Mark Scheme (Results)

Summer 2022

Pearson Edexcel International Advanced Level In 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 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.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Q1

(a) **AO1 (4)AO2 (5)**

AO1: Four marks for insertion or calculation of property, plant and equipment, fixtures and fittings, cash and cash equivalents, and liabilities.

AO2: Five marks for insertion and calculation of computers, motor vehicles, inventory, trade receivables, and value of company.

Calculation of value of Kwale Trucking plc

	(£000)	
Property, plant and equipment	39 000	(1) AO1
Computers	2 100	(1) AO2
Fixtures and fittings	400	(1) AO1
Motor vehicles	12 320	(1) AO2
Inventory	90	(1) AO2
Trade receivables	3 060	(1) AO2
Cash and cash equivalents	810	(1) AO1
Non-current liabilities	(24 000)	
Current liabilities	(2 800)	(1) AO1 (both)
Value of Kwale Trucking plc	30 980	(1o/f) AO2

Marker Guidance
Only award own figure mark if all items are present

(9)

(b) **AO1 (6)**

AO1: Six marks for correct calculation of goodwill.

For every one share held, shareholders receive

(5 x £1.30) + £0.50 (1) AO1 = £7 (1) AO1

New offer is (5 000 000 x £7) (1o/f) AO1 = £35 000 000 (1o/f) AO1

Less Value of Kwale Trucking plc= (£30 980 000) (1o/f) AO1

Goodwill = £4 020 000 (1o/f) AO1 **(6)**

(c) **AO1 (6)AO2 (2)**

AO1: One mark each for naming Sundry shareholders and Purchase consideration.
One mark each for correct insertion of non-current assets, current assets, liabilities and amount of purchase consideration.
AO2: Two marks for correct calculation of profit on realisation and account total.

Kwale Trucking plc Realisation Account

	£000		£000
Property, plant and equipment	35 000	Mortgage	18 000
Computers	2 700	Bank loan	6 000
Fixtures and fittings	500	Trade payables	2 150
Motor vehicles	15 400 (1) AO1- all 4	Other payables	650 (1) AO1– all 4
Inventory	110	KV Logistics plc (1) AO1 (Purchase Consideration)	35 000 (1of) AO1
Trade receivables	3 400		
Cash and cash equivalents	810 (1) AO1– all 3		
Sundry Shareholders (1) AO1 (Profit on Realisation)	3 880 (1o/f) AO2		
	61 800		61 800 (1o/f) AO2

Marker Guidance
Only award own figure total if all items are present

(8)

(d)**AO2 (14)AO3 (6)**

AO2: One mark each for calculation of revalued new total figure for assets and liabilities, goodwill and ordinary share capital.

AO3: Three marks each for calculation of value of overdraft and share premium

Statement of Financial Position of KV Logistics plc at 1 April 2022

ASSETS	£000	£000
Non-current assets		
Property, plant and equipment	67 970 (1) AO2	
Computers	3 250 (1) AO2	
Fixtures and fittings	1 100 (1) AO2	
Motor vehicles	22 080 (1) AO2	
Goodwill - Kwale Trucking	4 020 (1o/f) AO2	
- Voi Deliveries	3 586 (1) AO2	
		102 006
Current assets		
Inventory	304 (1) AO2	
Trade receivables	5 220 (1) AO2	
		5 524
Total assets		107 530
EQUITY AND LIABILITIES		
Equity		
Ordinary Shares of £1 each	45 000 (3) **W1**	
Share Premium	13 500 (3) **W2**	
		58 500
Non-current liabilities		
Mortgage	31 000 both	
Bank loan	10 000 (1) AO2	
		41 000
Current liabilities		
Trade payables	3 110 both	
Other payables	960 (1) AO2	
Bank overdraft	3 960 (3) **W3**	
		8 030
Total equity and liabilities		107 530 (1o/f) AO2

Workings

W1
Ordinary shares of £1 each = (5 000 000 x 5) + (20 000 000 x 1) (1) AO2 both
= £25 000 000 + £20 000 000 (1) AO2both
= £45 000 000 (1) AO2
W2
Share Premium = (25 000 000 x £0.30) + (20 000 000 x £0.30)
= (£7 500 000) (1) AO3 + (£6 000 000) (1) AO3
= £13 500 000 (1) AO3
W3
Bank overdraft = £810 000 + £1 730 000 - (5 000 000 x £0.50) - (20 000 000 x £0.20)
= £2 540 000 - £2 500 000 (1) AO3 - £4 000 000 (1) AO3
= £3 960 000 overdraft (1) AO3
(20)

(e)**(AO1) 1 (AO2) 1 (AO3) 4 (AO4) 6**
Own figure rule applies
Answers may include:

Case For Kwale Trucking plc
The company has received goodwill of £4 020 000 which is £434 000 higher than the goodwill of £3 586 000 received by Voi Deliveries.

Property has been revalued upwards by £4 million which is £1 million higher than the £3 million upward revaluation of property owned by Voi Deliveries.

The fixtures and fittings of Kwale were only reduced by £100 000 in value which was £100 000 less than the reduction in value of Voi computers, which were reduced by £200 000

If a shareholder held 1 share in Kwale, they would receive shares and cash to the value of £7
The equivalent of holding one share in Kwale, would be to hold 4 shares in Voi.
If a shareholder held 4 shares in Voi they would receive shares and cash to the value of £6

Case For Voi Deliveries plc
The percentage of the purchase price for Voi represented by goodwill is

$\frac{3\,586}{30\,000} \times 100 = 11.95\%$ whereas for Kwale it is $\frac{4\,020}{35\,000} \times 100 = 11.49\%$

The computers of Voi were only reduced by £250 000 in value which was £350 000 less than the reduction in value of Kwale computers.

The vehicles of Voi were only reduced by £2 440 000 in value which was £640 000 less than the reduction in value of Kwale computers, which were reduced by £3 080 000

The inventory of Voi was only reduced by £16 000 in value which was £4 000 less than the reduction in value of Kwale inventory.

The trade receivables of Voi were only reduced by £240 000 in value which was £100 000 less than the reduction in value of Kwale trade receivables which were reduced by £340 000

Other points

The purchase price of Kwale was £35 000 000 which is £5 000 000 higher than the purchase price of Voi. However, Kwale is a larger company, based on the value of equity andreserves.

Conclusion

It could be argued that the £7 received for a share in Kwale is more than the £6 received for 4 shares in Voi. Also, that more goodwill was paid for Kwale than Voi.

However, as a percentage of the total purchase price, goodwill paid for Voi is slightly higher.

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)

(Total for Question 1 = 55 marks)

2

(a) **AO1 (8) AO3 (1)**

AO1: Eight marks for correct calculation of inflows, annual depreciation, running costs, and net cash flows.

AO3: One mark for correct treatment of depreciation when calculating cash outflows.

						Resale		
Inflows			Sales	Weeks	Price	Value	Total (£)	
Year 1			390	50	60		1170000	
Year 2			390	50	60		1170000	
Year 3			390	50	60		1170000	
Year 4			390	50	60		1170000	(1)AO1
Year 5			390	50	60	500000	1670000	(1)AO1
Depreciation								
	3000000	-	500000	=	2500000	(1)AO1	500000	per year
					5	(1)AO1	(1)AO1	
Outflows	Per week	weeks	Total	-	Depreciation		Total	
Year 1	19000	50	950000		(500000)		450000	
Year 2	19000	50	950000		(500000)		450000	
Year 3	19000	50	950000		(500000)		450000	
Year 4	19000	50	950000		(500000)		450000	
Year 5	19000	50	950000		(500000)	(1o/f)AO3	450000	(1o/f)AO1

Net Cash Flow	Inflow		-	Outflows		NCF	-
Year 1	1170000			(450000)		720000	
Year 2	1170000			(450000)		720000	
Year 3	1170000			(450000)		720000	
Year 4	1170000			(450000)		720000	(1o/f)AO1
Year 5	1670000			(450000)		1220000	(1o/f)AO1
							9 marks

(b) **Payback Calculation**

AO1 (2) AO2 (6)

AO1: Two marks for correct calculation of cumulative net cash flows.

AO2: Six marks for correct calculation of payback period in years and months.

	NCF	Balance					
Year 0	3000000	(3000000)	both				
Year 1	720000	(2280000)	(1o/f)AO1				
Year 2	720000	(1560000)	both				
Year 3	720000	(840000)	(1o/f)AO1				
Year 4	720000	(120000)	(1o/f)AO2	= 120000	(1o/f)AO2 x 12	(1)AO2	
Year 5	1220000			720000	(1o/f)AO2		
				Payback =	4 years 2 months		
					(1o/f)AO2(1o/f)AO2		
							8 marks

Year	**Revenue**	**Costs**	**Profit**		
1	1 170 000	950 000	220 000		
2	1 170 000	950 000	220 000		
3	1 170 000	950 000	220 000		
4	1 170 000	950 000	220 000		
5	1 170 000	950 000	220 000	(1o/f)AO1	
		Total	1 100 000	(1o/f)AO1	
Alternative					
Year	**NCF**	**Resale Value**	**Depreciation**	**Profit**	
1	720 000		500 000	220000	
2	720 000		500 000	220000	
3	720 000		500 000	220000	
4	720 000		500 000	220000	
5	1 220 000	500 000		220000	(1o/f)AO1
			Total	1100000	(1o/f)AO1
Average annual profit			1 100 000	(1o/f) AO3	=220 000(1o/f) AO3
			5	both	
Average investment		3000000 + 500000(1) AO3			=1 750 000(1) AO3
			2	(1) AO3	
Accounting rate of return		220 000x 100(1o/f)AO2 1 750 000(1of)AO2			= 12.57%(1o/f)AO2 **10 marks**

(d)Net Present Value Calculation
AO1(1) AO2 (6)
AO1: One mark for correct calculation of net present value.
AO2: Six marks for correct calculation of discounted cash flows for years one to five.
(e) **AO1 (3) AO2 (6)**
AO1 : Three marks for correctly stating formula and lower rate.

		12% Discount		
YEAR	**NCF**	**Factor**		
0	(3000000)	1	(3 000 000)	(1)AO2
1	720 000	0.893	642 960	(1o/f)AO2
2	720 000	0.797	573 840	(1o/f)AO2
3	720 000	0.712	512 640	(1o/f)AO2
4	720 000	0.636	457 920	(1o/f)AO2
5	1 220 000	0.567	691 740	(1o/f)AO2
		NPV =	(120 900)	(1o/f)AO1

(e) AO1 (3) AO2(6)
AO1: Three marks for correctly stating formula and lower rate
AO2 : Six marks for calculating difference between rates, inserting net present value of lower rate and for correctly calculating the difference between the net present values and the internal rate of return.

Internal rate of Return = Lower rate + (% difference between rates) (1)AO1 x (NPV using lower % rate) (1)AO1
(Difference between NPVs)

= 10% (1)AO1 + ((12 – 10)(1)AO2 x $\frac{39\,300)(1)AO2}{(39\,300\ (1)AO2 + 120\,900\ (1o/f)AO2)}$

= 10% + (2 x 0.245) (1o/f)AO2

= 10.49% (1o/f)AO2

9 marks

(f) **AO1 (1) AO2 (1) AO3 (4) AO4 (6)**

Own figure rule applies

In favour of project
The investment pays back in 4 years and 2 months (o/f) which is 10 months (o/f) before the end of the project.

The average rate of return (accounting rate of return) shows a return of 12.57% (o/f). This is a fairly healthy return and is above the cost of capital.

The non-discounted methods of project appraisal appear to show that the project is worth investing in, if the figures are accurate.

The project will create jobs for the community and contracts for support businesses, e.g. engineers, caterers.

Against project
The project has a net present value of minus £120 900 (o/f) which is a negative value and does not indicate the project is worthwhile investing in.

The internal rate of return of the project is 10.49% (o/f) which is less than the target return of 15% and less than the cost of capital of 12%.

The burning of coal may be harmful to the environment due to carbon emissions.

Other points
All of the figures are only estimates. We cannot say for certain they will be correct.

There may be changes in the future in the supply of coal or the demand for coal.

Possible future changes in competition, regulations linked to the environment, or development of alternative sources of fuel etc.

Conclusion
The discounted methods of project appraisal appear to show that the project is not worth investing in if the figures are accurate. The discounted methods of project appraisal take into account the cost of capital and inflation so may outweigh the non-discounted methods.

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(12)

(Total marks for Question 2 = 55 marks)

Total for Section A = 110 marks

Q3 (a)
(i) AO1 (2) AO2 (9) AO3 (5)
AO1: One mark each for discount allowed and vehicle running costs
AO2: One mark each for advertising, hire of vans for fitters, shop rent, depreciation of shop, wages of fitters, lorry drivers, and shop staff, commission on sales and total distribution costs.
AO3: One mark each for electricity, fuel and depreciation of fitters vans.

Distribution costs	£		
Advertising	39063	(1)AO2	
Discount allowed	4040	(1)AO1	
Electricity	7392	(1)AO3	
Fuel	36900	(1)AO3	
Hire of vans for carpet fitters	1699	(1)AO2	
Maintenance	6475	(1)AO3	
Motor lorries depreciation	39200	(1)AO3	
Rent on shop premises	10907	(1)AO2	
Shop buildings depreciation	41250	(1)AO2	
Vans for fitters depreciation	25200	(1)AO3	
Vehicles running costs	21008	(1)AO1	
Carpet fitters' wages	104300	(1)AO2	
Lorry drivers' wages	96300	(1)AO2	
Shop staff wages	98800	(1)AO2	
Commission on sales	27023	(1)AO2	
Total Distribution costs	559557	(1o/f)AO2	**16 marks**

Marker Guidance

Allow figures for electricity, fuel and maintenance if shown separately.
Only award total own figure mark if 14 items present.

(ii) AO1 (3) AO2 (3) AO3 (2)

AO1: One mark each for auditors' remuneration, irrecoverable debts written off, and stationery.

AO2: One mark each for depreciation of computers, office staff wages and total administrative expenses.

AO3: One mark each for electricity and maintenance.

Administrative expenses	£		
Auditors' remuneration	12000	(1)AO1	
Electricity	11088	(1)AO3	
Irrecoverable debts written off	3098	(1)AO1	
Maintenance	1295	(1)AO3	
Office computers depreciation	7200	(1)AO2	
Stationery	3125	(1)AO1	
Office staff wages	31500	(1)AO2	
Total Administrative expenses	69306	(1o/f)AO2	**8 marks**

Marker Guidance

Only award total own figure mark if 6 items present.

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

Case for importance of Auditors' Report

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

Auditors will report that the accounts give a true and fair view, or do not give a true and fair view.

Auditors report on how the Directors have used the funds invested by shareholders and the auditors' duty is to the shareholders.

Auditors will have audited the reported profit and this may give tax authorities more confidence that the tax computation 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.

Case against importance of Auditors' Report

Auditors may not be very independent, going along with the wishes of their clients, in order to keep their custom.

Clients may provide auditors with lucrative non-audit work so auditors will not want to upset clients by disputing their accounts.

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

Auditors do not guarantee that material fraud has not occurred which means a reduction in the confidence of an Auditors' Report.

Cases of fraud have been overlooked by a positive Auditors' Report.

Companies have gone into liquidation soon after being given a positive Auditors' Report.

Conclusion

The Auditors' Report can usually be relied on as a confirmation of the financial statements and the financial position of the company. However, this is not the case in 100% of Reports.

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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 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 information and an appropriate decision is made.

(6)

(Total for Question 3 = 30 marks)

Q4

(a)**(i) (AO1) 2 (AO3) 2**

AO1: One mark for explanation of each term.

AO3: One mark for example of each term.

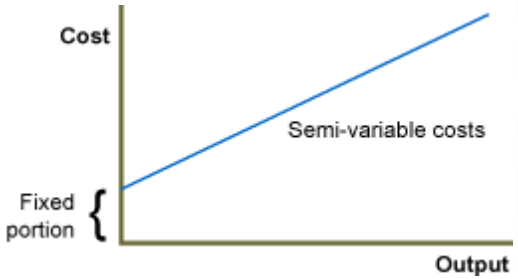
Answers may include:

A semi-variable cost has a fixed element that must be paid even if output is zero.
There is also a variable element that varies directly with output. (1)AO1
An example could be the supervisor's salary. The supervisor receives a flat rate salary plus a bonus for every unit of output produced. (1)AO3

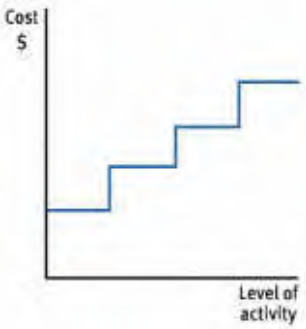
A semi-fixed cost will have a fixed element that must be paid even if output is zero.
A semi-fixed cost will increase in steps as output increases. (1)AO1
An example could be rent, that will increase in steps as output increases and extra premises are required. (1)AO3

(ii)(AO3) 2

AO3: One mark for each graph.



Semi-variable costs (1)AO3



Semi-fixed costs (1)AO3

(b)**(AO1) 3 (AO2) 12 (AO3) 3**

AO1: One mark each for calculation of sales revenue, and direct material cost and labelling contribution.

AO2: One mark each for calculation of direct labour, fixed semi-variable costs, fixed overheads, profit for both methods, three marks for calculation of closing inventory in units, two marks each for calculation of value of closing inventory for both methods.

AO3: One mark each for calculation of variable semi-variable costs, and first step in calculating value of closing inventory using both methods.

Statement of profit or loss							
Calculation of	Weeks	Days	Output	Total			
Production	50	5	96	24000			
	Marginal		**Absorption**				
	costing		**costing**				
Sales revenue	6840000		6840000	(1) AO1			
Less							
Direct Materials	3168000		3168000	(1) AO1			
Direct Labour	338400		338400	(1) AO2			
Semi-variable – variable	504000		504000	(1) AO3			
Closing inventory	(200520)		(213600)				
	3809880		3796800				
Contribution (1) AO1	3030120	(1o/f) AO2					
Less							
Semi-variable – fixed	84000		84000	(1) AO2			
Fixed Overheads	177600		177600	(1) AO2			
Cost of goods sold			4058400				
Profit	2768520		2 781600	(1o/f) AO2 both			

	Opening					Closing	
Calculation of	inventory		Production	Sales units		Inventory	
Closing inventory units	0		24000(1) AO2	22 800 (1) AO2		1200	(1o/f) AO2
Calculation of closing inventory							
Marginal	(132.00+14.10+21.00)	(1) AO3	167.10	(1o/f)AO2x1200		200520	(1o/f) AO2
Absorption	4272000	(1o/f) AO3	178.00	(1o/f)AO2x1200		213600	(1o/f) AO2
	24000						
							18 marks

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

Case for Absorption Costing

Sees costs allocated to products.

Follows the matching concept, i.e. matches costs with revenues earned for a particular product.

Could be useful for management when fixing prices or reviewing if a product/project has been profitable in the long term.

This method is recommended by IAS 2

Case for Marginal Costing

Could be said to help decision making in the short term when deciding whether to accept an offer price, or make or buy, or discontinue a product/profit centre.

Sees costs allocated to a time period, so it may be argued that profit for that time period is more accurate. External accounts are drawn up on the basis of a time period.

Follows the prudence concept as this method gives lower figures closing inventory.

Business owners may like this method as it shows a lower profit so less tax is paid which is probably one of the reasons why final accounts should not use the method.

Conclusion

Should draw up financial statements according to the absorption costing method as recommended by IAS 2

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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 information and an appropriate decision is made.

(6)

(Total for Question 4 = 30 marks)

Q5

(a) **(i) AO2 (3)**

AO2: Three marks for correct calculation of earnings per ordinary share

Earnings per ordinary share = Profit for the year after interest and tax / Issued ordinary shares

= £5 000 000 - £800 000 / (7 000 000 x 4)

= £4 200 000 (1) AO2 = 15 p per share (1) AO2
28 000 000 (1) AO2

Marker Guidance for all ratio calculations
Only award final figure if unit notation is showing, pence, % etc

(3)

(ii)AO1(2)AO2 (1)

AO1: Two marks correct use of market price of share and earnings per share.

AO2: One mark for calculation of price/earnings ratio

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

= 135p (1) AO1 = 9 times (1o/f) AO2
15p (1o/f) AO1

(3)

(iii)AO1 (1) AO2(4)

AO1: One mark for calculation of total dividend paid.

AO2: Four marks for calculation of interim dividend, and total dividend paid per share.

Dividend paid per share = Total ordinary dividend / Issued ordinary shares

Interim dividend = (28 000 000 x £0.01) = £280 000 (1) AO2
Final dividend = £1 120 000
Total dividend = £1 400 000 (1) AO1

= £1 400 000 (1 o/f) AO2 = 5p per share (1o/f) AO2
28 000 000 (1o/f) AO2

(5)

(iv)AO2 (3)
AO2: Three marks for calculation of dividend cover

Dividend cover = Net profit after interest and tax / Total ordinary dividend

= £4 200 000 (1o/f) AO2 = 3 times (1o/f) AO2
£1 400 000 (1o/f) AO2

(3)

(v)AO1(2)AO2 (1)
AO1: Two marks for correct use of dividend per share and market price of share.
AO2: One marks for calculation of dividend yield

Dividend yield = Dividend per share / Market price of share x100

= 5p (1o/f) AO1 x 100 = 3.70% (1o/f) AO2
135p (1) AO1

(3)

(vi) AO3 (7)
AO3: Seven marks for calculation of return on capital employed.

Return On Capital Employed = Net profit before interest and tax / Capital employed x 100

Net profit after interest and tax = £4 200 000
Tax payable = £800 000
Interest on debenture = 7.5% x £20 000 000 = £1 500 000 (1)AO3
Interest on bank loan = 5% x £10 000 000 = £500 000 (1)AO3
Net profit before interest and tax = £7 000 000 (1o/f)AO3

Capital employed = £42 000 000 + £30 000 000 = £72 000 000 (1)AO3

ROCE = £7 000 000 (1 o/f) AO3 / £72 000 000 (1o/f) AO3 x 100 = 9.72% (1o/f) AO3

(7)

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

Dividend cover is the most important ratio

Investment ratios are ratios that are of importance to those investing in the company. They show investors the return they may receive on their investment. They also indicate how well the company is performing.

Dividend cover tells an investor how many times the dividends paid for the year can be covered by the profit for the year after interest and tax. This is important to investors who can see if they are getting a fair return on their investment.

If potential investors see that the dividend cover ratio is low, this may encourage potential investors to invest in the company as they will be expecting good revenue returns.

If potential investors see that the dividend cover ratio is high, this may encourage potential investors to invest in the company as they will be expecting good capital growth.

Dividend cover is **not** the most important ratio

There are more important investment ratios than dividend cover. For example, return on capital employed shows the profits generated before interest and tax as a percentage of capital employed. This shows the return on every pound invested in the company.

Similarly, the earnings per ordinary share show a return on the sum invested by shareholders of the company.

Also important is the price/earnings per share ratio. This shows the relationship between the market price of the share and the earnings per share. This gives an indication of the confidence of the share/stock market in the company.

The dividend cover ratio is specific for the current year. If this ratio looks particularly high, there may not be a case to worry about as this year's dividends could be paid out of previous year's profits. If this ratio looks particularly low, it may be that the company is wanting to use cash reserves for future investments, or it does not have funds to pay a dividend.

Conclusion

Dividend cover is not the most important ratio.
More important ratios are earnings per share and return on capital employed.

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 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 information and an appropriate decision is made.

(6)

(Total for Question 5 = 30 marks)

Q6

(a) **(AO1) 2 (AO3) 2**

AO1: Two marks for identifying a purpose of standard costing.
AO3: Two marks for extension of purpose identified.
Answers may include.

The performance of a business can be judged (1)AO1by setting a numerical figure for the costs of materials and/or labour in the production of goods or supply of services. Actual costs can be judged against the standard costs which allow a judgement to be made concerning the performance of the business.(1)AO3

A knowledge of the standard costs of a business for materials and/or labour makes the preparation of estimates and quotations more accurate.(1)AO1 This should ensure a business can make a profit on production / avoid making a loss. (1)AO3

Standard costing allows variance analysis to take place.(1)AO1 Differences between standard costs and actual costs can result in actions being taken in the future, particularly if the variance is adverse.(1)AO3

2 points x 2 marks each

(4)

(b)

(i) (AO1) 1 (AO2) 1
AO1: One mark for laying out calculation to be performed
AO2: One mark for calculating total budgeted labour hours

Budgeted labour hours = 28 workers x 8 hours a day x 5 days a week (1) AO1

= 1 120 hours (1) AO2

(2)

(ii) (AO1) 1 (AO2) 1
AO1: One mark for laying out calculation to be performed
AO2: One mark for calculating total actual labour hours

Actual labour hours = 1 120 hours (o/f) + 120 hours overtime (1o/f) AO1

= 1 240 hours (1o/f) AO2

(2)

(iii) (AO1) 1
AO1: One mark for calculating budgeted labour cost

Budgeted labour cost = 1 120 (o/f) hours x £9.60

= £10 752 (1o/f) AO1

(1)

(iv) (AO2) 3
AO2: Three marks for calculation of actual labour cost.

Actual labour cost = 28 workers x 40 hours x £9.60 = £10 752 (1) AO2

Overtime hours 120 x £14.40 = £1 728 (1) AO2

Actual cost = £12 480 (1o/f) AO2 **(3)**

(c)
(i) (AO2) 2 (AO3) 2
AO2: Two marks budgeted hours and labour efficiency variance.
AO3: Two marks for actual hours and budgeted hours.

Labour efficiency variance = (Actual hours – Budgeted hours) x Budgeted rate

= (1 240 (1o/f) AO3 – 1 120 (1o/f) AO3) x £9.60 (1) AO2 = £1 152 Adv (1o/f) AO2 **(4)**

(ii) (AO2) 2 (AO3) 3
AO2: Two marks for laying actual hours and labour rate variance.
AO3: Three mark for calculating actual rate and budgeted rate.

Labour rate variance = (Actual rate – budgeted rate) x Actual hours

= (£12 480) (1o/f) AO3 - £9.60 (1)) AO3 x 1 240 (1o/f) AO2
1 240 (1o/f) AO3

= (£10.06 - £9.60) x 1 240 = £570.40 Adv (1o/f)AO2 **(5)**

(iii) (AO2) 3
AO2: Three mark for calculating total labour variance.

Total labour variance = Actual labour cost - Budgeted labour cost

= (£12 480 (1o/f) AO2 - £10 752 (1o/f)) AO2 = £1 728 Adv (1o/f)AO2 **(3)**

OR
Total labour variance = Labour efficiency variance + Labour rate variance

= 1 152 Adv (1o/f) AO2 + £570.40 Adv (1o/f)AO2 = £1 722.40 Adv (1o/f) AO1 **(3)**

(d)

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

Own figure rule applies

For taking action

The total variance for the week is £1 728 adverse. This may be considered a large sum for just one week of production. Therefore, management may decide to investigate the cause of the adverse variance caused by the shortfall in production. This would be with a view of taking corrective action.

If this was repeated for every week of the year, the total adverse variance would be around £90 000, a considerable sum.

The company may have a predetermined sum, or a percentage, above which action will need to be taken. This is the essence of "management by exception". The budgeted cost of production is £10 752 and a variance of £1 728 is 16% of this sum. This business may have a policy of taking action if 10% or 15% above or below expectations occurs.

Against taking action

The 16% variance compared to budgeted cost may be within the pre-set limit by management. Management may regard this level of variance to be too small to be rated as "exceptional" and not worthy of taking management time to correct.

Conclusion

Management may take action. The decision will be determined by any policy relating to the size or percentage of the variance, or the management view of the variance.

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(6)

(Total for Question 6 = 30 marks)

Total for Section B = 90 marks

Total for Paper = 200 marks

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