. AO2: Five marks for factory, machinery, motor vans, debenture and bank interest. AO3: Five marks for trade and other receivables, retained earnings, other payables and corporation tax</p>	(16)

Statement of Financial Position of			
Brama Sun plc at 31 March 2017		£	£
ASSETS			
Non-current assets			
Property, plant and equipment			
Factory	3 588 000	(1) o/f AO2	
Machinery	395 100	(1) o/fAO2	
Motor vans	131 200	(1) o/f AO2	
		4 114 300	
Goodwill	90 000		
		90 000	
			4 204 300
Current assets			
Inventories	779 000	(1) AO1 both	
Trade and other receivables			
Trade receivables	821 000		
Less allowance for doubtful debts	(16 420)		
	804 580	(1) AO3	
Other receivables	23 000	(1) AO3	

Cash and cash equivalents		827 580	
Bank and cash	175 000		(1) AO1
		175 000	
Total assets			<u>1 781 580</u>
EQUITY AND LIABILITIES			5 985 880
Equity			
Share Capital			
Ordinary shares of £0.50	3 700 000		both
General reserve	56 000		(1) AO1
Retained earnings	399 380		(1) AO3 off
		4 155 380	
Non-current liabilities			
7.5% debenture	1 200 000		(1) AO1
		1 200 000	
Current liabilities			
Trade payables	175 000		(1) AO1
Other payables	17 500		both
	24 000		(1) AO3
Debenture interest	45 000		(1) AO2
Bank interest	1 000		(1) AO2
Bank loan – must be current	150 000		(1) AO1
Corporation tax payable	218 000		(1) AO3
		630 500	
Total equity and liabilities			<u>5 985 880</u>

Question Number	Answer	Mark
<p>1 (b)</p>	<p>AO1(1), AO2 (1), AO3 (4), AO4 (6)</p> <p><u>For Importance</u></p> <ul style="list-style-type: none"> • Auditors are independent scrutineers of the financial statements of the company who report that the financial statements have been prepared “correctly” in accordance with International Accounting Standards and give a true and fair view (or do not). The senior partner will sign the Auditors Report found in the Annual Report, giving the auditors opinion of the financial statements of the company. • Auditors are reporting on how directors have used the funds invested by shareholders. The auditors duty is to the shareholders of the company. • Auditors may report on corporate governance under the following headings: <ul style="list-style-type: none"> - Leadership – e.g. is there a clear definition of roles - Effectiveness – e.g. does the board have the appropriate skills, experience, knowledge - Accountability – e.g. is the board clear that it is responsible for risk management - Remuneration – e.g. is the pay to board members appropriate - Relations with shareholders – e.g. is a satisfactory dialogue with shareholders taking place • Auditors may give tax authorities more confidence that the tax computation of the company is correct. • Professional supervisory bodies exist to give guidelines to auditors, e.g. Auditing Practices Board. • Auditors should be professionally qualified e.g. Chartered Accountants. 	<p>(12)</p>

	<p><u>Against Importance</u></p> <ul style="list-style-type: none"> • Auditors may not be very independent, going along with the wishes of clients, in order to keep their custom, which may include non-audit work. • Auditors could be misled by the directors of the company and provide an inaccurate Report. • Auditors do not guarantee that material fraud has not occurred. <p><u>Conclusion</u> Auditors role in limited companies is important.</p>	
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 throughout 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 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 and 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.

Question Number	Answer	Mark
2 (a)	AO1 (5) AO1 Five marks for a correct row for each continent	(5)
Sales Budget (number of cars)		
Asia	October 12 000 November 12 000 December 12 000	(1) AO1
Europe	2 000 2 200 2 420	(1) AO1
America	6 000 5 100 4 335	(1) AO1
Australia	4 000 1 200 1 440	(1) AO1
Total Sales	24 000 20 500 20 195	(1) o/f AO1

Question Number	Answer	Mark
2 (b)(i)	AO1 (1), AO2 (6) AO2 Six marks for each full row for each continent, but two marks for Europe AO1 One mark for totals for all months	(7)
Production Budget (number of cars)		
Asia	August September October November December	2 000 2 200 2 420 2 662 2 928
Europe	2 000 6 000 4 000	(1) AO2 o/f 3 685 1 728
America	2 000 6 000 4 000	(1) AO2 o/f 500 20 841
Australia	2 000 6 000 4 000	(1) AO2 o/f 500 20 841
Inventory	2 000 6 000 4 000	(1) AO2 o/f 500 20 841
Total Production	2 000 6 000 4 000	(1) AO1 o/f 500 20 841

Question Number	Answer	Mark
2 (b)(ii)	AO1 (3) AO1: One mark for every month for production, and two marks for total row	(3)
Inventory Budget (number of cars)		
From production	October 500 November 500 December 500	(1) AO1
Total	October 500 November 1 000 December 1 500	(1) AO1

Question Number	Answer	Mark
2 (c)	AO2 (5) AO2: Five marks each monthly total	(5)
Reworking budget (£)	August September October November December	
Production	100 610 1 061 1046.85	1042.05
Cost per car	£19.00 £19.00 £19.00 £19.00	£19.00
Total cost	£1,900 (1) AO2 o/f £11,590 (1) AO2 o/f £20,159 (1) AO2 o/f £19,890 (1) AO2 o/f £19,799 (1) AO2 o/f	(1) AO2 o/f

Question Number	Answer	Mark
2 (d)	AO1(3), AO2 (7) AO1: Three marks for cost row, and total purchases AO2: Seven marks for all other calculations in purchases budget	(10)
Purchases Budget (£)	July August September October November	
Cost	£2,150 £2,150 £2,150 £2,150 £2,150	(1) AO1
Advance Purchases	200 1 220 2 122 2 094	(1) AO2 o/f
Amount	£430,000 £2,623,000 £4,562,300 £4,502,100	(1) AO2 o/f
Same month purchases	£3,870,000 £23,607,000 £41,060,700 £40,513,095	(1) AO2 o/f
Total purchases	£430,000 £6,493,000 £28,169,300 £45,562,800 £44,995,845	(1) AO1 o/f

Question Number	Answer	Mark		
2 (e)	AO1(4), AO2 (3), AO3 (6) AO1: Four marks for Option 3 total and Total Cash Received row AO2: Three marks for Option 2 row, and Option 3 monthly totals AO3: Six marks for Option 1 row, and Option 3 deposits row	(13)		
Cash Received Budget	October	November	December	
Sales	4000	1200	1440	
Option 1	£15,840,000(1)	£4,752,000(1)	£5,702,400(1)	AO3 of
Option 2	£140,000	£42,000	£50,400(1)	AO2 of
Option 3 deposits	£990,000(1)	£297,000(1)	£356,400(1)	AO3 of
Option 3 monthly	£0	£300,000(1)	£390,000(1)	AO2 of
Total Option 3	£990,000	£597,000	£746,400(1)	AO1 of
Total Cash Received	£16,970,000(1)	£5,391,000(1)	£6,499,200(1)	AO1 of

Question Number	Answer	Mark
2 (f)	<p>AO1(1) , AO2(1), AO3(4), AO4 (6)</p> <p><u>Option 1</u></p> <p>Advantages</p> <ul style="list-style-type: none"> • Brings in a large amount of cash on the day of the sale. • No need to wait for any payment. <p>Disadvantages</p> <ul style="list-style-type: none"> • May not be helpful in generating sales volume, as many customers cannot afford the £9 900. • The total amount of cash from a sale is less than option 3. <p><u>Option 2</u></p> <p>Advantages</p> <ul style="list-style-type: none"> • May be helpful in generating sales volume, as many customers can afford the £100 to put down. <p>Disadvantages</p> <ul style="list-style-type: none"> • Does not bring in a large amount of cash on the day of the sale. Company has to wait 18 months for nearly all of the payment, which only totals £9 900. No interest is charged. • It is possible that some of the debts will turn bad before payment is made. If the car has to be repossessed in 18 months time, it will have depreciated in value by then, and the amount owing may not be fully recovered. • The total amount of cash from a sale is less than option 3. <p><u>Option 3</u></p> <p>Advantages</p> <ul style="list-style-type: none"> • May be helpful in generating sales volume, as many customers can afford the deposit of £990. • Brings in some cash on the day of the sale. • The total amount received from each customer is the most using this option ie £11 790. This is £1890 more than the other two options. This is equal to about 6% interest. 	(12)

		<p>Disadvantages</p> <ul style="list-style-type: none"> Does not bring in a large amount of cash on the day of the sale. Company has to wait for payment over 36 months. <p><u>Conclusion</u></p> <p>Option 3 brings in the most cash per sale, although company must wait 3 years to collect all of it.</p> <p>It may be argued that option 1 is the best, as company receive cash on the day of the sale and as 40% of customers use it.</p>	
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	0	A completely incorrect response.	
Level 1	1-3	Isolated elements of knowledge and understanding recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.	
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Level 4	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and maybe non-financial information and makes informed recommendations and decision(s).	

Question Number	Answer	Mark
3 (a)	[5 A01] [12 A02] [7 A03] A01: Five marks for totals and sub-totals A02: Twelve marks for profit on sale of non-current asset, working capital changes, investing activities entries, financing activity entries, and cash and cash equivalents entries A03: Seven marks for profit from operations, depreciation calculation, interest paid and tax paid	(24)

Statement of Cash Flows for Kericho Builders plc for y/e 31 March 2017			
Cash Flows from operating activities			
Profit from operations (-43500 A03 + 1500 A03)	(42 000)	(2)	
Add depreciation	21 000	(3)	
Less profit on sale of non-current asset	(102 000)	A02	
Operating cash flow before working capital changes	(123 000)	A01 o/f	
Increase in inventories	(6 000)	A02	
Decrease in trade receivables	3 000	A02	
Increase in trade payables	7 000	A02	
Cash generated from operations	(119 000)	A01 o/f	
Less interest paid: debenture	(1 500)	A03	
Less tax paid	(16 000)	A03	
Net cash used in operating activities	(136 500)	A01 o/f	14
Cash flow from investing activities			
Payments to acquire tangible non-current assets	(48 000)	A02	
Proceeds from sale of tangible non-current assets	228 000	A02	
Net cash from investing activities	180 000	A01 o/f	3
Cash flow from financing activities			
Repayment of debenture	(50 000)	A02	
Dividends paid : final 2016	(3 750)	A02	
interim 2017	(1 750)	A02	
Net cash used in financing activities	(55 500)	A01 o/f	4
Net decrease in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year	11000	A02	
Cash and cash equivalents at the end of the year	(1000)	A02	
Net decrease in cash and cash equivalents	(12000)	A02	3
Depreciation calculation:			
(218000 - 209000) A03 - 30000 A03 = 21000 A03			

Question Number	Indicative Content	Mark
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3 (b)	AO4 (6)	<p><u>Case for handled well</u></p> <ul style="list-style-type: none"> • Current ratio has improved from 1.8:1 to 1.87:1 • Been able to have the funds to redeem the debenture • Raised £228 000 from sale of a property – this was £72 000 more than was paid for the property • Have had the funds to be able to pay a final and interim dividend to shareholders, and purchase machinery for the business, and pay the tax bill due. <p><u>Case for handled poorly</u></p> <ul style="list-style-type: none"> • Acid test ratio has reduced from 0.92:1 to 0.74:1 • Were unable to generate an inflow from operating activities • Sold property – was this to raise funds? How important was the property to the business? Has the company now had to rent premises? Raising cash by selling off assets is not “quality” cash unless the assets are surplus. <p><u>Conclusion</u></p> <p>Overall, cash and cash equivalents have reduced by £12 000, so it could be said that liquidity has not been handled well.</p>	(6)
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.	

	£000	£000		£000			
Profit	<u>Income</u>	<u>Costs</u>		<u>Profit</u>			
Year 1	93600	85800		7800			
Year 2	98280	86840		11440			
Year 3	103194	86840		16354			
Year 4	108108	87880		20228			
Year 5	<u>115830</u>	<u>87880</u>		<u>27950</u>			
Total	519012	435240	(1) AO2 o/f both				
		Total		83772	(1) o/f AO2		

Average Annual Return = $\frac{\pounds 83\,772\,000}{5 \text{ years}}$ o/f (1) AO3 = £16 754 400 per year o/f (1) AO3

Accounting rate of return = $\frac{\pounds 16\,754\,400}{\pounds 260\,000\,000}$ o/f (1) AO3 x 100 = 6.44% o/f (1) AO3

Other formulas are accepted

Question Number	Indicative Content	Mark
4 (c)	<p>AO4 (6) Answers may include:</p> <p><u>Against Investment</u></p> <ul style="list-style-type: none"> ARR may be a limited method of appraisal as it does not take account of the falling value of money over time. <p><u>For Investment</u></p> <ul style="list-style-type: none"> ARR states invest as project meets expected company percentage return figure of 6% (o/f) Project is profitable overall having total profit over 5 years of £83 772 000 (o/f) <p><u>Other Relevant Points:</u></p> <ul style="list-style-type: none"> How realistic is the 6% return target of the company? It is higher than the returns given to the company's weighted average cost of capital. How accurate are the predictions? There may be better investment projects available What are the objectives and what is the strategy of the company? What happens after 5 years? – is there any chance of a renewal of the contract? Will this project lead to any other/further business? 	(6)
Level	Mark	Descriptor
	0	A completely incorrect response.
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Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.

Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.
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	Question Number	Answer	Mark
	5 (a)	A02 (2), A03 (4) A02: Two marks for ordinary shares/bank entry with at least one date. A03: Four marks for share premium entry and CRR entry	
		The Journal	(6)
		Debit	Credit
8 July 2016	£1 Ordinary share capital	1 000 000 A02	
	Bank		1 000 000 A02
	Share premium	3 000 000 A03	
	Bank		3 000 000 A03
	Retained earnings	4 000 000 A03	
	Capital redemption reserve		4 000 000 A03

Question Number	Answer	Mark						
5 (b)	<p>AO1(5), AO2 (10), AO3 (3) AO1: Five marks for Revaluation Reserve and Total Equity headings and closing balance, and Opening Total balance. AO2: Ten marks for Retained Earnings entries, Ordinary Shares, General Reserve, Foreign Exchange reserve and Revaluation entries AO3: Three marks for Share redemption entries</p>	(18)						
Statement of Changes in Equity for y/e 31 March 2017								
Figures are in £ millions	£1 Ordinary share capital £m	Share premium £m	Retained earnings £m	General reserve £m	Foreign Exchange reserve £m	Capital redemption reserve £m	Revaluation reserve £m	Total equity £m
Balance at 1 April 2016	12	36	8.65	0.75	2		AO1(all 7 headings)	59.4 AO1 (all 6 entries)
(i) Final 2016 dividend paid in year			(0.48) AO2					(0.48)
(ii) Transfer			(0.9) AO2	0.9 AO2				---
(iii) Redemption of shares	(1) o/f AO2	(3) o/f AO3	(4) o/f AO3			4 o/f AO3		(4)
(iv) Interim dividend			(0.121) AO2					(0.121)
(v) Revaluation of property							1.15 AO2	1.15
(vi) Transfer			0.9 AO2		(0.9) AO2			---
(vii) Comprehensive income for the year			2.45 AO2					2.45
Balance at 31 March 2017	11	33	6.499 o/f AO2	1.65	1.1	4	1.15 AO1(all 6 totals) o/f	58.399 o/f AO1

Question Number	Indicative Content		Mark
5 (c)	<p>AO4 (6) Answers may include: <u>Case For:</u></p> <ul style="list-style-type: none"> • Redemption of shares will improve the figure for return on capital employed – a key ratio on which performance of the business is judged. • Future dividends /cash leaving the company may be reduced. • Company may have surplus funds / excess working capital etc so may afford / be in a position to redeem shares. <p><u>Case Against:</u></p> <ul style="list-style-type: none"> • Worsens the gearing ratio. • Company may not have surplus funds / excess working capital etc so may not be in an appropriate liquidity position. Working capital is reduced. • May upset shareholders who will receive lower future dividends. Also, shareholders appear to be receiving the same amount that they paid for the share, so have made no capital gain. Unhappy shareholders are not usually good for the company. <p><u>Conclusion</u> Redemption of shares may/ may not be beneficial for the company</p>		(6)
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.	

Question Number	Answer	Mark
6 (a)	<p>AO1(2), AO2 (12), AO3 (4) AO1: Two marks for sales and direct materials AO2: Twelve marks for calculation of closing inventory, direct labour, semi-variable costs, fixed overheads, opening and marginal closing inventory, and profit. AO3: Four marks for calculation of closing inventory using absorption costing</p> <p>Statement of profit or loss and other comprehensive Income</p>	(18)
Calculation of Closing inventory	850	(1) AO2 32 750
Sales	(i) Marginal 2 096 000	(1) AO2 32 750
Less	(ii) Absorption 2 096 000	(1) AO1 both
Direct materials	651 750	(1) AO1 both
Direct labour	207 900	(1) AO2 both
Semi-variable costs	96 000	(1) AO2 both
Fixed overheads	46 200	(1) AO2 both
Opening inventory	153 150	(1) AO2 both
Closing inventory	1 155 000	(1) AO2 both
Profit	21 250	(1) AO2 both
	(30 195)	
Calculation of closing inventory	949 945	(1) AO2 o/f
Marginal	(19.75+6.30+1.40)	(1) AO2
Absorption	1 155 000	(1) AO3 o/f
	33 000	(1) AO3
	27 451 100	30 195 (1) AO2
	35 1 100	38 500 (1) AO3 o/f

Question Number	Answer	Mark
6 (b)	<p>AO1(3) , AO3 (3) AO1: 1 mark for each point made. AO3: 1 mark for each development.</p> <p>(i) <u>Advantages of absorption costing (Maximum of 2 points)</u></p> <ul style="list-style-type: none"> • All are costs allocated to products. This could be useful for management when fixing prices. • If used financial statements would give a true and fair view and be signed off by auditors. Recommended by IAS 2. • This follows the matching concept. Here the revenues of a product are matched against the costs of the product. <p style="text-align: right;">(4)</p> <p>(ii) <u>Disadvantage of absorption costing (Maximum of 1 point)</u></p> <ul style="list-style-type: none"> • All costs are not allocated to the time period in which they are incurred. So it may be argued that profit for that time period is not accurate as external accounts are drawn up on the basis of a time period. • Does not follow the prudence concept. The closing inventory and the profit figures are higher than in marginal costing. • Absorption costing is not suitable for decision making in the short term. .In the long term fixed costs need to be covered so absorption costing is suitable for long term decision making only. <p style="text-align: right;">(2)</p>	(6)

Question Number	Indicative content		Mark
6 (c)	<p>A04 (6)</p> <p><u>For accepting order</u></p> <ul style="list-style-type: none"> The order could be accepted on the grounds that £30 is greater than the marginal cost of £27.45 (o/f). A positive contribution of £2.55 per item would be made. New customer may result in more orders in the future, perhaps at a higher price. <p><u>For rejecting order</u></p> <ul style="list-style-type: none"> However in the long term, selling at £30 would result in a Net Loss/ not all costs are covered. Existing customers would be unhappy to hear of this low price on offer. <p><u>Conclusion</u></p> <p>Marginal costing states order should be accepted</p>		(6)
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	0	A completely incorrect response.	
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Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.	
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.	