Pearson Edexcel

Mark Scheme (Results)

Summer 2023

Pearson Edexcel International Advanced Level

In Accounting (WAC12)

Paper 01 Corporate and Management Accounting

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Summer 2023

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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.
- Mark schemes will indicate within the table where, and which strands of QWC, are being assessed. The strands are as follows:
    - (i) ensure that text is legible and that spelling, punctuation and grammar are accurate so that the meaning is clear
    - (ii) select and use a form and style of writing appropriate to purpose and to complex subject matter
    - (iii) organise information clearly and coherently, using specialist vocabulary when appropriate

Q1 Mark scheme

(a) AO1 (14) AO2 (23) AO3 (6)

AO1: Fourteen marks for Operating cash flow before working capital changes, cash generated from operations label, cash generated from operations figure, interest paid on bank loan and on debenture, tax paid, payments to acquire tangible non-current assets, proceeds from sale of tangible non-current assets, payments to acquire shares in other companies, repayment of bank loan, receipt of debenture, net increase in cash and cash equivalents, and cash and cash equivalents at the beginning and end of the year.

AO2: Twenty-three marks for calculation of profit from operations, depreciation for the year, the loss on the sale of the non-current asset, decrease in inventories, decrease in trade receivables, increase in trade payables, net cash from operating activities, net cash used in investing activities, preference dividend paid, and net cash used in financing activities.

AO3: six marks for calculation of redemption of ordinary shares, final ordinary dividend for 2022 and interim dividend for 2023.

Statement of Cash Flows for Buzkars plc for y/e 31st March 2023 (1)AO1			
Cash Flows from operating activities			
Profit from operations	1454120	(4) see W1	
Add Depreciation	821000	(5) see W2	
Add Loss on Sale of non-current asset	65000	(5) see W2	
Operating cash flow before working capital changes	**2340120**	(1o/f)AO1	
Decrease in inventories	74000	(1)AO2	
Decrease in trade receivables	200000	(1)AO2	23
Increase in trade payables	63000	(1)AO2	
Cash generated from operations	**2677120**	(1o/f)AO1	
Less Interest Paid: Bank loan	-44000	(1o/f)AO1	
: Debenture	-45000	(1o/f)AO1	
Less Tax Paid	-315000	(1)AO1	
Net cash from Operating Activities	**2273120**	(1o/f)AO2	
Cash Flow from Investing Activities			
Payments to acquire tangible non-current assets	-1450000	(1)AO1	
Proceeds from sale of tangible non-current assets	125000	(1)AO1	4
Payments to acquire shares in other companies	-352000	(1)AO1	
Net Cash Used in Investing Activities	**-1677000**	(1o/f)AO2	
Cash Flow from Financing Activities			
Redemption of Ordinary shares (315 000 + 63 000)(1) AO3	(378000)	(1)AO3	
Repayment of bank loan	-1100000	(1)AO1	
Receipt of debenture	1200000	(1)AO1	
Dividends Paid : Final 2022 (5 215 000 x 2.8p) (1)AO3	-146020	(1)AO3	11
Interim 2023 (4 900 000 x 1.1p) (1)AO3	-53900	(1)AO3	
Preference (320 000 x 6%) (1)AO2	-19200	(1)AO2	
Net cash used in Financing Activities	**-497120**	(1o/f)AO2	
Net increase in cash and cash equivalents (1)AO1	**99000**	(1o/f)AO1	2
Cash and cash equivalents at the beginning of the year	**517000**	(1)AO1	
Cash and cash equivalents at the end of the year	**616000**	(1)AO1	3
	TOTAL		**43 Marks**

(W1) Profit from operations Calculation		
Profit after interest before tax	1365120	(1)AO2
Plus bank loan interest	44000	(1)AO2
Plus debenture interest	45000	(1)AO2
Profit from operations	1454120	(1o/f)AO2
(W2) Depreciation calculation		
Depreciation at 31March 2023	2668000	(1)AO2
Less depreciation at 31 March 2022	2437000	(1)AO2
	231000	(1)AO2
Plus depreciation on assets sold	590000	(1)AO2
Total depreciation for year	821000	(1o/f)AO2
(W3) Loss on sale of asset calculation		
Purchase price	780000	(1)AO2
Less Depreciation to date	-590000	(1)AO2
Book value	190000	(1)AO2
Less Selling price	-125000	(1)AO2
Loss on sale of asset	65000	(1o/f)AO2

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

Liquidity position good/handled liquidity well

Buzkars has healthy level of cash and cash equivalents at £616 000 and there has been an increase of £99 000 in the year.

Current Ratio at the year-end stands at 2.10: 1 which is good, being very close to an ideal ratio of 2:1 The current ratio at the start of the year was 2.78:1, which could be considered too high.

Acid ratio at year end stands at 1.22:1 which is good. The acid ratio at the start of the year was 1.61:1, which could be considered too high.

Inventories have reduced by £74 000 in the year which means a reduction in liquid funds tied up in inventories.

Trade and other receivables have reduced by £200 000 which could mean customers are paying up quicker or credit control has improved.

Liquidity has been improved by issue of a debenture for £1.2 million.

Tax bill of £315 000 has been paid, which reduces current liabilities.

Healthy operating profit of £1.365 million is being made which will help liquidity.

Bank loan of £1.1 million has been repaid which will reduce demands on funds to pay interest.

Liquidity position poor/ handled badly

The working capital of the company has fallen form £1.61 m at the start of the year to £1.228m at the end of the year.

Bank loan of £1.1 million has been repaid which uses liquid funds.

A debenture of £1.2 million has been issued which will result in interest payments through the year.

Ordinary shares were redeemed and this resulted in an outflow of £378 000

It may be argued that the current ratio and the acid ratio show the company has too much liquid funds. Maybe the company should be putting these funds to better use, earning interest or profits for the company.

Trade and other payables have increased during the year by £63 000. This may result in poor relations with suppliers or lack of future credit availability.

Conclusion

Liquidity position/handling of liquidity is good.

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1- 3	Isolated elements of knowledge and understanding which are recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
Level 2	4 - 6	Elements of knowledge and understanding, which may be applied to the scenario. Chains of reasoning are present, but may be incomplete or invalid. A generic or superficial assessment is present.
Level 3	7 - 9	Accurate and thorough understanding, supported by relevant application to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects. An attempt at an assessment is presented, using financial and maybe non-financial information, in an appropriate format and communicates reasoned explanations.
Level 4	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and maybe non-financial information and makes an informed decision.

12 marks

Total for Question 1 = 55 marks

Q2 Mark scheme

(a) AO1 (4)

AO1: Four marks for revenue figures in £s in revenue budget.

	Sept	October	November	December
Revenue in £s	£345 600 (1)AO1	£259 200 (1)AO1	£172 800 (1)AO1	£86 400 (1)AO1

4 marks

(b)(i) AO1 (4)

AO1: Four marks for inventory figures in units in inventory budget.

	September	October	November	December
Inventory in units	384(1)AO1	288 (1)AO1	192 (1)AO1	96 (1)AO1

4 marks

(b)(ii) AO1 (4)

AO1: Four marks for inventory figures at cost in £s in inventory budget.

	September	October	November	December
Inventory at cost (£)	£96 000 (1o/f)AO1	£72 000 (1o/f)AO1	£48 000 (1o/f)AO1	£24 000 (1o/f)AO1

4 marks

(c) **AO2 (8) AO3 (4)**

AO2: Eight marks for opening and closing inventory and sales figures in purchases budget.
AO3: Four marks for purchases figures in purchases budget.

	September	October	November	December
Opening Inventory (units)	16	12 (1)AO2 both	8	4 (1)AO2 both
Purchases (units)	28 (1o/f)AO3	20 (1o/f)AO3	12 (1o/f)AO3	8 (1o/f)AO3
Sales (units)	(32)	(24) (1)AO2 both	(16)	(8) (1)AO2 both
Closing Inventory (units)	12 (1)AO2	8 (1)AO2	4 (1)AO2	4 (1)AO2

12 marks

(d) **AO2 (4) AO3 (2)**

AO2: Four marks for purchase for the company in purchases budget.
AO3: Two marks for purchase per store in purchases budget.

	September	October	November	December
Purchases (units) per store	44 (1o/f)AO3	20	12	8 (1o/f)AO3 all three
Purchases (units) for company	1 056	480	288	192
Purchases (£s) for company	£264 000 (1o/f)AO2	£120 000 (1o/f)AO2	£72 000 (1o/f)AO2	£48 000 (1o/f)AO2

6 marks

(e) AO2 (7)

AO2: Seven marks for figures in budgeted profit and loss account.

Revenue (W1)		864 000	(1o/f)AO2
Purchases (W2)	504 000	(1o/f)AO2	
Less closing inventory	(24 000)	(1o/f)AO2	
Cost of goods sold		480 000	(1o/f)AO2
Gross profit on garden sheds		384 000	(1o/f)AO2

(W1) Revenue = (£345 600 + £259 200 + £172 800 + £86 400) (1o/f)AO2 = £864 000

(W2) Purchases = (£264 000 + £120 000 + £72 000 + £48 000) (1o/f)AO2 = £504 000

7 marks

(f) AO1 (2) AO2 (2)

AO1: Two marks for cash payment made figures.
AO2: Two marks for cash discount figures.

Cash budget (extract)	September	October	November	December
Purchases (£s) for company	£264 000 (o/f)	£120 000 (o/f)	£72 000 (o/f)	£48 000 (o/f)
Less 2.5% discount	£6 600	£3 000 (1o/f)AO2 both	£1 800	£1 200 (1o/f)AO2 both
Cash payment made	£257 400	£117 000 (1o/f)AO1 both	£70 200	£46 800 (1o/f)AO1 both

(g) AO2 (2)

AO2: Two marks for calculation of total cash discount obtained.

Total cash discount obtained = (£6 600 + £3 000 + £1 800 + £1 200) (1o/f)AO2
= £12 600 (1o/f)AO2

(h) AO1 (1) AO2 (1) AO3 (4) AO4 (6)

Case for using ICT in budget preparation

Saves time and therefore money, compared to preparing budgets by hand. Staff costs are reduced.

The need to have papers and books is eliminated, saving money and this saves space as well.

Spreadsheets can be used for quick calculations in budgets.

Spreadsheets can be used to display budgets in a pre-prepared format of choice.

Flexed budgets could be speedily produced by changing key variables in the spreadsheet eg figures for sales which will automatically amend figures for revenue, and profit etc.

Spreadsheets can also be used to generate graphical information.eg net cash flow for a six-month period, clearly showing when this is positive or negative.

Case against using ICT in budget preparation

Financial cost of hardware, software, staff training, running costs, maintenance etc.

Hardware has a relatively short life, software often needs updating, new staff will need to be trained, and often outside experts are needed for maintenance issues.

If staff are not trained or are unskilled, they can make errors, which may lead to generation of incorrect budget information. These errors will take time and money to correct.

Security risks if the management or the company wish to keep the budget information confidential. Outside hackers could access sensitive information if security controls are weak. Internal staff could gain access to information they are not meant to view if security controls are lapsed.

Computer crashes, freezes, power cuts etc which may result in a loss of budget information and a waste of staff time. Back-up copies should be kept, possibly off the premises, in case these issues occur

Conclusion

Should conclude that use of ICT is very advantageous in the preparation of budgets.

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	0	A completely incorrect response.
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Level 4	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and maybe non-financial information and makes an informed decision.

(**12 marks)**

Total for Question 2 - 55 marks

Q3. Mark scheme

(a) AO1(5) AO3(5)

AO1: Five marks for entries to close off accounts in the accounts.

AO3: Five marks for corresponding entry of the double entry

	Account	**Debit**	**Credit**
March 31	Realisation	760 000 (1)AO3	
2023	Property		760 000 (1)AO1
March 31	Other Payables	150 000 (1)AO1	
2023	Realisation		150 000 (1)AO3
March 31	Ordinary Shares of £0.50	40 000 000 (1)AO1	
2023	Sundry Shareholders		40 000 000 (1)AO3
March 31	General reserve	2 000 000 (1)AO1	
2023	Sundry Shareholders		2 000 000 (1)AO3
March 31	Sundry Shareholders	11 800 000 (1)AO3	
2023	Retained Earnings		11 800 000 (1)AO1
			10 marks

(b) AO2(6) AO3(2)

AO2: Six marks for calculation and entry of purchase consideration, loss on realisation, and entries of retained earnings, share capital and general reserve.

AO3: Two marks for label of Suburban supplies plc and Loss on Realisation

Blue Gas plc Sundry Shareholders Account

March 31 2023	Suburban Supplies plc (1)AO3 (Purchase Consideration)	17 600 000 (1o/f)AO2	March 31 2023	Share capital	40 000 000
	Retained Earnings	11 800 000 (1)AO2		General reserve	2 000 000 (1)AO2 Both
	Loss on Realisation (1)AO3	12 600 000 (1o/f)AO2			
		42 000 000			42 000 000

8 marks

Purchase consideration calculation:

£40 000 000 of £0.50 shares = 80 000 000 shares in Blue Gas plc

Terms are for every 4 shares held, 3 are received, $\frac{80\,000\,000}{4}$ = 20 000 000 (1)AO2

(3 shares of £0.20 each at a premium of £0.05 per share) = £0.60 of shares in Suburban Supplies plc

£0.15 share premium

Plus £0.13 cash

£0.88 (1o/f)AO2

Purchase consideration = £0.88 x 20 000 000 = £17 600 000

(c) AO2(6)

AO2: Six marks for calculation and entry of ordinary share capital, share premium, general reserve and retained earnings, and total equity.

Equity	**£**	
Ordinary shares of £0.20 each	£48 000 000	(1o/f)AO2
Share premium	£12 000 000	(1o/f)AO2
General reserve	£4 800 000	Both
Retained earnings	£5 100 000	(1)AO2
Total equity	£69 900 000	(1o/f)AO2

Workings

Value of shares issued = £0.20 x 3 x 20 000 000 = £12 000 000 (1)AO2

Value of share premium on shares issued = £0.05 x 3 x 20 000 000 = £3 000 000 (1)AO2 **(6)**

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

For the sale

Suburban Supplies plc could enjoy economies of scale eg bulk buying at lower prices, resulting in greater profits. This would increase returns to shareholders in the form of dividends and lead to a rise in the share price which would benefit Maria.

The companies would enjoy the benefits of horizontal integration eg reduced total costs of advertising or reduced customer service total costs.

Blu Gas plc has been making losses and the retained earnings show a very large debit balance. The company could go out of business and shareholders could lose everything. The market does not have much confidence in the business as the market value of the company is probably less than the book value. This was shown by the agreed purchase price of the company.

Against the sale

Maria is receiving £0.88 for selling 4 shares which is £0.22 per share. This is £0.13 per share below the figure she paid for the shares. She has made a loss on the shares.

The book value of the company is assets £52.8 million less liabilities £22.6 million which is £30.2 million. The company is being sold for £17.6 million which is a loss on realisation of £12.6 million (own figure applies).

Shareholders in Blue Gas plc will see reduction in voting power as they are now part of a larger company.

Evaluation

Should conclude and relate to points made above. However, the company has serious problems and a takeover by a larger company may be the best option.

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Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

6 marks

Total for Question 3 = 30 marks

Q4.

(a) (i) (AO2) 2 (AO3) 4

AO2 : One mark each for correct use of standard price and calculation of usage variance.
AO3 : Two marks for correct calculation of actual quantity used, one mark for correct insertion into formula, and one mark for correct standard quantity.

Material usage variance = (Standard quantity - Actual quantity) x Standard price

Actual quantity used = (27 720 + 50 000 - 20 240) (1)AO3 = 57 480 kgs (1)AO3

Material usage variance = [(1980 x 28) (1)AO3 – 57 480 (1o/f)AO3] x £0.80 (1)AO2

= (55 440 – 57 480) x £0.80

= £1 632 Adverse (1o/f)AO2 **(6)**

(ii) **(AO2) 4**

AO2 : One mark each for correct use of standard price, actual price, actual quantity and calculation of price variance.

Material price variance = (Standard price – Actual price) x Actual quantity

Material price variance = (£0.80 (1)AO2 - £0.78(1)AO2) x 57 480 (1o/f)AO2

= (£0.02) x 57 480

= £1 149.60 Favourable (1**o/f**)AO2 **(4)**

(iii) **(i) (AO2) 2**

AO2 : Two marks for correct calculation of total material cost variance.

Total material cost variance = (£1 632 Adverse + £1 149.60 Favourable) (1o/f)AO2

= £482.40 Adverse (1o/f)AO2 **(2)**

(b) (i) (AO1) 4 (AO2) 4 (AO3) 2

AO1: One mark each for correct insertion of material cost variance and correct calculation of both cost of goods sold, both gross profits and both net profits.

AO2: One mark each for correct calculation of actual sales, actual labour costs, actual variable production overheads, and actual fixed overheads,

AO3: Two marks for correct calculation of actual quantity used, one mark for correct insertion into formula, and one mark for correct standard quantity.

	BUDGET £	ACTUAL £	VARIANCE £
Sales	75 240	A 73 770 (1)AO2	1 470 Adverse
Material costs	B 44 352 (1)AO3	C 44 834 (1)AO3	D 482 Adverse (1o/f)AO1
Labour costs	9 540	E 8 265 (1)AO2	1 275 Favourable
Variable production overheads	3 780	F 4 700 (1)AO2	920 Adverse
Cost of goods sold	G 57 672	H 57 799 (1o/f)AO1 both	-------
Gross profit	I 17 568	J 15 971 (1o/f)AO1 both	-------
Fixed overheads	12 920	K 12 260 (1)AO2	660 Favourable
Net profit	L 4 648	M 3 711 (1o/f)AO1 both	-------

(10)

(c) (AO1) 1 (AO3) 1
AO1 : One mark for correct identification of a variable production overhead.
AO3 : One mark for correct explanation of why the variance may be adverse.
Answers may include:

Energy costs such as gas, electricity or water (1)AO1 may have increased the price charged per kilowatt hour, or cubic litre etc charged to customers. (1)AO3 (accept "inflation" as a reason.)

Maintenance costs (1)AO1 may have increased. Perhaps the machinery is getting old and more maintenance and replacement parts etc are required. (1)AO3

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

Answers may include:

Positive performance

Material price variance was £1 150 favourable. Baulat Steel budgeted to pay £0.80 per kilogram but actually paid £0.78 per kilogram.

Labour costs showed a favourable variance of £1 275. Perhaps this was due to the efficiency of labour or maybe wage rates kept stable.

Fixed overheads showed a favourable variance of £660 for the month. Perhaps there was a rent decrease or managers' salaries were lower than budgeted.

Negative performance

Sales variance was adverse by £1 470. The expected quantity of scaffold poles was sold, so the variance must be explained by a drop in the selling price, On average, the selling price charged by Baulat Steel was about £0.74 per pole less than budgeted.

Variable production overheads showed an adverse variance of £920.

Gross profit and net profit for the month were both lower than budgeted. Net profit was £937 lower than budgeted. Total costs were £533 lower than budgeted, but the sales revenue was £1 470 lower than budgeted.

Conclusion

As net profit was £937 lower than budgeted for the month, it can be concluded that Baulat Steel plc performed poorly in the month.

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Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

(6)

Total for Question 4 - 30 marks

<u>Question 5 Mark scheme</u>

(a)(i) AO1 (2) AO2 (6) AO3 (4)

AO1: One mark each for direct materials less discount received, and production staff.

AO2: One mark each for electricity, fuel, gas, insurance, maintenance,
and total of sales

AO3: One mark each for factory depreciation and machinery depreciation, goodwill, and closing inventory.

	<u>Cost of Sales</u>			
	Direct Materials	845630	both	
	Less Discount Received	-41851	(1)AO1	
	Electricity	54450	(1)AO2	
	Factory Depreciation	62500	(1)AO3	
	Machinery Depreciation	126000	(1)AO3	
	Fuel	11234	(1)AO2	
	Gas	49832	(1)AO2	
	Goodwill	2000	(1)AO3	
	Insurance	16246	(1)AO2	
	Maintenance	27651	(1)AO2	
	Production staff wages	524890	(1)AO1	
	Opening Inventory Finished Goods	254380	both	
	Less Closing Inventory Finished Goods	<u>-233724</u>	(1)AO3	
	Total Cost of Sales	<u>1699238</u>	(1o/f)AO2	**12 marks**

(a)(ii) AO1 (3) AO2 (6) AO3 (3)

AO1: One mark each for rent on shop premises, vehicle running costs and wages of mechanics, lorry drivers and sales staff.

AO2: One mark each for advertising and electricity, fuel, gas, insurance, maintenance and total of distribution costs.

AO3: One mark each for motor lorries depreciation, shop premises depreciation and commission on sales.

	Distribution Costs			
	Advertising	137731	(1)AO2	
	Electricty	6050	both	
	Fuel	89872	(1)AO2	
	Gas	12458	(1)AO2	
	Insurance	40615	(1)AO2	
	Maintenance	18434	(1)AO2	
	Motor lorries depreciation	152000	(1)AO3	
	Postage and delivery	44805	both	
	Rent on Shop premises	53750	(1)AO1	
	Shop buildings depreciation	83400	(1)AO3	
	Vehicles running costs	89454	(1)AO1	
	Wages - garage mechanics	94650		
	Wages - lorry drivers	308362	all three	
	Wages - sales staff	435420	(1)AO1	
	Commission on sales	27653	(1)AO3	
	Total Distribution Costs	1594654	(1o/f)AO2	**12 marks**

5(b) Mark scheme

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

Case For Importance of Directors' Report to Shareholders

Directors' Report of Workoute plc gives information to shareholders which they could then use to make a decision eg invest more funds in the company.

Shareholders may be assured the company is acting in an ethical manner.

Shareholders or other stakeholders eg pressure group may use information in the Report to bring about change in company policy eg treatment of disabled.

Disclosures may be required under Stock Exchange regulations, which may be appropriate in the Directors' Report of Workoute plc eg legislation pending which may affect the company and therefore the shareholders

Inclusion of the Directors Report is a requirement of the Companies Act, so shareholders will expect to see it.

Information is given to shareholders which allows them to see in some detail how the company is performing e.g:

- Principal activities, review of the position of business
- Post balance sheet events, future developments
- Names of the directors, interests of the directors
- Employee involvement in the company, disabled employees policy
- Political and charitable donations
- Creditor payment policy, creditor payment days.

Case Against Importance of Directors' Report to Shareholders

Report costs Workoute plc personnel time to prepare and money to print etc. Shareholders may prefer to see funds spent in an alternative way.

Directors may use the Directors' Report to "window dress" accounts, and perhaps give an unrealistic positive view of the company, as it is in their interest to do so., which may mislead shareholders.

Conclusion

Should relate to above points. Eg Directors' Report is useful.

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding that are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

(6)

Total for Question 5 - 30 Marks

Q6

(a) AO1 (1) AO2 (4)

AO1: One mark for both totals for one unit

AO2: One mark for unit costs for labour, materials, royalties and variable element of semi-variable costs, the fixed element of semi-variable costs and fixed overheads

Inventory valuation of one unit	**Marginal**	**Absorption**	
	£	**£**	
Direct labour	16.80	16.80	(1)AO2
Direct materials	23.80	23.80	
Royalties	3.75	3.75	All three
Semi -variable costs - variable	4.50	4.50	(1)AO2
Semi -variable costs - fixed		1.60	(1)AO2
Fixed overheads		4.80	(1)AO2
Total for one unit	48.85	55.25	(1o/f)AO1
			5 marks
(b) AO1 (2)			
AO1 : Two marks for calculation of inventory valuation for both methods			
Inventory valuation of 7 500 units	£366375	£414375	
	(1o/f)AO1	(1o/f)AO1	
			2 marks

(c) AO1(2) AO2(8) AO3 (7)

AO1 : One mark for both direct labour and direct materials, and royalties.

AO2: One mark for revenue, variable element of semi-variable costs, total of variable costs for marginal, fixed element of semi-variable costs, fixed overhead, profits, value of inventory using both methods,

AO3: One mark for correct inclusion of opening inventory, calculation of contribution and label, three marks for workings for calculation of closing inventories for both methods, and one mark for correct inclusion total costs for absorption costing.

(c)Statement of Profit and Loss for Year 2					
	Marginal		**Absorption**		
	£	**£**	**£**	**£**	
Revenue		13455000		13455000	(1)AO2
Opening Inventory	366375		414375		(1o/f)AO3
Direct labour	3515750		3515750		
Direct materials	4920000		4920000		both (1)AO1
Royalties	768750		768750		(1)AO1
Semi -variable costs - variable	943000		943000		(1)AO2
Less Closing inventory	-272250	(1o/f)AO2	-308067	(1o/f)AO2	
		10241625	(1o/f)AO2		
Contribution (1)AO3		3213375	(1o/f) AO3		
Semi -variable costs - fixed	327000		327000		(1)AO2
Fixed overheads	1008000		1008000		(1)AO2
		1335000			
Total costs				11588808	(1o/f)AO3
Profit for Year 2		1878375		1866192	(1o/f)AO2

Value of Closing inventory					
Marginal	10147500	(1o/f)AO3	x 5 500 =	272 250	
	205000		(1)AO3		
Absorption	11482500	(1o/f)AO3	x 5 500 =	308 067	
	205000				**17 marks**

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

Answers may include:

<u>Advantages of marginal costing</u>
Marginal costing helps decision making in the short term. For example, Stitchright plc may be deciding whether to accept an offer price / or make or buy /or discontinue a product/profit centre. This would be useful for internal use.

Marginal costing sees costs allocated to a time period, so it may be argued that profit for Stitchright plc in that time period is more accurate.

Marginal costing may follows the prudence concept as it often shows lower figures for closing inventory.

<u>Advantages of absorption costing</u>
Absorption costing sees costs allocated to products. This could be useful for Stitchright plc's management when fixing prices / reviewing if a product/project has been profitable in the long term.

Absorption costing is recommended by IAS 2 (and FRS 102) so needs to be used when preparing external financial statements.

Absorption costing follows the matching concept ie Stitchright plc will match costs with revenues earned for a particular product.

<u>Disdvantages of marginal costing</u>
Not recommended by IAS 2 (or FRS 102) . If it is used to prepare financial statements for Stitchright plc, it is argued they would not give a true and fair view or be signed off by auditors.

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

<u>Disdvantage of absorption costing</u>
All costs are not allocated to the time period in which they are incurred. It may be argued that profit for Stitchright plc for that time period is not accurate as external accounts are drawn up on the basis of a time period.

Does not follow the prudence concept. Stitchright plc's closing inventory may be overstated and therefore profit may also be overstated.

May be time consuming and complex to work out the value of closing inventory as all costs must be included in the valuation of closing inventory.

<u>Conclusion</u>

Both methods have their advantages and so it is worthwhile drawing up accounts using both methods.

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(6)

Total for Question 6 - 30 Marks

Total marks for paper = 200 marks

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