



**Pearson**  
**Edexcel**

**Mark Scheme (Provisional)**

**Summer 2021**

**Pearson Edexcel International Advanced Level  
In Accounting (WAC12/01)**

**Paper 02 Corporate and Management Accounting**

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Summer 2021

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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.

<b>Q1(a)(i) Mark Scheme</b>			<b>W1 Cost of Sales</b>	£		
<b>[9 AO1] [15 AO2] [3 AO3]</b>			Factory wages	1 781 000	(1)AO2	C
<b>Statement of Profit or Loss and other comprehensive</b>			Direct Materials	1 670 000	(1)AO1	
<b>income for Sofa So Good plc</b>			Less Discount Received	(28 000)	both	
<b>for y/e 31<sup>st</sup> March 2021</b>	£		Factory buildings Depreciation	118 000	(1)AO3	C
Revenue	6 840 000	AO2	Production Machinery Depreciation	53 200	(1)AO2	C
		(1o/f)	Opening Inventory	451 000	(1)AO1	
Cost of sales (W1)	(3 547 200)	both	Less Closing Inventory	(498 000)	(1)AO1	6
				<b>3 547 200</b>		
Gross profit C	3 292 800	(1o/f)	<b>W2 Distribution Costs</b>			
		AO2	Marketing	181 000	(1)AO2	C
Other Income	400		Discount Allowed	61 000	(1)AO1	
		any 2	Motor lorries running expenses	27 500	both	
Distribution costs (W2)	(1 455 840)	(1o/f)	Rent on warehouse	148 000	(1)AO1	
		AO2	Depreciation on motor lorries	35 000	(1)AO3	C
Administrative expenses (W3)	(500 700)		Delivery costs	119 000	(1)AO1	
		any 2	Commission on sales	62 340	both	
Financial cost (W4)	(42 500)	(1o/f)	Warehouse wages	274 000	(1)AO2	C
		AO2	Transport staff wages	137 000	(1)AO2	C
Profit on ordinary activities before tax	1 294 160	(1o/f)	Sales staff wages	411 000	(1)AO2	8 C
C		AO2		<b>1 455 840</b>		
Corporation tax C	(188 000)	(1)AO2	<b>W3 Administrative Expenses</b>			
			Auditors fees	14 900	(1)AO2	C
Profit on ordinary activities after tax	<u>1 106 160</u>	(1o/f)	Irrecoverable Debts Written Off	18 000	(1)AO1	
C		AO2	Increase in irrecoverable Debts prvsn	10 800	(1)AO3	C
		7	Head office expenses	320 000	(1)AO1	
			Head office wages	<u>137 000</u>	(1)AO2	5 C
				<b>500 700</b>		
			<b>W4 Financial cost</b>			
<b>Total 27 marks</b>			Debenture interest	<b>42500</b>	(1)AO2	1 C

(a)(ii) [7 AO1] [6 AO2] [3 AO3]

<b>Statement of Financial Position of So Far So Good plc at 31/03/2021</b>				
<b>ASSETS</b>	£	£	£	
<b>Non-current assets</b>				
Property, Plant & Equipment				
Factory buildings	2 832 000	(1o/f) AO2		
Production Machinery	212 800	(1o/f) AO2		
Motor lorries	<u>72 000</u>	(1o/f) AO2		
		3 116 800		
Goodwill		<u>40 000</u>	(1) AO1	
<b>Total Non-current Assets</b>			<b>3 156 800</b>	
<b>Current Assets</b>				
Inventories		498 000	(1) AO1	
Trade and Other Receivables				
Trade receivables	595 000	(1) AO3		
Less Irrecoverable debt allowance	<u>(23 800)</u>	both		
	571 200			
Other Receivables	<u>22 000</u>	(1) AO1		
		593 200		
Cash and Cash Equivalents				
Bank	65 000	(1) AO1		
Cash	<u>27 000</u>	both		
		<u>92 000</u>		
<b>Total Current Assets</b>			<b>1 183 200</b>	
<b>Total Assets</b>			<b>4 340 000</b>	
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Ordinary shares of £1.00 each	2 100 000			
Share premium	420 000	(1) AO1		
General Reserve	25 000	all three		
Retained Earnings	<u>945 450</u>	(1o/f) AO3		
<b>Total Equity</b>			<b>3 490 450</b>	
<b>Current Liabilities</b>				
Trade and other Payables				
Trade Payables	126 000	(1) AO1		
Other payables	11 700	both		
Debenture interest owed	21 250	(1) AO2		
Auditors fee owed	<u>2 600</u>	(1) AO1		
		161 550		
Debenture (2021)	500 000	(1) AO3		
Corporation Tax Payable	<u>188 000</u>	(1) AO2		
		<u>688 000</u>		
<b>Total Current Liabilities</b>			<b>849 550</b>	
<b>Total Equity and Liabilities</b>			<b>4 340 000</b>	(1o/f) AO2 (16)

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

An auditor is an independent person or business, appointed and authorized to examine accounts and accounting records, and state the result of their audit. Auditors are expected to pass comment on the corporate governance of a company.

Corporate governance is the framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in a company's relationship with all its stakeholders (financiers, customers, management, employees, government, and the community). The auditor will report on the corporate governance of a company by feedback to the Board of Directors and in the Audit Report.

Case for the role of the auditor in corporate governance.

The auditor is an external person or business and should view all accounts, practices, procedures and company ethics from an independent viewpoint. This may allow the board to have feedback from a different, external viewpoint rather than from their own, internal position.

There is a UK Corporate Governance Code and auditors should examine if the company is complying with the Code. Companies must "comply or explain". They may be able to justify an alternative approach in writing. The Code has 5 areas and each area may require a comment by the auditors when auditing Sofa So Good plc.

Section A: Leadership – the company should be led by an effective board, who are responsible for success of company. There should be a 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. The auditor should advise Sofa So Good plc that the Chair is not also the CEO.

Section B: Effectiveness – the board should have an appropriate balance of skills, experience, independence, and knowledge to carry out duties effectively. Appointments to the board should be formal, rigorous and transparent. There should be induction for new board members, self-evaluation, and re-election. The auditor should advise Sofa So Good plc that the Code states that "board members should be re-elected at regular intervals" and also be rotated.

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. For Sofa So Good plc, this risk management should apply when taking over another company. If the board were interested in taking over another company, thorough checks need to be carried out on the other company, to verify financial statements etc. It would be the funds of the shareholders that would be put at risk if these checks were not made.

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 which is not the case for Sofa So Good plc.

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 Annual

General Meeting. Appropriate notice needs to be given to shareholders of Sofa So Good plc which will allow them to attend the AGM if they wish.

Case Against the role of the auditor in corporate governance.

Boards, including Sofa So Good plc, should maintain an appropriate relationship with the company's auditor. This may be difficult to put into practice. The auditor may be reluctant to criticise the company's corporate governance because the company is a lucrative source of income. The auditor may also be carrying out other, consultancy work with the company which is charged at a high rate. The auditors will be reluctant to lose fees for audit and management consultancy. This may result in poor corporate governance continuing into the future.

Suggestions have been made that different auditors should be used for audit work (including corporate governance) and management consultancy.

Other suggestions made have included the establishment of a separate, possibly government funded body that oversees the corporate governance of companies.

Conclusion

The role of the auditor in corporate governance is/is not appropriate nor beneficial.

**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.

**Total 55 marks**

## Q2

(a) (i) AO1(4)

**AO1: Four marks for correct calculation of hours worked from time cards. and adding total.**

Adamu 40 hours (1) AO1 Barasa 42 hours (1) AO1 Chitundu 43.5 hours (1) AO1

Darweshi 46 hours (1) AO1

(a)(ii) AO1 (1)

**AO1: One mark for correct calculation total hours worked.**

Total hours worked = 171.5 (1o/f) AO1 (5)

(b) (i)AO2(2)

**AO2: Two marks for using correct procedure to calculate Budget labour cost.**

Budgeted labour cost = (4 x 40 x £9.60) (1) AO2 = £1 536 (1) AO2 (2)

(ii) AO2(3)

**AO2: Three marks for correct calculation of Actual labour cost**

Actual labour cost = (160 x £9.60) (1) AO2 + (11.5 o/f x £14.40) (1o/f) AO2  
= £1 536 + £165.60 = £1 701.60 (1o/f) AO2 (3)

(iii) AO2(3)

**AO2: Three marks for correct calculation of labour efficiency variance**

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

= (171.5 – 160) (1o/f) AO2 x 9.60 (1) AO2 = £110.40 Adv (1o/f) AO2 (3)

(iv) AO2(5)

**AO2: Five marks for correct calculation of labour Rate variance**

Labour rate variance = (Actual rate - Budgeted rate) x Actual hours

= (1701.60 (1o/f) AO2 - £9.60 (1) AO2) x 171.5 (1o/f) AO2  
(171.5 (1o/f) AO2  
= £55.20 Adv (1o/f) AO2 (5)

(v) **AO2(3)**

**AO2: Three marks for correct calculation of Total labour variance**

= Actual total labour cost - Budgeted labour cost

$$= (£1\,701.60 \text{ (1o/f) AO1} - £1\,536 \text{ (1o/f) AO1} = £165.6 \text{ Adv (1o/f) AO1} \quad (3)$$

OR = Labour efficiency variance + Labour rate variance

$$£110.40 \text{ Adv (1o/f) AO1} + £55.20 \text{ Adv (1o/f) AO1} = £165.60 \text{ Adv (1o/f) AO1} \quad (3)$$

(c) (i) **AO1(2)**

**AO2: Two marks for correct calculation of number of trees required.**

$$\text{Number of trees required to meet production} = \frac{480}{12} \text{ (1)AO1} = 40 \text{ trees (1)AO1} \quad (2)$$

(ii) **AO1(1)**

**AO1: One mark for correct calculation of budgeted material cost of production**

$$\text{Budgeted material cost of production} = (40 \text{ o/f} \times £19.50) = £780 \text{ (1o/f)AO1} \quad (1)$$

(iii) **AO2(2)**

**AO2: Two marks for correct calculation of Actual cost per tree**

$$\text{Actual cost per tree} = \frac{£779}{41} \text{ (1) AO2} = £19.00 \text{ per tree (1) AO2} \quad (2)$$

(iv) **AO2(3)**

**AO2: Three marks for correct calculation of material usage variance**

Material usage variance = (Budget quantity - Actual quantity) x Budgeted price

$$= (40 - 41) \text{ (1o/f) AO2} \times £19.50 \text{ (1) AO2} = £19.50 \text{ Adverse (1o/f) AO2} \quad (3)$$

(v) **AO2(3)**

**AO2: Three marks for correct calculation of material price variance**

Material price variance = (Budget price - Actual price) x Actual quantity

$$= (£19.50 - £19.00) \text{ (1o/f) AO2} \times 41 \text{ (1) AO2} = £20.50 \text{ Favourable (1o/f) AO2} \quad (3)$$

(vi) **AO1(3)**

**AO1: Three marks for correct calculation of Total material variance**

= Actual total material cost - Budgeted material cost

= (£779.00 (1) **AO1** - £780 (1o/f) **AO1** = £1.00 Fav (1o/f) **AO1** (3)

OR = Material usage variance + Material price variance

£19.50 Adv (1o/f) **AO1** + £20.50 Fav (1o/f) **AO1** = £1.00 Fav (1o/f) **AO1** (3)

(d)

(i) [4 **AO3**]

**AO3: Four marks for correct explanation of overhead variances.**

**Award a maximum of 2 marks per overhead. Answers may include the following:**

Fixed overheads do not change with output, but they do change over time. (1) **AO3**

Fixed overheads are often outside the control of the company / production manager. (1) **AO3**

Variable overheads will rise when output increases but output was exactly as budgeted. (1) **AO3**

Variable overheads are generally costs that can be controlled by the company/production managers.

(1) **AO3**

(4)

(ii) **Award 1 AO1 mark for example and one AO3 mark for development.**

**Maximum of two examples. Answers may include.**

Rent (1) **AO1** may decrease when the lease is renewed if there is a decrease in demand for properties in the area (1) **AO3**

Managers salaries (1) **AO1** may decrease if there are fewer managers this year / some managers have been made redundant / left the company. (1) **AO3**

Depreciation (1) **AO1** may decrease if there are less non-current assets after some have been sold. (1) **AO3**

(4)

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

Answers may include

**OWN FIGURE RULE APPLIES**

Good performance

Material price variance is favourable by £20. This may show that the purchasing department of Galana Saw Mill Limited may be doing a good job and negotiating a good deal with the tree supplier. However, it could just be market forces that have reduced the price.

The fixed overhead variance was favourable. However, not enough information is given as to why this is the case.

Planned output of 480 timber lengths for the week was achieved.

Poor performance

Output was only achieved with 11.5 hours of overtime which is paid at a higher rate.

Labour efficiency variance is adverse by £110. Labour rate variance is adverse by £55.

Adamu manages to reach his target within the 40 hours. Why is it that the other three workers cannot meet their target? Are they inefficient? Or maybe they are working slowly in order to receive the overtime payment at the higher rate? Is Adamu a more skilled worker? Have the other three workers received sufficient training?

It may be that a better method of payment in the future is to switch to piece rate ie pay the worker for each timber length produced. This may make workers more efficient and work quicker, reducing the need for overtime. However, it may also result in workers rushing and the quality of finished product may suffer.

Material usage was adverse at £19.50. An extra tree had to be purchased. Each worker should use 10 trees per week. Has one worker used 11 trees or has more than one worker had to use the "extra" tree? Were all the trees of the required quality?

Other points

Variable overheads had no variance. This may suggest that budget setting was accurate. The total material variance was only £1 favourable which supports this.

**12 marks**

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<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.

**Total 55 marks**

### Q3

(a) [2 AO2]

**AO2 – Two marks for calculation of profit or loss after interest.**

$$(\pounds68\,000\,000 - \pounds7\,000\,000) (1)\text{AO2} = \pounds61\,000\,000 (1)\text{AO2} \quad (2)$$

(b) (i) [1 AO1] [1 AO3]

**AO1 – One mark for each point made and AO3 one mark for each point developed.**

**Answers may include**

Advantage

Lower costs of storing inventory (1)AO1 eg rent, insurance, security (1)AO3 (2)

**Accept other relevant answers**

(ii) [1 AO1] [1 AO3]

**AO1 – One mark for each point made and AO3 one mark for each point developed.**

**Answers may include**

Disadvantage

Less/narrower range of inventory (1) AO1 which means unexpected orders or large orders cannot be met. (1)AO3 (2)

**Accept other relevant answers**

(c) [1 AO2]

**AO1 – One mark for calculation of amount owing at the start of the year .**

$$(\pounds36\,400\,000 - \pounds20\,000\,000) = \pounds16\,400\,000 (1) \text{AO2} \quad (1)$$

(d) [1 AO1] [1 AO3]

**AO1 – One mark for point made and AO3 one mark for point developed.**

**Answers may include**

An advantage of a decrease in trade payables is that the credit rating of the company may improve if they pay suppliers promptly. (1)AO1 This will allow them to obtain credit more easily in the future. (1)AO3

**Accept other relevant answers**

(2)

(e) [2 AO2]

**AO2 – Two marks for calculation of amount of loan.**

$$\text{Size of loan} = \pounds6\,000\,000 \times \frac{100}{12} (1)\text{AO2} = \pounds50\,000\,000 (1) \text{AO2} \quad (2)$$

(f) [1 AO2] [2 AO3]

**AO3 – Two marks for correct use of proceeds from sale and profit on sale.**

**AO2 – One mark for calculation of book value when sold.**

$$\begin{array}{rcl} \text{Proceeds from sale of non-current asset} & = & \pounds33\,000\,000 (1)\text{AO3} \\ \text{Less Profit on sale of non-current asset} & = & (\pounds11\,000\,000) (1) \text{AO3} \\ \text{Book value of non-current asset when sold} & & \pounds22\,000\,000 (1) \text{AO2} \end{array} \quad (3)$$

(g) [2 AO1]

**AO1 – One mark for each point made**

**Answers may include**

Share price may rise in the future and profit may be made. (1)AO1

Company may wish to take control or have a larger say in another company (1)AO1 (2)

**Accept other relevant answers**

(h) [2 AO3]

**AO3 – One mark for each point made**

**Answers may include**

Raise capital (1) AO3

Reduce gearing ratio (1)AO3 (2)

**Accept other relevant answers**

(i) [2 AO2]

**AO2 – Two marks for calculation of bank balance at start of year.**

(£6 000 000 - £7 050 000) (1)AO2 = £1 050 000 overdraft (1)AO2 (2)

(j) [4 AO2]

**AO2 – Four marks for calculation of cash balance at end of year.**

Year end bank balance = (£1 050 000 O/D + £7 900 000) (1o/f)AO2 = £6 850 000 (1o/f)AO2

Cash balance = (£15 000 000 - £6 850 000) (1o/f) AO2 = £8 150 000 (1o/f)AO2 (4)

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

**Answers may include**

For the payment

- Shareholders are kept happy and kept onside with the company. This may be important as the share issue may have diluted the existing shareholders ownership.
- The dividend cover is over 2 times so the company can afford to pay the dividends.
- Preference dividends must be paid.

Against the payment

- £23 million of cash will leave the company. This cash could be put to better use within the company. Eg fund expansion.

Other points

- It is not known how many shares the company has issued so it is not possible to know the dividend per share.
- The market price of the share is not given so it is not possible to calculate the dividend yield.

Conclusion

- It is/is not appropriate to pay £23million in dividends for the year. Conclusion should follow argument given above.

**6 marks**

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.

**Total for Question 3 = 30 marks**

**Q4**

**(a) [4 AO1] [3 AO2] [3 AO3]**

**[AO1] : Four marks for calculation of rent, other fixed costs, total fixed costs and total variable costs.**

**[AO2] : Three marks for calculation of staff costs, machine depreciation, and contribution per unit.**

**[AO3] : Three marks for calculation of break-even point.**

Fixed Costs	<p>Staff <math>(12 \times \pounds 16\,500) \div 4 = \pounds 49\,500</math> (1) <b>AO2</b></p> <p>Machine Depreciation  <math>(\pounds 105\,000 \div 7) = \pounds 15\,000 \div 4 = \pounds 3\,750</math> (1) <b>AO2</b></p> <p>Rent <math>(\pounds 1\,800 \times 3) = \pounds 5\,400</math> (1) <b>AO1</b></p> <p>Other FC <math>(\pounds 450 \times 3) = \underline{\pounds 1\,350}</math> (1) <b>AO1</b></p> <p>Total FC = <math>\pounds 60\,000</math> (1o/f) <b>AO1</b> need all four</p>
Variable Costs per unit	<p>Paper = <math>\pounds 0.04</math></p> <p>Ink = <math>\pounds 0.14</math></p> <p>Delivery = <u><math>\pounds 0.02</math></u></p> <p>Total VC = <math>\pounds 0.20</math> (1) <b>AO1</b> need all three</p>
Contribution per unit	<p><math>(\pounds 0.95 - \pounds 0.20 \text{ o/f}) = \pounds 0.75</math> (1o/f) <b>AO2</b></p>
Break even point	<p><math>\frac{\pounds 60\,000}{\pounds 0.75}</math> (1o/f) <b>AO3</b> = 80 000 units (1o/f) <b>AO3</b></p>
	<b>(10)</b>

**(b) [AO2] 4**

**[AO2] Four marks for calculation of profit or loss for 2021 Quarter 1**

Sales	$71\,000 \times \pounds 0.95 = \pounds 67\,450$ (1) <b>AO2</b>
Less Variable Costs	$(71\,000 \times \pounds 0.20) = (\pounds 14\,200)$ (1 o/f) <b>AO2</b>
Less Fixed Costs	= $(\pounds 60\,000)$ (1 o/f) <b>AO2</b>
= Loss	= $(\pounds 6\,750)$ (1o/f) <b>AO2</b>
	<b>(4)</b>

(c) [1 AO1] [5 AO2] [4 AO3]

[AO1] : One mark for calculation of total fixed costs.

[AO2] : Five marks for calculation of staff costs, hardware depreciation, rent, other fixed costs and contribution per customer.

[AO3] : One mark for calculation of quarterly revenue for one customer and three marks for calculation of break-even point.

Fixed Costs	Staff $(11 \times £17\,400) \div 4 = £47\,850$ (1) AO2 Hardware and Software Depreciation $(£120\,000 \div 5) \div 4 = £6\,000$ (1) AO2 Rent $(£1\,800 + £125) \times 3 = £5\,775$ (1) AO2 Other FC $(£665 \times 3) = \underline{£1\,995}$ (1) AO2 Total FC = £61 620 (1o/f)AO1
Variable Costs per unit	Electricity = £0.03
Contribution per unit	$(£0.80$ (1) AO3 - $£0.01) = £0.77$ (1) AO2
Break even point	$\frac{£61\,620}{£0.77}$ (1o/f) AO3 = 80 026 units per quarter (1o/f) AO3
	<b>(10)</b>

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

Answers may include OWN FIGURE RULE APPLIES

**For moving to electronic edition only**

- Sales of magazines have been declining rapidly, by 27 000 (about 25%), over the last year.
- Sales of 80 000 magazines are required to break-even but only 71 000 were sold in the last quarter.
- The company therefore made a loss of £ 6 750 in the last quarter.
- There is no evidence that the declining sales of magazines can be reversed. Teenagers appear to prefer to read from their mobile phones or computers.
- 80 026 customers are required to break-even for the electronic edition. This is considerably higher than 35 000 units predictably to be sold in 2022 Quarter 1.

**Against moving to electronic edition only**

- The figures for customers to the electronic edition are only estimates. Actual sales levels may be much lower.
- The company will continue to make a loss for the first four quarters of the electronic edition.
- One member of staff will have to be laid off.

**Decision**

Sales of the magazine are declining but moving to an electronic edition does not appear to be profitable. Perhaps a subscription model may be suitable.

6 marks

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.

**Total for Question 4 = 30 marks**

**5(a) [3 AO1 ] [12 AO2] [5 AO3]**

**AO1 – One mark for each entry for transfer from General reserve to Foreign exchange reserve, and one mark for entry of loss for year.**

**AO2 – One mark each for Opening balance row, final dividend, rights issue entries (2), interim dividend, entries for ordinary shares redemption (2), closing balance row (2), and total equity totals (3), and closing balance total.**

**AO3 – One mark each for heading Revaluation reserve, heading Capital redemption reserve, entry in revaluation reserve, entries for ordinary share redemption in retained earnings and capital redemption reserve,**

<b>Q5 (a)</b> <b>Figures are in</b> <b>£ millions</b>	Ordinary Share £1 Capital £	Share Premium £	Retained Earnings £	General Reserve £	Foreign Exchange Reserve £	Revaluation Reserve (1) AO3 £	Capital Redemption Reserve (1) AO3 £	Total Equity £
(1) Balance at 1 April 2020	320	40	11	9	2			382 (1) AO2 All 6 in this row
(2) Final Dividend 2019			(5.6) (1) AO2					(5.6)
(3) Transfer				(1.5) (1) AO1	1.5 (1) AO1			---
(4) Rights Issue	32 (1) AO2	4.8 (1) AO2						36.8
(5) Revaluation						7 (1) AO3		7 (1) AO2 All 3 above totals
(6) Interim Dividend 2020			(0.88) (1) AO2					(0.88)
(7) Ordinary Share Redemption	(2) (1) AO2	(0.2) (1) AO2	(2.2) (1) AO3				2.2 (1) AO3	(2.2)
(8) Loss for the year			(4.7) (1) AO1					(4.7) (1) AO2 All 3 above totals
(9) Balance at 31 March 2021	350	44.6	(2.38) (1) AO2 All 3	7.5	3.5	7	2.2 (1) AO2 All 4	412.42 (1o/f) AO2 If all 7 y/e balances

(20)

(b) [2 AO1] [2 AO3]

**AO1: Two marks for correct identification of reason for a redemption of shares (one per point).**

**AO3: Two marks for development (one per point).**

**Answers may include:**

The company may not need this capital to operate. (1) AO1 The company may be generating sufficient funds from trading. (1) AO3

Having fewer shares will mean remaining shareholders may receive greater dividends. (1) AO1 This will please these shareholders. (1) AO3

Buying the shares will improve some ratios. (1) AO1 These could be return on capital employed or earnings per share. (1) AO3

**Accept other relevant answers**

**(4)**

(c)

[1 AO2] [2 AO3] [3 AO4]

For the issue of debentures

Debentures may be issued at an interest rate lower than other sources of finance to Tangail Logistics plc such as bank loans.

It may be that bank loans are not available to Tangail Logistics plc especially if they are making trading losses.

Against the issue of debentures

Debentures may be issued at an interest rate higher than other sources of finance to Tangail Logistics plc such as bank loans.

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

The debenture would be repaid in one large instalment. It may be difficult for Tangail Logistics plc to raise this large sum all at one time.

Conclusion

It may be good / bad for Tangail Logistics plc to issue a debenture to raise capital.

Conclusion should relate to argument put forward.

**(6)**

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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.

**Total for Question 5 = 30 marks**





**Question 6(d) [1 AO2] [2 AO3] [3 AO4]**

Answers may include

**OWN FIGURE RULE APPLIES**

For the suggestion

This would be an efficient method to produce 100 000 units all in one production run. Producing the 100 000 units in a number of production runs would involve many set-up costs etc for the production line. It appears that there may need to be over 10 production runs using the existing method.

This would save management time eg no need to draw up any more production budgets for the RG57 and schedule when the production run will take place.

The disc brakes will not deteriorate or perish if held for a long time.

Against the suggestion

Producing 100 000 units all in one production run would result in higher inventory holding costs.

Hercules plc may not have enough warehouse space to store 100 000 units.

Evaluation

Hercules should/should not produce the 100 000 units in one production run.

Conclusion must relate to argument put forward and should have a key reason for the final decision. **(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.

**Total for Question 6 = 30 marks**