



**Mark Scheme (Results)**

**January 2020**

**Pearson Edexcel International Advanced Subsidiary**

**In Accounting (WAC12) Paper 01**

**Corporate and Management Accounting**

## **Edexcel and BTEC Qualifications**

Edexcel and BTEC qualifications are awarded by Pearson, the UK's largest awarding body. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information visit our qualifications websites at [www.edexcel.com](http://www.edexcel.com) [www.btec.co.uk](http://www.btec.co.uk) [www.edexcel.com/contactus](http://www.edexcel.com/contactus) . Alternatively, you can get in touch with us using the details on our contact us page at .

## **Pearson: helping people progress, everywhere**

Pearson aspires to be the world's leading learning company. Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: [www.pearson.com/uk](http://www.pearson.com/uk)

2020

Publications Code WAC12\_01\_MSC\_20190815\*

All the material in this publication is copyright © Pearson Education Ltd 2019

## 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.









## Mark scheme

### Q1 (e)

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

Answers may include:

#### Case for investment

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

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

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

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

#### Case against the investment

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

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

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

#### Other considerations

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

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

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

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

#### Conclusion:

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

Level	Mark	Descriptor
	0	A completely incorrect response.
<b>Level 1</b>	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.



<b>Level 2</b>	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.
<b>Level 3</b>	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.
<b>Level 4</b>	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.

## Q2 Mark scheme

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

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

AO3: One mark for correct entry of disposal

Property, plant and equipment Account

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

(4 marks)

(ii) AO1 (3) AO3 (1)

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

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

Provision for Depreciation Account

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

(4 marks)

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

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

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

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

<b>(b) Statement of Cash Flows for v/e 31 December 2019</b>			
	£		
<b>Cash Flows from operating activities</b>			
Profit after interest before tax	263 050	(1)AO1	
Add interest paid (16 000 (1) AO2 + 15 000 (1) AO2)	31 000		
Add Depreciation	18 000	(1)AO3	
Add Loss on Sale of Non-current Asset (W1)	3 000	(2) AO3	
<b>Operating cash flow before working capital changes</b>	<b>315 050</b>	(1o/f)AO2	
Increase in inventories	(15 000)	(1)AO1	
Decrease in trade receivables	52 000	(1)AO1	17
Increase in Other receivables	(5 000)	(1)AO1	
Increase in trade payables	17 000	(1)AO1	
Decrease in other payables	(5 000)	(1)AO1	
<b>Cash generated from operations</b>	<b>359 050</b>	(1o/f)AO2	
Less Interest Paid: Debenture	(16 000)	(1o/f)AO1	
: Bank Loan	(15 000)	(1o/f)AO1	
Less Tax Paid	(104 000)	(1)AO3	
<b>Net Cash from Operating Activities</b>	<b>224 050</b>	(1o/f)AO2	
<b>Cash Flows from Investing Activities</b>			
Payments to acquire intangible non-current asset	(12 000)	(1)AO2	
Payments to acquire tangible non-current assets	(35 000)	(1)AO2	
Proceeds from sale of tangible non-current assets	2 000	(1)AO2	4
<b>Net Cash Used in Investing Activities</b>	<b>(45 000)</b>	(1o/f)AO2	
<b>Cash Flows from Financing Activities</b>			
Issue of Ordinary shares	50 000	(1)AO2	
Issue of Ordinary shares - premium	20 000	(1)AO2	
Redemption of bank loan	(400 000)	(1)AO2	
Issue of debenture	300 000	(1)AO2	
Dividends Paid : Final 2018 (900 000 x 2.1p) AO2	(18 900)	(2) AO2	11
Interim 2019 (950 000 x 1.4p) AO2	(13 300)	(2) AO2	
Preference (60 000 x 4.75p) AO2	(2 850)	(2)AO2	
<b>Net Cash Used in Financing Activities</b>	<b>(65 050)</b>	(1o/f)AO2	
<b>Net increase in cash and cash equivalents</b>	<b>114 000</b>	(1)AO2	
Cash and cash equivalents at the beginning of the year	(25 000)	(1)AO1	3
Cash and cash equivalents at the end of the year	89 000	(1)AO1	<b>35 Marks</b>
<b>W1 - Loss on sale of Non-current asset</b>			
Purchase price of Non-current asset	19 000		
Less Depreciation to date	(14 000)		
Carrying value	5 000	(1)AO3	
Sold for	<u>2 000</u>		
Therefore loss	3 000	(1)AO3	

**Q2 (c)****[1 AO1] [1 AO2] [4 AO3] [6 AO4]****Answers may include:**Case for role of auditors

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

Corporate governance has 5 key areas:

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

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

Section C: Accountability

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

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

Section D: Remuneration

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

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

### Section E: Relations with shareholders

The board is responsible for ensuring a satisfactory dialogue with shareholders takes place, based on mutual understanding of objectives. Investors should be encouraged to participate at the AGM. An auditor could note in the Audit Report (or ask) about sufficient notice being given concerning the date of the AGM.

### Case against the role of auditors

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

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

### Conclusion:

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

Level	Mark	Descriptor
	0	A completely incorrect response.
<b>Level 1</b>	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.
<b>Level 2</b>	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.
<b>Level 3</b>	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.
<b>Level 4</b>	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.

### Q3. Mark scheme

(a) AO1 (1) AO2 (7)

**AO1: One mark for correct formula stated**

**AO2: Seven marks for correct calculation of gearing ratio**

$$\begin{aligned} \text{Gearing ratio} &= \frac{\text{Fixed cost capital (debt)}}{\text{Total Capital employed (debt + equity)}} \times 100 \quad (1) \text{AO1} \\ &= \frac{7.5 \quad (1)\text{AO2} + 5 \quad (1)\text{AO2}}{(7.5 + 5) \quad (1)\text{AO2} + (13.5 + 27) \quad (1)\text{AO2} + (2.6 + 3.4 + 3.5) \quad (1)\text{AO2}} \times 100 \quad (\text{£m}) \\ &= \frac{12.5}{62.5} \times 100 \quad (1)\text{AO2} = 20\% \quad (1)\text{AO2} \end{aligned}$$

Other formulas are accepted.

8 marks

(b) AO1 (4) AO3 (5)

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

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

$$\frac{13\,500\,000}{9} = 1\,500\,000 \text{ shares to be redeemed} \quad (1)\text{AO3}$$

#### The Journal

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

9 marks

**(c) AO2 (5) AO3 (2)**

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

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

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

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

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

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

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

**7 marks**

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

Answers may include :

**Case For :**

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

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

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

**Case Against :**

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

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

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

Conclusion:

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

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding that are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.

Level 2	3-4	<p>Elements of knowledge and understanding, which are applied to the scenario.</p> <p>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.</p> <p>An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.</p>
Level 3	5-6	<p>Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective.</p> <p>A coherent and logical chain of reasoning, showing causes and effects is present.</p> <p>Evaluation is balanced and wide-ranging, using financial and perhaps non-financial information and an appropriate decision is made.</p>

**6 marks**



## Q4 Mark Scheme

### (a) AO1 (3)

AO1: Three marks for correct revenue figures

#### Revenue Budget

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

### (b) AO2 (4)

AO2: Four marks for correct revenue figures

#### Revised Revenue Budget

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

### (1) AO3

### (c) AO2 (8) AO3 (5)

AO2: Two mark for correct calculation of credit sales for the month.

Six marks for correct additions to find trade receivabl(1) AO3es at the month end.

AO3: Five marks for correct trade receivables figure brought forward from previous month

#### Trade Receivables Budget

	January	February	March	April	May	June
Revenue	504 000	529 200	555 660	583 443	583 443	583 443
50% of Customers – Credit sales	252 000	264 600	277 830 (1 o/f) AO2	291 722	291 722	291 722 (1 o/f) AO2
From previous month		126 000 (1 o/f) AO3	132 300 (1 o/f) AO3	138 915 (1 o/f) AO3	145 861 (1 o/f) AO3	145 861 (1 o/f) AO3
Total receivable	252 000	390 600	410 130	430 637	437 582	437 582
	(1 o/f) AO2	(1 o/f) AO2	(1 o/f) AO2	(1 o/f) AO2	(1 o/f) AO2	(1 o/f) AO2

### (d) AO1 (2) AO3 (2)

AO2: One mark for each correct identification of budget process setting stage.

AO3: One mark for each correct development of budget process setting stage.

Answers may include:

Identification of a key or limiting factor eg sales units (1). This factor may determine other budgets eg production.(1)

Research to find information / figures that can be used in the budget preparation. **(1)** eg past sales figures, or market research to find possible future sales levels.**(1)**

Consult with departments/ receive feedback to determine realistic figures/ is budget achievable.**(1)**  
Eg consult with production department to determine if suggested output levels are achievable. **(1)**

Produce a master budget which is a summary of all other budgets. **(1)** This is, in essence, the budgeted statement of comprehensive income.**(1)**

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

**Answers may include :**

**Case For :**

Giving credit forecasts sales revenue to rise. Without credit, sales are likely to continue to fall.

The total budgeted revenue with credit is £3 339 189, compared to a budgeted total figure of £2 712 000 without credit. This is an increase of £627 189.

**Case Against :**

The budget figures are only forecasts, they are not guaranteed to happen.

Some of the customers who buy on credit may fail to pay the amounts owing. This may result in lengthy and expensive court cases to possibly obtain monies due.

Kyriakides Ltd may take out insurance to cover non-payments of debts which is likely to be expensive.

**Conclusion:**

Allowing customers to buy on credit is probably a good idea and may help to stop declining revenues.

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.

Q5 Mark Scheme**(a) AO1(2) AO3(2)****AO1: One mark for each point made, to a maximum of two.****AO3: One mark for each point developed, to a maximum of two.****Answers could include:**

Goodwill could be calculated using the profit being earned.(1) **AO1** The higher the profit, the higher the goodwill / For example, three times the annual profit. (1) **AO3**

A value for goodwill could be agreed using the size of the customer base.(1) **AO1** Loyal customers or a captive market would increase the value of goodwill.(1) **AO3**

A value for goodwill could be agreed taking into account the reputation or brand awareness of the business.(1) **AO1** The better the reputation, the higher the value of goodwill.(1) **AO3**

The location of the business **(1) AO1** will affect the goodwill, eg a prime location in a city centre would increase the value of goodwill (1) **AO3**

The skills set of the staff (1) **AO1** will affect the goodwill, eg an experienced and effective labour force will increase the value of goodwill **(1) AO3**

**Accept any reasonable answer.****4 marks****(b) AO2(3)****AO2: Three marks for correct calculation of purchase consideration**

500 000 shares in Coastal Waves receive 1 000 000 shares of Equator Holidays plc **(1) AO2** valued at £1.10 each **(1) AO2**

$1\,000\,000 \times £1.10 = £1\,100\,000$  (1) **AO2**

**3 marks**

(c) (i)

AO1(3) AO3(4)

AO1: Three marks for entries of assets and liabilities.

AO3: Four marks for entries of Purchase consideration and Profit on Realisation

### Coastal Waves plc Realisation Account

	£ '000		£ '000
Property, plant and equipment	1040	Bank loan	350 <b>both</b>
Fixtures and fittings	55	Trade payables	107 <b>(1) AO1</b>
Computer systems	48 <b>any four</b>	Equator Holidays plc <b>(1) AO3</b> (Purchase Consideration)	1 100 <b>(1of) AO3</b>
Motor vehicles	75 <b>(1) AO1</b>		
Inventories	15		
Trade receivables	76		
Bank	18 <b>any four</b>		
Cash	5 <b>(1) AO1</b>		
Sundry Shareholders (Profit on Realisation) <b>(1) AO3</b>	<u>225 (1of)</u> <b>AO3</b>		
	<u>1 557</u>		<u>1 557</u>

7 marks

(ii) AO2 (6)

AO2: Six marks for entries in account.

**Coastal Waves plc Sundry Shareholders Account**

Equator Holidays plc (Purchase Consideration) (1)AO2	1 100 (1of)AO2	Share Capital	500 Both
		Share Premium	200 (1)AO2
		Retained Earnings	142 both
		Foreign exchange reserve	33 (1)AO2
		(Profit on Realisation) (1) AO2	<u>225</u> (1of)AO2
	<u>1 100</u>		<u>1100</u>

y

6 marks

(d) AO2(3) AO3(1)

AO2: Three marks for correct calculation of number of shares received.

AO3: One mark for calculation on issue price of shares.

Shares in Coastal Waves plc were issued at £1.40 each (1) AO3

Jonathan bought  $\frac{£9\,800}{£1.40}$  (1of)AO2 = 7 000 shares (1of)AO2

He receives 7 000 x 2 = 14 000 shares in Equator Holidays plc. (1of)AO2

4 marks

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

**Case for merger**

Jonathan paid £1.40 for each share when bought and he now receives shares to the value of £2.20 in the new company. Therefore, he has made a profit of £0.80 per share, and £5 600 in total.

The market may feel the merger is beneficial, and Equator Holidays plc may make profits in the future, so the share price may rise. Jonathan would make a capital gain and receive dividends.

The new company, Equator Holidays may benefit from economies of scale in the future. The larger company may be able to obtain discounts when purchasing rooms, flights etc.

It may be that the two merging companies are a good fit – Coastal Waves looks like it provided beach holidays, and Rift Valley Safaris provides safari holidays. This will allow diversification and expansion.

**Case against merger**

The market may feel the merger is not a good idea, and Equator Holidays plc may make losses in the future, so the share price may fall. Jonathan would make a capital loss and may not receive any dividends.

The new company, Equator Holidays may suffer from diseconomies of scale in the future. The larger company may be too large, and may suffer from too many layers of administration etc.

It may be that the two merging companies are a not good fit – Coastal Waves looks like it provided beach holidays, and Rift Valley Safaris provides safari holidays. This may mean the company is spread over at least two sectors of the holiday industry.

### Conclusion

Directors of the companies should have researched whether the merger will be beneficial. It would appear this is the case, as the merger is going ahead.

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.

**Q6. Mark scheme****(a) AO1 (2) A03 (2)****AO1: One mark for each point made, to a maximum of two.****AO3: One mark for each point developed to a maximum of two.**Advantages of marginal costing

Marginal costing helps decision making in the short term **(1) AO1**. For example when deciding whether to accept an offer price / or make or buy /or discontinue a product/profit centre **(1) AO3**.

Marginal costing sees costs allocated to a time period **(1) AO1**, so it may be argued that profit for that time period is more accurate **(1)AO3**.

Marginal costing may follow the prudence concept **(1) AO1** as it often shows lower figures for closing inventory **(1) AO3**.

**(b) (a) AO1 (2) A03 (2)****AO1: One mark for each point made, to a maximum of two.****AO3: One mark for each point developed to a maximum of two.**Advantages of absorption costing

Absorption costing sees costs allocated to products **(1) AO1**. This could be useful for management when fixing prices / reviewing if a product/project has been profitable in the long term **(1) AO3**.

Absorption costing is recommended by the Financial Reporting Council (by Financial Reporting Standard 102) **(1) AO1** so needs to be used when preparing external financial statements **(1) AO3**.

Absorption costing follows the matching concept **(1) AO1** ie matches costs with revenues earned for a particular product **(1) AO3**.

**(c) AO1 (1) AO2 (12) AO3 (3)**

**AO1: One mark for calculation of revenue.**

**AO2: Twelve marks for calculation of revenue, opening inventory, direct labour, semi-variable costs, contribution, fixed overheads and profit.**

**AO3: Three marks for calculation of units in closing inventory, and unit value of inventory for each method.**

<u>Statement of profit or loss and other comprehensive income</u>						
<b>Workings</b>						
Revenue	(500 X	50 X	24.75)	(1) AO2	= 618750	(1) AO2
	<b><u>Marginal</u></b>	<b><u>Absorption</u></b>				
	<b>£</b>	<b>£</b>				
Revenue	618 750	618 750				
Less cost of sales						
Opening inventory	31 200	41 600	(1) AO2	both		
Direct materials	156 600	156 600	(1) AO1	both		
Direct labour	117 000	117 000	(1) AO2	both		
Semi-variable costs (Var)	3 825	3 825	(1) AO2	both		
Closing inventory	<u>(1 232)</u>	(1 714)				
Variable cost of sales	307 393					
Contribution	311 357		(1) AO2			



Semi-variable costs (Fix)	25 950	25 950	(1) AO2	both		
Fixed overheads	<u>82 500</u>	<u>82 500</u>	(1) AO2	both		
Total costs	415 843	425 761				
Profit	202 907 (1) AO2	192 989 (1of) AO2				16 marks

Calculation of closing inventory:

Opening 2 600 + 22 500 - (50 x 500) = 100 units (1) AO3

Marginal costing = (£6.95 + (£7.80 x 40/60) + £0.17) = £12.32 (1) AO3 x 100 = £1 232 (1of) AO2

Absorption costing = £25 950 + £82 500 / 22 500 = £4.82

Total = £12.32 + £4.82 = £17.14 per unit (1) AO3 x 100 = £1 714 (1of) AO2

(d)

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

#### **In favour of statement**

Absorption costing sees all costs involved in producing closing inventory carried forward to the next accounting period. Therefore, the closing inventory value is greater than marginal costing, where only the variable costs are carried forward. Therefore, using absorption costing, the value of closing inventory is greater than marginal costing, so the cost of sales is lower. If this was the first year of trading, then both methods have no opening inventory and absorption costing will give a higher profit.

#### **Against the statement**

The cost of sales figure will be determined taking the figure for opening inventory as well. In situations such as shown in (c) for Mannar Microwaves Ltd, where the size and the value of inventory at the end of the year is smaller than the start of the year, the profit using absorption costing may be lower.

#### **Conclusion**

The statement is not correct. Profit is not always higher using absorption costing.

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.

		<p>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.</p> <p>An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.</p>
Level 3	5-6	<p>Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective.</p> <p>A coherent and logical chain of reasoning, showing causes and effects is present.</p> <p>Evaluation is balanced and wide-ranging, using financial and perhaps non-financial information and an appropriate decision is made.</p>

**(Total for Question 6 = 30 marks)**