

INTERNATIONAL ADVANCED LEVEL

Accounting

Sample Assessment Materials

Pearson Edexcel International Advanced Subsidiary in Accounting (XAC11)

Pearson Edexcel International Advanced Level in Accounting (YAC11)

For first teaching in September 2015

First examination June 2016

Issue 1

INTERNATIONAL ADVANCED LEVEL

Accounting

SAMPLE ASSESSMENT MATERIALS

Pearson Edexcel International Subsidiary in Accounting (XAC11)

Pearson Edexcel International Advanced Level in Accounting (YAC11)

First examination June 2016

Edexcel, BTEC and LCCI qualifications

Edexcel, BTEC and LCCI qualifications are awarded by Pearson, the UK's largest awarding body offering academic and vocational qualifications that are globally recognised and benchmarked. For further information, please visit our qualification websites at www.edexcel.com, www.btec.co.uk or www.lcci.org.uk. Alternatively, you can get in touch with us using the details on our contact us page at qualifications.pearson.com/contactus

About Pearson

Pearson is the world's leading learning company, with 40,000 employees in more than 70 countries working to help people of all ages to make measurable progress in their lives through learning. We put the learner at the centre of everything we do, because wherever learning flourishes, so do people. Find out more about how we can help you and your learners at qualifications.pearson.com

Acknowledgements

References to third party material made in this specification are made in good faith. Pearson does not endorse, approve or accept responsibility for the content of materials, which may be subject to change, or any opinions expressed therein. (Material may include textbooks, journals, magazines and other publications and websites.)

All information in this specification is correct at time of going to publication.

ISBN 9781446914793

All the material in this publication is copyright
© Pearson Education Limited 2015

Contents

1	Introduction	1
2	General marking guidance	3
3	Paper 1: The Accounting System and Costing	5
4	Paper 1: Resource Booklet	39
5	Paper 1: Mark Scheme	55
6	Paper 2: Corporate and Management Accounting	81
7	Paper 2: Resource Booklet	115
6	Paper 2: Mark Scheme	129

Introduction

The Pearson Edexcel International Advanced Level in Accounting is designed for use in schools and colleges. It is part of a suite of International A Level qualifications offered by Pearson.

These sample assessment materials have been developed to support this qualification and will be used as the benchmark to develop the assessment students will take.

General marking guidance

- All candidates must receive the same treatment. Examiners must mark the last candidate in exactly the same way as they mark the first.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than be penalised for omissions.
- Examiners should mark according to the mark scheme – not according to their perception of where the grade boundaries may lie.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification/indicative content will not be exhaustive.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, a senior examiner must be consulted before a mark is given.
- Crossed-out work should be marked **unless** the candidate has replaced it with an alternative response.

Write your name here

Surname

Other names

Pearson Edexcel
International
Advanced Level

Centre Number

--	--	--	--	--

Candidate Number

--	--	--	--

International Advanced Level in Accounting

Paper 1: The Accounting System and Costing

Sample assessment materials

Time: 3 hours

Paper Reference

WAC11

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** questions.
- Answer the questions in the spaces provided
– *there may be more space than you need.*

Information

- The total mark for this paper is 200.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ►

S49005A

©2015 Pearson Education Ltd.



PEARSON

1/

SECTION A

**Answer both questions in this section. Write your answers in the spaces provided.
Refer to the resource booklet where instructed.**

See resource for Question 1

1 (a) Prepare the journal entries, correcting the errors that were discovered.

(6)

A series of horizontal dotted lines provided for writing the journal entries.

(b) (i) Prepare for Amolik the Statement of profit or loss and other comprehensive income for the year ended 31 December 2014.

(17)

A series of horizontal dotted lines provided for writing the answer to the question.

A large rectangular area with rounded corners, containing numerous horizontal dotted lines for writing.

(ii) Prepare for Amolik the Statement of financial position at 31 December 2014.

(16)

A series of horizontal dotted lines for writing the answer.

A large rectangular area with rounded corners, containing numerous horizontal dotted lines for writing.

Amolik currently pays one of his sales staff, Hiran, on a day-rate basis, at the rate of £7 per hour for a 40-hour week (for 52 weeks of the year). In the year, Hiran completed £80 000 of house insurance sales and £60 000 of life insurance sales.

Amolik is considering an alternative method of remuneration for Hiran. This would be based on commission only, at the rate of 10% of the value of house insurance sales and 15% of the value of life insurance sales.

(c) Calculate the cost to Amolik of remunerating Hiran for one year using the:

(i) existing day rate basis

(2)

.....

.....

.....

.....

.....

(ii) alternative commission basis.

(2)

.....

.....

.....

.....

.....

.....

(d) Evaluate the remuneration proposal for Hiran.

(12)

A series of horizontal dotted lines for writing the answer.

(Total for Question 1 = 55 marks)

See resource for Question 2

2 (a) Explain the accounting term **profitability**.

(4)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(b) Calculate, for the year ended 30 November, 2014 the:

(i) gross profit as a percentage of revenue

(3)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(ii) inventory turnover

(3)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(iii) profit for the year as a percentage of revenue

(3)

.....

.....

.....

.....

.....

.....

.....

(iv) percentage return on capital employed.

(3)

.....

.....

.....

.....

.....

.....

.....

(c) Comment on the percentage return on capital employed achieved by Komali.

(4)

.....

.....

.....

.....

.....

.....

.....

.....

.....

Komali is considering a new business strategy for the next accounting year ended 30 November 2015. She is considering the following proposal:

- reduce the retail price of the goods that she sells
- reduce the quality of the goods that she purchases for resale.
- She makes the following projections, based on the new business strategy.
- Price of each item sold will be reduced by 20%. The number of items sold is projected to be 7 000.
- Inventory at 30 November 2015 is projected to be £8 500.
- Inventory turnover will increase to 16 times a year.
- Staff wages will increase by 15%.
- Marketing cost will increase by £5 000 for additional promotions.
- Business bank loan will be increased to £80 000 at the same percentage interest rate.
- Rent and depreciation will remain unchanged.

(d) Prepare the projected Statement of profit or loss and other comprehensive income for the year ended 30 November 2015.

(17)

A large area of the page is filled with horizontal dotted lines, providing space for the student to write their answer to the question.

A large rectangular area with rounded corners, containing numerous horizontal dotted lines for writing.

(e) Calculate the projected:

(i) profit for the year as a percentage of revenue

(3)

.....

.....

.....

.....

.....

.....

(ii) percentage return on capital employed for the year ended 30 November 2015.

(3)

.....

.....

.....

.....

.....

.....

(f) Evaluate Komali's proposed business strategy for the year ended 30 November 2015.

(12)

A series of horizontal dotted lines for writing the answer.

(Total for Question 2 = 55 marks)

TOTAL MARKS FOR SECTION A = 110

SECTION B

Answer THREE questions from this section. Write your answers in the spaces provided.

Refer to the resource booklet where instructed.

See resource for Question 3

3 (a) Prepare for the year ended 31 October 2014 the:

(i) Trade receivables control account, showing the value of the sales revenue

(5)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(ii) Trade payables control account, showing the value of the purchases.

(5)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(b) Prepare the trading section of the Statement of profit or loss and other comprehensive income for the year ended 31 October 2014.

(6)

Area for writing the trading section of the Statement of profit or loss and other comprehensive income, consisting of multiple horizontal dotted lines.

(c) Explain the term **capital expenditure**.

(4)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(d) Explain, with the use of an accounting concept or convention, why only a proportion of the purchase price of the computer equipment will be recorded in the Statement of profit or loss and other comprehensive income each year.

(4)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(e) Evaluate Katerina's decision **not** to maintain a set of double entry accounts.

(6)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(Total for Question 3 = 30 marks)

See resource for Question 4

4 (a) Define the following accounting terms:

(i) **fixed cost**

(2)

.....

.....

.....

.....

(ii) **semi-fixed cost**

(2)

.....

.....

.....

.....

(iii) **semi-variable cost.**

(2)

.....

.....

.....

.....

(b) Prepare the manufacturing account for the year ended 31 December 2014.

(8)

A series of horizontal dotted lines provided for writing the manufacturing account.

(c) Calculate the:

(i) manufacturing cost for **one** table

(2)

.....

.....

.....

.....

(ii) revenue received for **one** table

(2)

.....

.....

.....

.....

(iii) value of the closing inventory of finished goods at 31 December 2014

(2)

.....

.....

.....

.....

(iv) profit for the year ended 31 December 2014.

(4)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

A friend has advised that Dilip should use an information and communication technology (ICT) book-keeping software package to maintain his records.

(d) Evaluate the usefulness of an information and communication technology (ICT) book-keeping software package.

(6)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(Total for Question 4 = 30 marks)

See resource for Question 5

5 (a) Calculate the value of the inventory at 31 December 2014.

(7)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(b) Calculate the allowance for doubtful debts at 31 December 2014.

(3)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(c) Prepare the Statement of profit or loss and other comprehensive income for the three months ended 31 December 2014.

(8)

A series of horizontal dotted lines for writing the answer.

A large rectangular area with rounded corners, containing numerous horizontal dotted lines for writing.

In December 2014 there was an accidental spillage of 500 barrels of oil at Harit's business premises. The costs of the clean-up and repairs have only been estimated by Harit.

Residents are concerned that there may be further, larger spillages and have formed a protest group. Harit is unsure whether he should spend a significant sum of money to reduce the risks of a further spillage.

(d) Explain how the estimated costs of the spillage should be treated in Harit's financial Statements.

(2)

.....

.....

.....

.....

(e) Explain the term **social accounting**.

(4)

.....

.....

.....

.....

.....

.....

.....

.....

.....

See resource for Question 6

- 6** (a) Identify **two** differences between an income and expenditure account and a Statement of financial position.

(2)

.....

.....

.....

.....

.....

.....

.....

- (b) Prepare, for the year ended 31 December 2014, the:

- (i) subscriptions account

(10)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(ii) income and expenditure account, including the surplus/deficit on the social evenings and the sale of refreshments.

(12)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

At the Annual General Meeting of the Hobdon Social Club, the chairperson proposed the introduction of a five-year membership to be paid by members at a discounted rate. The treasurer opposed this development, stating that the financial position of the club did not require such a membership.

- (c) Evaluate the introduction by Hobdon Social Club of a five-year membership at a discounted rate.

(6)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(Total for Question 6 = 30 marks)

TOTAL MARKS FOR SECTION B = 90 MARKS
TOTAL FOR PAPER = 200 MARKS

Pearson Edexcel IAL

International Advanced Level in Accounting

Paper 1: The Accounting System and Costing

Sample assessment materials for first teaching
September 2015

Paper Reference
WAC11

Resource booklet

Do not return this resource booklet with the
question paper.

Turn over ►

P49005A

©2015 Pearson Education Ltd.



PEARSON

SECTION A

Resource for Question 1

Amolik started business as an insurance agent on 1 January 2014, selling home insurance and life insurance policies on behalf of an insurance company. He receives a commission from the insurance company for each sale that he makes.

The following balances were extracted from his books on 31 December 2014.

Commission received:	£	
Home insurance	130 000	
Life insurance	90 000	
General office expenses	6 250	
Heat and light	4 150	
Premises maintenance	6 000	
Sales staff salaries	68 000	
Management salaries	57 000	
Marketing	8 000	
Capital	40 000	
12-year lease on premises (cost)	60 000	
Computer equipment (cost)	40 000	
Fixtures and fittings (cost)	20 000	
6% loan – repayable 30 June 2015	50 000	
Loan interest paid	1 000	
Trade payables	6 400	
Trade receivables	19 000	
Drawings	25 000	
Bank	2 000	Dr

Additional information at 31 December 2014

- Heat and light, £200, was prepaid and premises maintenance, £350, was owing.
- Depreciation is charged as follows:
 - fixtures and fittings at the rate of 15% per annum straight line method
 - computer equipment at 25%, per annum straight line method
 - an appropriate amount is depreciated from the lease.
- Amolik considers that debts owed by trade receivables of £3 000 are irrecoverable and that an allowance for doubtful debts of 5% should be created on all remaining debts.
- The 6% loan was obtained on 1 July 2014.
- On further investigation, and before preparing the Statement of profit or loss and other comprehensive income, the following errors were discovered in the books. No entries had been made to correct these errors.
 - A payment from a trade receivable, B Khan £300, had been entered in the account of B Cain
 - The entries for a payment by cheque to a trade payable, Western Properties, for £1 800, were reversed in the books.
 - A marketing prize of free home insurance with a value of £700 was given to a customer. Amolik paid the home insurance by cheque after negotiating a 25% trade discount.

- 1 (a) Prepare the journal entries correcting the errors that were discovered. (6)
- (b) (i) Prepare for Amolik the Statement of profit or loss and other comprehensive income for the year ended 31 December 2014. (17)
- (ii) Prepare for Amolik the Statement of financial position at 31 December 2014. (16)

Amolik currently pays one of his sales staff, Hiran, on a day-rate basis, at the rate of £7 per hour for a 40-hour week (for 52 weeks of the year). In the year, Hiran completed £80 000 of house insurance sales and £60 000 of life insurance sales.

Amolik is considering an alternative method of remuneration for Hiran. This would be based on commission only, at the rate of 10% of the value of house insurance sales and 15% of the value of life insurance sales.

- (c) Calculate the cost to Amolik of remunerating Hiran for one year using the:
- (i) existing day rate basis (2)
- (ii) alternative commission basis. (2)
- (d) Evaluate the remuneration proposal for Hiran. (12)

(Total for Question 1 = 55 marks)

Resource for Question 2

Komali is in business buying and selling goods on credit. Her summarised Statement of profit or loss and other comprehensive income for the year ended 30 November 2014 is as follows:

Komali		
	£	£
Revenue 3 000 items @ £30 per item		90 000
Opening inventory	4 500	
Purchases	<u>62 000</u>	
	66 500	
Closing inventory	<u>(6 500)</u>	
Cost of sales		<u>(60 500)</u>
Gross profit		29 500
Less		
Staff wages	12 000	
Marketing	4 500	
Business loan interest	2 400	
Rent	6 000	
Depreciation	<u>3 800</u>	
		<u>28 700</u>
Profit of the year		<u>800</u>

Additional information

Komali has invested £50 000 into the business as owner's capital and obtained a £30 000, five-year business bank loan.

- 2 (a) Explain the accounting term **profitability**. (4)
- (b) Calculate, for the year ended 30 November 2014, the:
- (i) gross profit as a percentage of revenue (3)
 - (ii) inventory turnover (3)
 - (iii) profit for the year as a percentage of revenue (3)
 - (iv) percentage return on capital employed. (3)
- (c) Comment on the percentage return on capital employed achieved by Komali. (4)

Komali is considering a new business strategy for the next accounting year ended 30 November 2015. She is considering the following proposal:

- reduce the retail price of the goods that she sells
 - reduce the quality of the goods that she purchases for resale.
 - She makes the following projections, based on the new business strategy.
 - Price of each item sold will be reduced by 20%. The number of items sold is projected to be 7 000.
 - Inventory at 30 November 2015 is projected to be £8 500.
 - Inventory turnover will increase to 16 times a year.
 - Staff wages will increase by 15%.
 - Marketing cost will increase by £5 000 for additional promotions.
 - Business bank loan will be increased to £80 000 at the same percentage interest rate.
 - Rent and depreciation will remain unchanged.
- (d) Prepare the projected Statement of profit or loss and other comprehensive income for the year ended 30 November 2015. (17)
- (e) Calculate the projected:
- (i) profit for the year as a percentage of revenue (3)
 - (ii) percentage return on capital employed for the year ended 30 November 2015. (3)

(f) Evaluate Komali's proposed business strategy for the year ended 30 November 2015.

(12)

(Total for Question 2 = 55 marks)

TOTAL MARKS FOR SECTION A = 110

SECTION B

Resource for Question 3

Katerina is a trader of goods. She does not maintain a set of double entry accounts but the following information is available for the year ended 31 October 2014:

Balances 1 November 2013:	£
Trade receivables	7 500
Trade payables	4 950
Inventory	8 600
Carriage inwards	150 Cr

Summary bank entries	£
Receipts	
Cheques from trade receivables	43 400
Refund from trade payable	200
Cash sales banked	2 700
Payments	
Computer equipment	24 000
Payments to trade payables	21 550
Carriage inwards	920
Expenses paid by cheque	14 760

Bad debts were £1750.

Discount allowed was £650 and discount received £320.

Balances 31 October 2014:	£
Trade receivables	9 300
Trade payables	4 400
Inventory	7 950

- 3** (a) Prepare, for the year ended 31 October 2014, the:
- (i) Trade receivables control account showing the value of the sales revenue (5)
 - (ii) Trade payables control account showing the value of the purchases. (5)
- (b) Prepare the trading section of the Statement of profit or loss and other comprehensive income for the year ended 31 October 2014. (6)
- (c) Explain the term **capital expenditure**. (4)
- (d) Explain, with the use of an accounting concept or convention, why only a proportion of the purchase price of the computer equipment will be recorded in the Statement of profit or loss and other comprehensive income each year. (4)
- (e) Evaluate Katerina's decision **not** to maintain a set of double entry accounts. (6)

(Total for Question 3 = 30 marks)

Resource for Question 4

Dilip started a business on 1 January 2014 manufacturing wooden tables. He succeeded in obtaining initial orders from retailers that he agreed to supply on one-month's credit.

Dilip has had no training in accounting but at the end of the first year of trading, he prepared the following income Statement.

	£	£
Revenue		28 000
Raw materials purchased	6 200	
Wages paid to manufacturing worker	3 250	
Wages paid to Dilip	4 500	
Non-current assets purchased	5 000	
General expenses paid	7 200	
Selling expenses paid	<u>4 700</u>	
		<u>30 850</u>
Loss		<u>(2 850)</u>

Additional information at 31 December 2014

- During the year, 180 tables were manufactured, of which 160 had been sold to retailers.
- Closing inventory:
 - raw materials, £450 valued at cost
 - finished tables were valued at manufacturing cost
 - there was no inventory of work in progress.
- The non-current assets were valued at £4 100. All non-current assets were used in manufacturing.
- Half of the general expenses related to manufacturing and half to administration.
- Selling expenses of £750 were owed.

- 4** (a) Define the following accounting terms:
- (i) fixed cost (2)
 - (ii) semi-fixed cost (2)
 - (iii) semi-variable cost. (2)
- (b) Prepare the manufacturing account for the year ended 31 December 2014. (8)
- (c) Calculate the:
- (i) manufacturing cost for one table (2)
 - (ii) revenue received for one table (2)
 - (iii) value of the closing inventory of finished goods at 31 December 2014 (2)
 - (iv) profit for the year ended 31 December 2014. (4)
- A friend has advised that Dilip should use an information and communication technology (ICT) book-keeping software package to maintain his records.
- (d) Evaluate the usefulness of an information and communication technology (ICT) book-keeping software package. (6)

(Total for Question 4 = 30 marks)

Resource for Question 5

Harit is in business as a trader of crude oil, buying and selling oil on credit. Demand for the product is good and has been increasing, but Harit is having increasing difficulty paying his trade payables as his bank balance is always overdrawn.

Harit decides to check his inventory movements, trade receivables and the profit for a three-month period to see where he could improve his business. The following information is available for the three months ended 31 December 2014:

Inventory movements

1 October	Opening inventory	20 000 barrels @ £80 per barrel
		25 000 barrels @ £84 per barrel
1 October	Receipts	
October	Sales	15 000 barrels @ £95 per barrel
		30 000 barrels @ £85 per barrel
1 November	Receipts	
November	Sales	20 000 barrels @ £95 per barrel
		30 000 barrels @ £85 per barrel
1 December	Receipts	
December	Sales	20 000 barrels @ £95 per barrel

Harit values his inventory using the First In First Out (FIFO) perpetual inventory basis.

Schedule of trade receivables at 31 December 2014

Age of debt	Value £	Projected bad debt
Less than 1 month	800 000	2%
1 to 6 months	600 000	5%
Over 6 months	600 000	20%

Harit believes that one-third of the debts over 6 months are now irrecoverable.

Other balances	£
General running expenses	450 000
Allowance for doubtful debts	
1 October 2014	70 000

- 5 (a) Calculate the value of the inventory at 31 December 2014. (7)
- (b) Calculate the allowance for doubtful debts at 31 December 2014. (3)
- (c) Prepare the Statement of profit or loss and other comprehensive income for the three months ended 31 December 2014. (8)
- In December 2014 there was an accidental spillage of 500 barrels of oil at Harit's business premises. The costs of the clean-up and repairs have only been estimated by Harit.
- Residents are concerned that there may be further, larger spillages and have formed a protest group. Harit is unsure whether he should spend a significant sum of money to reduce the risks of a further spillage.
- (d) Explain how the estimated costs of the spillage should be treated in Harit's financial Statements. (2)
- (e) Explain the term **social accounting**. (4)
- (f) Evaluate the financial position of Harit. (6)

(Total for Question 5 = 30 marks)

Resource for Question 6

The following receipts and payments account for the year ended 31 December 2014 was extracted from the books of the Hobdon Social Club.

Receipts and Payments Account

	£		£
Balance b/d	100	Rent	2 500
Subscriptions 2013	520	Heat and light	790
2014	4 460	Social evening expenses	750
2015	600	Purchase of equipment	800
Ticket sales– social evenings	890	Purchase of refreshments	1 400
Refreshment sales	2 650	Treasurer’s honorarium	200
Bank interest	<u>170</u>	Balance c/d	<u>2 950</u>
	<u>9 390</u>		<u>9 390</u>
Balance b/d	2 950		

Additional information

Balances at	1 January 2014	31 December 2014
	£	£
Subscriptions in arrears	850	1 050
Subscriptions in advance	320	600
Heat and light prepaid	70	-
Heat and light accrued	-	130
Social evening expenses owing	-	180
Refreshment inventory	60	140
Equipment (at valuation)	3 000	2 900

- 6 (a) Identify **two** differences between an income and expenditure account and a Statement of financial position. (2)
- (b) Prepare for the year ended 31 December 2014 the:
- (i) subscriptions account (10)
 - (ii) income and expenditure account, including the surplus/deficit on the social evenings and the sale of refreshments. (12)
- At the Annual General Meeting of the Hobdon Social Club, the chairperson proposed the introduction of a five-year membership to be paid by members at a discounted rate. The treasurer opposed this development, stating that the financial position of the club did not require such a membership.
- (c) Evaluate the introduction by Hobdon Social Club of a five-year membership at a discounted rate. (6)

(Total for Question 6 = 30 marks)

TOTAL MARKS FOR SECTION B = 90 MARKS
TOTAL FOR PAPER = 200 MARKS

Every effort has been made to contact copyright holders to obtain their permission for the use of copyright material. Pearson Education Ltd. will, if notified, be happy to rectify any errors or omissions and include any such rectifications in future editions.

Question Number	Answer	Mark																												
1(a)	<p>[4 AO2], [2 AO3] AO2: Four marks for applying the correct numerical adjustment to the accounts identified as requiring adjustment. AO3: Two marks for analysing and calculating the correct charge for marketing and making the correct adjustment.</p> <p>Journal</p> <table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 15%; text-align: center;">Dr (£)</th> <th style="width: 15%; text-align: center;">CR (£)</th> <th style="width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>B Cain</td> <td style="text-align: center;">300</td> <td></td> <td>[1 AO2]</td> </tr> <tr> <td>B Kahn</td> <td></td> <td style="text-align: center;">300</td> <td>[1 AO2]</td> </tr> <tr> <td>Western Properties</td> <td style="text-align: center;">3 600</td> <td></td> <td>[1 AO2]</td> </tr> <tr> <td>Bank</td> <td></td> <td style="text-align: center;">3 600</td> <td>[1 AO2]</td> </tr> <tr> <td>Marketing</td> <td style="text-align: center;">525</td> <td></td> <td>[1 AO3]</td> </tr> <tr> <td>Bank</td> <td></td> <td style="text-align: center;">525</td> <td>[1 AO3]</td> </tr> </tbody> </table>		Dr (£)	CR (£)		B Cain	300		[1 AO2]	B Kahn		300	[1 AO2]	Western Properties	3 600		[1 AO2]	Bank		3 600	[1 AO2]	Marketing	525		[1 AO3]	Bank		525	[1 AO3]	6
	Dr (£)	CR (£)																												
B Cain	300		[1 AO2]																											
B Kahn		300	[1 AO2]																											
Western Properties	3 600		[1 AO2]																											
Bank		3 600	[1 AO2]																											
Marketing	525		[1 AO3]																											
Bank		525	[1 AO3]																											

Question Number	Answer	Mark																																																												
1(b)(i)	<p>[6 AO1], [9 AO2], [2 AO3]</p> <p>AO1: Six marks for identifying given data as expenditures and the recording these correctly into the income statement.</p> <p>AO2: Nine marks for applying correct adjustments to expenditures and recording these correctly in the income statement.</p> <p>AO3: Two marks for interpreting the requirement to include expenditure in the income statement and the calculation of that expenditure for given data using accounting principles.</p> <p style="text-align: center;">Statement of Profit or Loss and Comprehensive Income for the year ended 31 December 2014</p> <p>Income</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="3">Commission received:</td> </tr> <tr> <td style="padding-left: 20px;">• Home insurance</td> <td style="text-align: right;">130 000</td> <td style="text-align: right;">[1 AO2]</td> </tr> <tr> <td style="padding-left: 20px;">• Life insurance</td> <td style="text-align: right;">90 000</td> <td style="text-align: right;">[1 AO2]</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">220 000</td> <td></td> </tr> <tr> <td colspan="3">Less expenses</td> </tr> <tr> <td>General office expenses</td> <td style="text-align: right;">6 250</td> <td style="text-align: right;">[1 AO1]</td> </tr> <tr> <td>Heat and light</td> <td style="text-align: right;">4 150 [1 AO1] - 200 [1 AO2]</td> <td style="text-align: right;">3 950</td> </tr> <tr> <td>Premises maintenance</td> <td style="text-align: right;">6 000 + 350</td> <td style="text-align: right;">6 350 [1 AO2]</td> </tr> <tr> <td>Staff salaries</td> <td style="text-align: right;">68 000</td> <td style="text-align: right;">[1 AO1]</td> </tr> <tr> <td>Management salaries</td> <td style="text-align: right;">57 000</td> <td style="text-align: right;">[1 AO1]</td> </tr> <tr> <td>Marketing</td> <td style="text-align: right;">8 000 [1 AO1] + 525 [1 AO3]</td> <td style="text-align: right;">8 525</td> </tr> <tr> <td>Depreciation:</td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">• Lease</td> <td style="text-align: right;">5 000</td> <td style="text-align: right;">[1 AO2]</td> </tr> <tr> <td style="padding-left: 20px;">• Computers</td> <td style="text-align: right;">10 000</td> <td style="text-align: right;">[1 AO2]</td> </tr> <tr> <td style="padding-left: 20px;">• Fixtures and fittings</td> <td style="text-align: right;">3 000</td> <td style="text-align: right;">[1 AO2]</td> </tr> <tr> <td>Bad debts</td> <td style="text-align: right;">3 000</td> <td style="text-align: right;">[1 AO2]</td> </tr> <tr> <td>Allowance for doubtful debts</td> <td style="text-align: right;">800</td> <td style="text-align: right;">[1 AO2]</td> </tr> <tr> <td>Loan interest</td> <td style="text-align: right;">1 000 [1 AO1] + 500 [1 AO3]</td> <td style="text-align: right;">1 500</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">(173 375)</td> <td></td> </tr> <tr> <td>Profit for the year</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">46 625</td> <td></td> </tr> </table>	Commission received:			• Home insurance	130 000	[1 AO2]	• Life insurance	90 000	[1 AO2]		220 000		Less expenses			General office expenses	6 250	[1 AO1]	Heat and light	4 150 [1 AO1] - 200 [1 AO2]	3 950	Premises maintenance	6 000 + 350	6 350 [1 AO2]	Staff salaries	68 000	[1 AO1]	Management salaries	57 000	[1 AO1]	Marketing	8 000 [1 AO1] + 525 [1 AO3]	8 525	Depreciation:			• Lease	5 000	[1 AO2]	• Computers	10 000	[1 AO2]	• Fixtures and fittings	3 000	[1 AO2]	Bad debts	3 000	[1 AO2]	Allowance for doubtful debts	800	[1 AO2]	Loan interest	1 000 [1 AO1] + 500 [1 AO3]	1 500		(173 375)		Profit for the year	46 625		17
Commission received:																																																														
• Home insurance	130 000	[1 AO2]																																																												
• Life insurance	90 000	[1 AO2]																																																												
	220 000																																																													
Less expenses																																																														
General office expenses	6 250	[1 AO1]																																																												
Heat and light	4 150 [1 AO1] - 200 [1 AO2]	3 950																																																												
Premises maintenance	6 000 + 350	6 350 [1 AO2]																																																												
Staff salaries	68 000	[1 AO1]																																																												
Management salaries	57 000	[1 AO1]																																																												
Marketing	8 000 [1 AO1] + 525 [1 AO3]	8 525																																																												
Depreciation:																																																														
• Lease	5 000	[1 AO2]																																																												
• Computers	10 000	[1 AO2]																																																												
• Fixtures and fittings	3 000	[1 AO2]																																																												
Bad debts	3 000	[1 AO2]																																																												
Allowance for doubtful debts	800	[1 AO2]																																																												
Loan interest	1 000 [1 AO1] + 500 [1 AO3]	1 500																																																												
	(173 375)																																																													
Profit for the year	46 625																																																													

Question Number	Answer	Mark		
1(b)(ii)	<p>[7 AO1], [6 AO2], [3 AO3]</p> <p>AO1: Seven marks for identifying and categorising given data as assets or liabilities correctly into the position statement.</p> <p>AO2: Six marks for applying correct calculation and categorisation of assets and liabilities into the position statement.</p> <p>AO3: Three marks for interpreting the impact of corrections (omissions) in the position statement. The calculation and inclusion of those changes.</p>			
Statement of Financial Position at 31 December 2014				
	Cost £	Aggregate depreciation £	Carry over £	
<u>Non-current assets</u>				
12-year lease	60 000	5 000	55 000	[1 AO2] of
Computers	40 000	10 000	30 000	[1 AO1] of
Fixtures and fittings	20 000	3 000	17 000	[1 AO1] of
	<u>120 000</u>	<u>18 000</u>	<u>102 000</u>	[1 AO1]
<u>Current assets</u>				
Trade receivables	19 000 – 3 000	16 000		[1 AO2]
Less allowance for doubtful debts		<u>(800)</u>	15 200	[1 AO2] of
Other receivables			<u>200</u>	[1 AO2]
			<u>15 400</u>	
Total assets			<u><u>117 400</u></u>	
Capital			40 000	
Plus profit for the year			<u>46 625</u>	
			86 625	
Less Drawings			<u>(25 000)</u>	
			<u>61 625</u>	[1 AO1] of
<u>Current liabilities</u>				
Trade payables	6 400 [1 AO1] - 3 600 [1 AO3]		2 800	
6% loan			50 000	[1 AO1]
Other payables	350 [1 AO2] + 500 [1 AO2]		850	
Bank	2 000 [1 AO1] - 525 [1 AO3] - 3 600 [1 AO3]		<u>2 125</u>	
			<u>55 775</u>	
Total liabilities			<u><u>117 400</u></u>	

16

Question Number	Indicative content	Mark
1(d)	<p>[1 AO1], [1 AO2], [5 AO3], [5 AO4]</p> <p>Potential arguments for changing</p> <ul style="list-style-type: none"> • Incentive for Hiran to generate higher sales for Amolik, therefore expanding his revenue. • Potential increase in profit for Amolik through the expansion in revenue. • Potentially less supervision of sales team required, therefore reducing cost and saving a manager's/Amolik's time. <p>Potential arguments against changing</p> <ul style="list-style-type: none"> • The initial salary cost is higher for the current volume of sales, therefore if sales were not increased this would increase Amolik's costs without a return. • Quality of advice may be reduced to obtain sales leaving Amolik vulnerable to a mis-selling claim. • Reputation of business may be damaged if customers feel that they have been rushed into a decision or mis-sold a product. 	12

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1–3	Isolated elements of knowledge and understanding that 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 that are 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 knowledge and understanding, supported by relevant application to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects. Evaluation may be presented using financial and non-financial information with a decision made.
Level 4	10–12	Accurate and thorough knowledge and understanding, supported by relevant and effective application to the scenario. Analysis is coherent with logical chains of reasoning, showing causes and effects. Evaluation is balanced and wide ranging and well contextualised, using financial and perhaps non-financial information, and an appropriate decision is made.

Question Number	Answer	Mark
2(a)	<p>[4 AO1] AO1: Two marks for knowing the term profitability and up to two marks for identifying a commonly used comparison.</p> <p>Profit is the excess of income over matched expenditure. [1 AO1] Profitability relates the profit figure to other figures within the same set of accounts. [1 AO1]</p> <p>Comparison with other similar businesses [1 AO1] is generally with the revenue/capital employed. [1 AO1]</p>	4

Question Number	Answer	Mark
2(b)(i)	<p>[1 AO1], [2 AO2] AO1: One mark for applying given correct number(s) to correct formula components. AO2: Two marks for calculation of sub-components or the correct final outcome.</p> <p>Gross profit Revenue $\frac{29\,500 \times 100}{90\,000}$ [1 AO1] [1 AO2] = 32.77% [1 AO2] of</p>	3

Question Number	Answer	Mark
2(b)(ii)	<p>[1 AO1], [2 AO2] AO1: One mark for applying given correct number(s) to correct formula components. AO2: Two marks for calculation of sub-components or the correct final outcome.</p> <p>Cost of sales Average inventory $\frac{60\,500}{(4\,500 + 6\,500) / 2}$ [1 AO1] [1 AO2] = 11 times [1 AO2] of</p>	3

Question Number	Answer	Mark
2(b)(iii)	<p>[1 AO1], [2 AO2] AO1: One mark for applying given correct number(s) to correct formula components. AO2: Two marks for calculation of sub-components or the correct final outcome.</p> <p>Profit for the year Revenue $\frac{800 \times 100}{90\,000}$ [1 AO2] [1 AO1] = 0.9% [1 AO2] of</p>	3

Question Number	Answer	Mark
2(b)(iv)	<p>[1 AO1], [2 AO2] AO1: One mark for applying given correct number(s) to correct formula components. AO2: Two marks for calculation of sub-components or the correct final outcome.</p> <p>Profit for the year before interest Owners capital + long-term loan</p> $\frac{(800 + 2\,400) \times 100}{50\,000 + 30\,000} \begin{matrix} [1 \text{ AO1}] \\ [1 \text{ AO2}] \end{matrix} = 4\% \text{ of } [1 \text{ AO1}] \text{ of}$	3

Question Number	Answer	Mark
2(c)	<p>[1 AO1], [2 AO2], [1 AO3] AO1: One mark for knowing the 'guideline' level of ROCE. AO2: Two marks for applying the return to the level of capital employed. AO3: One mark for interpreting the return achieved against accepted yardsticks and expectations.</p> <p>Return is far lower than the yardstick of a minimum of 10%. [1 AO1] At 4% the ROCE is very low. [1 AO2] The capital invested is high to generate a profit of £800. [1 AO2] The high capital is at risk for moderate returns. [1 AO3]</p>	4

Question Number	Answer	Mark																																																																
2(d)	<p>[4 AO1], [10 AO2], [3 AO3]</p> <p>AO1: Four marks for identifying given data as expenditures and recording these correctly in the income statement.</p> <p>AO2: Ten marks for applying correct adjustments to expenditures and recording these correctly in the income statement.</p> <p>AO3: Three marks for interpreting the requirement to include an expenditure in the income statement and the calculation of that expenditure level for given data using accounting principles.</p> <p>Projected Statement of Profit or Loss and Comprehensive Income for the year ended 30 November 2015</p> <table> <tr> <td>Revenue</td> <td>£</td> <td></td> <td>£</td> </tr> <tr> <td>7 000 items [1 AO2] @ £24 per item</td> <td></td> <td>[1 AO2]</td> <td>168 000</td> </tr> <tr> <td>Opening inventory</td> <td>6 500</td> <td>[1 AO2]</td> <td></td> </tr> <tr> <td>Purchases</td> <td><u>122 000</u></td> <td>[1 AO3] of</td> <td></td> </tr> <tr> <td></td> <td>128 500</td> <td></td> <td></td> </tr> <tr> <td>Closing inventory</td> <td>(8 500)</td> <td>[1 AO2]</td> <td></td> </tr> <tr> <td>Cost of sales</td> <td>16 [1 AO3] x (6 500 + 8 500/2) [1 AO3]</td> <td></td> <td>(<u>120 000</u>)</td> </tr> <tr> <td>Gross profit</td> <td></td> <td></td> <td>48 000 [1 AO2] of</td> </tr> <tr> <td>Less</td> <td></td> <td></td> <td></td> </tr> <tr> <td>• Staff wages</td> <td>12 000 [1 AO1] x 115% [1 AO2]</td> <td></td> <td>13 800</td> </tr> <tr> <td>• Marketing</td> <td>4 500 [1 AO2] + 5 000 [1 AO2]</td> <td></td> <td>9 500</td> </tr> <tr> <td>• Business loan interest</td> <td>2 400/30 000 [1 AO3] x 80 000 [1 AO2]</td> <td></td> <td>6 400 [1 AO2]</td> </tr> <tr> <td>• Rent</td> <td></td> <td></td> <td>6 000 [1 AO1]</td> </tr> <tr> <td>• Depreciation</td> <td></td> <td></td> <td><u>3 800</u> [1 AO1]</td> </tr> <tr> <td></td> <td></td> <td></td> <td>(<u>39 500</u>)</td> </tr> <tr> <td>Profit for the year</td> <td></td> <td></td> <td><u>8 500</u> [1 AO1] of</td> </tr> </table>	Revenue	£		£	7 000 items [1 AO2] @ £24 per item		[1 AO2]	168 000	Opening inventory	6 500	[1 AO2]		Purchases	<u>122 000</u>	[1 AO3] of			128 500			Closing inventory	(8 500)	[1 AO2]		Cost of sales	16 [1 AO3] x (6 500 + 8 500/2) [1 AO3]		(<u>120 000</u>)	Gross profit			48 000 [1 AO2] of	Less				• Staff wages	12 000 [1 AO1] x 115% [1 AO2]		13 800	• Marketing	4 500 [1 AO2] + 5 000 [1 AO2]		9 500	• Business loan interest	2 400/30 000 [1 AO3] x 80 000 [1 AO2]		6 400 [1 AO2]	• Rent			6 000 [1 AO1]	• Depreciation			<u>3 800</u> [1 AO1]				(<u>39 500</u>)	Profit for the year			<u>8 500</u> [1 AO1] of	17
Revenue	£		£																																																															
7 000 items [1 AO2] @ £24 per item		[1 AO2]	168 000																																																															
Opening inventory	6 500	[1 AO2]																																																																
Purchases	<u>122 000</u>	[1 AO3] of																																																																
	128 500																																																																	
Closing inventory	(8 500)	[1 AO2]																																																																
Cost of sales	16 [1 AO3] x (6 500 + 8 500/2) [1 AO3]		(<u>120 000</u>)																																																															
Gross profit			48 000 [1 AO2] of																																																															
Less																																																																		
• Staff wages	12 000 [1 AO1] x 115% [1 AO2]		13 800																																																															
• Marketing	4 500 [1 AO2] + 5 000 [1 AO2]		9 500																																																															
• Business loan interest	2 400/30 000 [1 AO3] x 80 000 [1 AO2]		6 400 [1 AO2]																																																															
• Rent			6 000 [1 AO1]																																																															
• Depreciation			<u>3 800</u> [1 AO1]																																																															
			(<u>39 500</u>)																																																															
Profit for the year			<u>8 500</u> [1 AO1] of																																																															

Question Number	Answer	Mark								
2(e)(i)	<p>[1 AO1], [2 AO2]</p> <p>AO1: One mark for knowing the formula.</p> <p>AO2: Two marks for applying the formula to the revised data.</p> <p>Projected profit for the year as a percentage of revenue</p> <table> <tr> <td>Profit for the year</td> <td>8 500 x 100 [1 AO2] of</td> <td>= 6.5%</td> <td>[1 AO2] of</td> </tr> <tr> <td>Revenue</td> <td>130 000 (1 of)</td> <td></td> <td></td> </tr> </table>	Profit for the year	8 500 x 100 [1 AO2] of	= 6.5%	[1 AO2] of	Revenue	130 000 (1 of)			3
Profit for the year	8 500 x 100 [1 AO2] of	= 6.5%	[1 AO2] of							
Revenue	130 000 (1 of)									

Question Number	Answer	Mark
2(e)(ii)	<p>[1 AO1], [2 AO2] AO1: One mark for knowing the formula. AO2: Two marks for applying the formula to the revised data.</p> <p>Projected return on capital employed</p> <p>Profit for the year + interest $\frac{8\,500 + 6\,400}{50\,000 + 80\,000} = \frac{14\,900}{130\,000}$ [1 AO1] $\times 100 = 11.45\%$ [1 AO2] <i>of</i> Owners capital + long-term loan [1 AO2]</p>	3

Question Number	Indicative content	Mark
2 (f)	<p>[1 AO1], [1 AO2], [5 AO3], [5 AO4]</p> <p>Potential arguments for the proposal</p> <ul style="list-style-type: none"> • The ROCE does improve from 4% to 11.45%, therefore the business will be more profitable. • A larger market share may be achieved because the price is reduced. • Increase volume of purchasing may result in additional discounts, which may increase profits further. <p>Potential arguments against the proposal</p> <ul style="list-style-type: none"> • The proposals are based on estimates that may not be achieved and therefore the proposal may not be successful. • The market may not accept lower quality goods and sales may fall. • Reputation for quality may be lost and customers may deal with another supplier. • Substantial additional capital required to undertake the proposal, this has cost and risk implications. • Substantial risk as although the ROCE increases, this is just to a level above the minimum expectation. 	12

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1–3	Isolated elements of knowledge and understanding that 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 that are 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 knowledge and understanding, supported by relevant application to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects. Evaluation may be presented using financial and non-financial information, with a decision made.
Level 4	10–12	Accurate and thorough knowledge and understanding, supported by relevant and effective application to the scenario. Analysis is coherent with logical chains of reasoning, showing causes and effects. Evaluation is balanced and wide ranging and well contextualised, using financial and perhaps non-financial information, and an appropriate decision is made.

Question Number	Answer	Mark																																
3(a)(i)	<p>[1 AO1], [4 AO2] AO1: One mark for identifying the need to, and bringing down balances. AO2: Four marks for applying the correct selection of entries to be made in the ledger and applying the correct entries to the accounts.</p> <p style="text-align: center;">Trade Receivables Control Account</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 10%; text-align: center;">£</td> <td style="width: 50%;"></td> <td style="width: 10%; text-align: center;">£</td> </tr> <tr> <td>Balance b/d</td> <td style="text-align: right;">7 500</td> <td>Bank</td> <td style="text-align: right;">43 400 [1 AO2]</td> </tr> <tr> <td>Revenue/sales</td> <td style="text-align: right;">47 600 [1 AO2] <i>of</i></td> <td>Discount allowed</td> <td style="text-align: right;">650 [1 AO2]</td> </tr> <tr> <td></td> <td></td> <td>Bad debts</td> <td style="text-align: right;">1 750 [1 AO2]</td> </tr> <tr> <td></td> <td></td> <td>Balance c/d</td> <td style="text-align: right;"><u>9 300</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>55</u></td> <td></td> <td style="text-align: right;"><u>55 100</u></td> </tr> <tr> <td>Balance b/d</td> <td style="text-align: right;"><u>100</u></td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">9 300</td> <td></td> <td style="text-align: right;">[1 AO1]</td> </tr> </table>		£		£	Balance b/d	7 500	Bank	43 400 [1 AO2]	Revenue/sales	47 600 [1 AO2] <i>of</i>	Discount allowed	650 [1 AO2]			Bad debts	1 750 [1 AO2]			Balance c/d	<u>9 300</u>		<u>55</u>		<u>55 100</u>	Balance b/d	<u>100</u>				9 300		[1 AO1]	5
	£		£																															
Balance b/d	7 500	Bank	43 400 [1 AO2]																															
Revenue/sales	47 600 [1 AO2] <i>of</i>	Discount allowed	650 [1 AO2]																															
		Bad debts	1 750 [1 AO2]																															
		Balance c/d	<u>9 300</u>																															
	<u>55</u>		<u>55 100</u>																															
Balance b/d	<u>100</u>																																	
	9 300		[1 AO1]																															

Question Number	Answer	Mark																												
3(a)(ii)	<p>[1 AO1], [4 AO2] AO1: One mark for identifying the need to, and bringing down balances. AO2: Four marks for applying the correct selection of entries to be made in the ledger and applying the correct entries to the accounts.</p> <p style="text-align: center;">Trade Receivables Control Account</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 10%; text-align: center;">£</td> <td style="width: 50%;"></td> <td style="width: 10%; text-align: center;">£</td> </tr> <tr> <td>Bank</td> <td style="text-align: right;">21 550 [1 AO2]</td> <td>Balance b/d</td> <td style="text-align: right;">4 950</td> </tr> <tr> <td>Discount received</td> <td style="text-align: right;">320 [1 AO2]</td> <td>Purchases</td> <td style="text-align: right;">21 520 [1 AO2]</td> </tr> <tr> <td>Bank: refund</td> <td></td> <td></td> <td style="text-align: right;">200 [1 AO2]</td> </tr> <tr> <td>Balance c/d</td> <td style="text-align: right;"><u>4 400</u></td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>26 470</u></td> <td></td> <td style="text-align: right;"><u>26 470</u></td> </tr> <tr> <td></td> <td></td> <td>Balance b/d</td> <td style="text-align: right;">4 400 [1 AO1] <i>of</i></td> </tr> </table>		£		£	Bank	21 550 [1 AO2]	Balance b/d	4 950	Discount received	320 [1 AO2]	Purchases	21 520 [1 AO2]	Bank: refund			200 [1 AO2]	Balance c/d	<u>4 400</u>				<u>26 470</u>		<u>26 470</u>			Balance b/d	4 400 [1 AO1] <i>of</i>	5
	£		£																											
Bank	21 550 [1 AO2]	Balance b/d	4 950																											
Discount received	320 [1 AO2]	Purchases	21 520 [1 AO2]																											
Bank: refund			200 [1 AO2]																											
Balance c/d	<u>4 400</u>																													
	<u>26 470</u>		<u>26 470</u>																											
		Balance b/d	4 400 [1 AO1] <i>of</i>																											

Question Number	Answer	Mark																																								
3(b)	<p>[3 AO1], [1 AO2], [2 AO3]</p> <p>AO1: Three marks for identifying the correct treatment of inventory and the cash sales.</p> <p>AO2: One mark for applying the treatment of carriage inwards and cash sales.</p> <p>AO3: Two marks for interpreting the correct course of action when recording discounts using IAS.</p> <p style="text-align: center;">Trading Account for the year ended 31 October 2014</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 40%;"></th> <th style="width: 20%;"></th> <th style="width: 20%; text-align: center;">£</th> <th style="width: 20%; text-align: center;">£</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td style="text-align: right;">47 600 + 2 700 [1 AO1]</td> <td style="text-align: right;">- 650 [1 AO3]</td> <td style="text-align: right;">49 650</td> </tr> <tr> <td>Less</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Opening inventory</td> <td></td> <td style="text-align: right;">8 600 [1 AO1]</td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">21 520 – 320 [1 AO3]</td> <td style="text-align: right;">21 200</td> <td></td> </tr> <tr> <td>Carriage inwards</td> <td style="text-align: right;">920 – 150</td> <td style="text-align: right;"><u>770</u> [1 AO2]</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">30 570</td> <td></td> </tr> <tr> <td>Closing inventory</td> <td></td> <td style="text-align: right;"><u>(7 950)</u> [1 AO1]</td> <td></td> </tr> <tr> <td>Cost of sales</td> <td></td> <td></td> <td style="text-align: right;">(22 620)</td> </tr> <tr> <td>Gross profit</td> <td></td> <td></td> <td style="text-align: right;"><u>27 030</u></td> </tr> </tbody> </table>			£	£	Revenue	47 600 + 2 700 [1 AO1]	- 650 [1 AO3]	49 650	Less				Opening inventory		8 600 [1 AO1]		Purchases	21 520 – 320 [1 AO3]	21 200		Carriage inwards	920 – 150	<u>770</u> [1 AO2]				30 570		Closing inventory		<u>(7 950)</u> [1 AO1]		Cost of sales			(22 620)	Gross profit			<u>27 030</u>	6
		£	£																																							
Revenue	47 600 + 2 700 [1 AO1]	- 650 [1 AO3]	49 650																																							
Less																																										
Opening inventory		8 600 [1 AO1]																																								
Purchases	21 520 – 320 [1 AO3]	21 200																																								
Carriage inwards	920 – 150	<u>770</u> [1 AO2]																																								
		30 570																																								
Closing inventory		<u>(7 950)</u> [1 AO1]																																								
Cost of sales			(22 620)																																							
Gross profit			<u>27 030</u>																																							

Question Number	Answer	Mark
3(c)	<p>[4 AO1]</p> <p>AO1: Up to two marks for the meaning and two marks for the recording of capital expenditure.</p> <p>Purchase/enhancement to the value of non-current assets [1 AO1]. Non-current asset will be used for more than accounting period [1 AO1].</p> <p>A proportion of the capital expenditure is charged annually to the revenue account [1 AO1]. The remainder is recorded as a non-current asset in the statement of financial position [1 AO1].</p>	4

Question Number	Answer	Mark
3(d)	<p>[2 A02], [2 A03]</p> <p>A02: Two marks for applying both accounting concepts to depreciation.</p> <p>A03: Two marks for interpreting how the accounting concepts should be applied to non-current assets.</p> <p>Going concern concept [1 A02] states that the business has perpetual life and the non-current assets should be expenses over a number of accounting periods. [1 A03]</p> <p>Matching/accruals concept [1 A02] states that a fair proportion of the non-current assets value should be charged to each accounting period. [1 A03]</p>	4

Question Number	Indicative content	Mark
3(e)	<p>[1 A02], [2 A03], [3 A04]</p> <p>Potential arguments for using double entry accounts</p> <ul style="list-style-type: none"> • Easy reference to individual trade receivables/trade payables balances. • Up-to-date information to manage the business. • Easier to prepare financial statements professionally. • Records are available to present to the tax authorities instantly. <p>Potential arguments for not using double entry accounts</p> <ul style="list-style-type: none"> • Katerina will need to acquire specialist skills, which will be costly in terms of time and/or money. • Time to prepare detailed double entry accounts probably by Katerina. Her time might be better employed doing other work. 	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 that are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5–6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information, and an appropriate decision is made.

Question Number	Answer	Mark
4(a)(i)	<p>[1 AO1], [1 AO2] AO1: One mark for stating the meaning of the term. AO2: One mark for stating what will happen to the total cost of an expenditure item over time.</p> <p>Fixed cost – costs that remain constant [1 AO1] for an accounting period and do not vary with output. [1 AO2]</p>	2

Question Number	Answer	Mark
4(a)(ii)	<p>[1 AO1], [1 AO2] AO1: One mark for stating the meaning of the term. AO2: One mark for stating what will happen to the total cost of an expenditure item over time.</p> <p>Semi-fixed cost – costs that remain constant for a range of output [1 AO1] then a step increase as an additional unit of resource is added to the cost. [1 AO2]</p>	2

Question Number	Answer	Mark
4(a)(iii)	<p>[1 AO1], [1 AO2] AO1: One mark for stating the meaning of the term. AO2: One mark for stating what will happen to the total cost of an expenditure item over time.</p> <p>Semi-variable cost - costs that contain both a fixed element and a variable element [1 AO1]. Fixed elements do not vary but variable elements will change with usage. [1 AO2]</p>	2

Question Number	Answer	Mark																														
4(b)	<p>[4 AO1], [2 AO2], [2 AO3] AO1: Four marks for identifying the correct IAS terminology and the recording of given figures. AO2: Two marks for applying the recording of entries requiring adjustment. AO3: Two marks for interpreting the statements for the inclusion of finished goods inventory.</p> <p>Manufacturing Account for the year ended 31 December 2014</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: right;">£</th> <th style="width: 20%; text-align: right;">£</th> </tr> </thead> <tbody> <tr> <td>Raw material purchases</td> <td></td> <td style="text-align: right;">6 200</td> </tr> <tr> <td>Less closing inventory of raw materials</td> <td></td> <td style="text-align: right;"><u>(450)</u></td> </tr> <tr> <td>Cost of raw materials consumed</td> <td></td> <td style="text-align: right;">5 750 [1 AO2] w + f</td> </tr> <tr> <td>Manufacturing wages</td> <td></td> <td style="text-align: right;"><u>3 250</u> [1 AO1]</td> </tr> <tr> <td>Prime cost [1 AO1]</td> <td></td> <td style="text-align: right;">9 000 [1 AO3]</td> </tr> <tr> <td>Plus overheads</td> <td style="text-align: right;">3 600 [1 AO2]</td> <td></td> </tr> <tr> <td>General expenses</td> <td style="text-align: right;"><u>900</u> [1 AO1]</td> <td></td> </tr> <tr> <td>Depreciation</td> <td></td> <td style="text-align: right;"><u>4 500</u></td> </tr> <tr> <td>Production cost [1 AO1]</td> <td></td> <td style="text-align: right;"><u>13 500</u> [1 AO3]</td> </tr> </tbody> </table>		£	£	Raw material purchases		6 200	Less closing inventory of raw materials		<u>(450)</u>	Cost of raw materials consumed		5 750 [1 AO2] w + f	Manufacturing wages		<u>3 250</u> [1 AO1]	Prime cost [1 AO1]		9 000 [1 AO3]	Plus overheads	3 600 [1 AO2]		General expenses	<u>900</u> [1 AO1]		Depreciation		<u>4 500</u>	Production cost [1 AO1]		<u>13 500</u> [1 AO3]	8
	£	£																														
Raw material purchases		6 200																														
Less closing inventory of raw materials		<u>(450)</u>																														
Cost of raw materials consumed		5 750 [1 AO2] w + f																														
Manufacturing wages		<u>3 250</u> [1 AO1]																														
Prime cost [1 AO1]		9 000 [1 AO3]																														
Plus overheads	3 600 [1 AO2]																															
General expenses	<u>900</u> [1 AO1]																															
Depreciation		<u>4 500</u>																														
Production cost [1 AO1]		<u>13 500</u> [1 AO3]																														

Question Number	Answer	Mark
4(c)(i)	<p>[2 AO2] AO2: Two marks for applying the calculation correctly to the manufacturing cost for the year.</p> <p>Manufacturing cost</p> $\frac{\pounds 13\,500}{180} [1\text{ AO2}] = \pounds 75 \text{ per table } [1\text{ AO2}] \text{ of}$	2

Question Number	Answer	Mark
4(c)(ii)	<p>[2 AO2] AO2: Two marks for applying the calculation correctly to the revenue for the year.</p> <p>Revenue received</p> $\frac{\pounds 28\,000}{160} [1\text{ AO2}] = \pounds 175 \text{ per table } [1\text{ AO2}] \text{ of}$	2

Question Number	Answer	Mark
4(c)(iii)	<p>[2 AO3] A03: Two marks for analysing the cost and production to value the closing inventory.</p> <p>Closing inventory of finished goods $\frac{\pounds 13\,500 \text{ [1 AO3] of } \times 20}{180} = 1\,500 \text{ [1 AO3]}$</p>	2

Question Number	Answer	Mark
4(c)(iv)	<p>[2 AO1], [2 AO2] A01: Two marks for identifying and deducting expenses and deriving the profit for the period. A02: Two marks for applying the calculation correctly to the profit for the year.</p> <p>Profit for the year $28\,000 - (13\,500 \text{ [1 AO2] of} - 1\,500 \text{ of}) = 16\,000 \text{ of}$ $- 3\,600 \text{ [1 AO2]} - (4\,700 + 750) = 5\,450 \text{ [1 AO1]}$ $= 6\,950 \text{ [1 AO1] of}$</p>	4

Question Number	Indicative content
(d)	<p>[1 AO2], [2 AO3], [3 AO4]</p> <p>Potential arguments for using an ICT software package</p> <ul style="list-style-type: none"> • Accuracy of results • Speed of processing • Provides management information for decision making • Making one entry allows the computer to automatically make the second of the double entry, updating the ledger accounts and the trial balance. • Automatic updating ensures accounts and books are always up to date, e.g. money owed to suppliers on purchases control account. <p>Potential arguments for not using an ICT software package</p> <ul style="list-style-type: none"> • Time to learn the software package. • Cost of buying a computer and the software package. • Need to constantly update.

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 that are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5–6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information, and an appropriate decision is made.

Question Number	Answer	Mark																								
5(a)	<p>[1 AO1], [3 AO2], [3 AO3]</p> <p>AO1: One mark for identifying the purchases made.</p> <p>AO2: Three marks for applying the principles of First in First Out to the closing inventory for the month.</p> <p>AO3: Three marks for applying the correct valuation of method and deriving the balance for the end of the month.</p>																									
	<table border="1"> <thead> <tr> <th>Month</th> <th>Receipts/ Purchases</th> <th>Issues/ Revenue</th> <th>Balance/ Inventory</th> </tr> </thead> <tbody> <tr> <td>Opening</td> <td></td> <td></td> <td>20 000@£80</td> </tr> <tr> <td>October</td> <td>25 000@£84</td> <td>15 000@£95 [1 AO2]</td> <td>5 000@£80 25 000@£84 [1 AO3]</td> </tr> <tr> <td>November</td> <td>30 000@£85</td> <td>20 000@£95 [1 AO2]</td> <td>10 000@£84 30 000@£85 [1 AO3]</td> </tr> <tr> <td>December</td> <td>30 000@£82</td> <td>25 000@£95 [1 AO2]</td> <td>15 000@£85 30 000@£82 [1 AO3]</td> </tr> <tr> <td></td> <td>£7 110 000</td> <td>£5 700 000</td> <td>£3 735 000 [1 AO1]</td> </tr> </tbody> </table>	Month	Receipts/ Purchases	Issues/ Revenue	Balance/ Inventory	Opening			20 000@£80	October	25 000@£84	15 000@£95 [1 AO2]	5 000@£80 25 000@£84 [1 AO3]	November	30 000@£85	20 000@£95 [1 AO2]	10 000@£84 30 000@£85 [1 AO3]	December	30 000@£82	25 000@£95 [1 AO2]	15 000@£85 30 000@£82 [1 AO3]		£7 110 000	£5 700 000	£3 735 000 [1 AO1]	
Month	Receipts/ Purchases	Issues/ Revenue	Balance/ Inventory																							
Opening			20 000@£80																							
October	25 000@£84	15 000@£95 [1 AO2]	5 000@£80 25 000@£84 [1 AO3]																							
November	30 000@£85	20 000@£95 [1 AO2]	10 000@£84 30 000@£85 [1 AO3]																							
December	30 000@£82	25 000@£95 [1 AO2]	15 000@£85 30 000@£82 [1 AO3]																							
	£7 110 000	£5 700 000	£3 735 000 [1 AO1]																							
		7																								

Question Number	Answer	Mark
5(b)	<p>[1 AO1], [2 AO2]</p> <p>AO1: One mark for identifying the use of a schedule of trade receivables and ascertaining the total allowance for doubtful debts.</p> <p>AO2: Two marks for applying the calculation of the allowance for doubtful debts where some debt is irrecoverable.</p>	
	<p>£800 000 x 2% = £16 000 [1 AO2]</p> <p>£600 000 x 5% = £30 000</p> <p>£400 000 [1 AO2] x 20% = <u>£80 000</u></p> <p>Allowance = £136 000 [1 AO1]</p>	
		3

Question Number	Answer	Mark																																																								
5(c)	<p>[2 AO1], [5 AO2], [1 AO3]</p> <p>AO1: Two marks for identifying given data as expenditures and the recording of these in the income statement.</p> <p>AO2: Five marks for applying correct adjustments to expenditures and recording these in the income Statement.</p> <p>AO3: One mark for analysing and adjustment of the ADD and including the correct adjustment in the statement of comprehensive income.</p> <p>Statement of Profit or Loss and Comprehensive Income for the three months ended 31 December 2014</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 40%;"></th> <th style="width: 20%; text-align: center;">£</th> <th style="width: 20%;"></th> <th style="width: 20%; text-align: center;">£</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td></td> <td></td> <td style="text-align: right;">5 700 000</td> </tr> <tr> <td>Less</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Opening inventory</td> <td style="text-align: right;">1 600 000</td> <td></td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;"><u>7 110 000</u></td> <td style="text-align: right;">[1 AO2]</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">8 710 000</td> <td></td> <td></td> </tr> <tr> <td>Less closing inventory</td> <td style="text-align: right;"><u>(3 735 000)</u></td> <td style="text-align: right;">[1 AO2] of</td> <td></td> </tr> <tr> <td>Cost of sales</td> <td></td> <td></td> <td style="text-align: right;"><u>4 975 000</u></td> </tr> <tr> <td>Gross profit</td> <td></td> <td></td> <td style="text-align: right;">725 000 [1 AO2]</td> </tr> <tr> <td>Less bad debts</td> <td style="text-align: right;">200 000</td> <td style="text-align: right;">[1 AO2]</td> <td></td> </tr> <tr> <td>Increase in ADD</td> <td style="text-align: right;">66 000</td> <td style="text-align: right;">[1 AO3]</td> <td></td> </tr> <tr> <td>Operating expenses</td> <td style="text-align: right;">450 000</td> <td style="text-align: right;">[1 AO1]</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>(706 000)</u> [1 AO1] of</td> </tr> <tr> <td>Profit for the year</td> <td></td> <td></td> <td style="text-align: right;"><u>19 000</u></td> </tr> </tbody> </table>		£		£	Revenue			5 700 000	Less				Opening inventory	1 600 000			Purchases	<u>7 110 000</u>	[1 AO2]			8 710 000			Less closing inventory	<u>(3 735 000)</u>	[1 AO2] of		Cost of sales			<u>4 975 000</u>	Gross profit			725 000 [1 AO2]	Less bad debts	200 000	[1 AO2]		Increase in ADD	66 000	[1 AO3]		Operating expenses	450 000	[1 AO1]					<u>(706 000)</u> [1 AO1] of	Profit for the year			<u>19 000</u>	8
	£		£																																																							
Revenue			5 700 000																																																							
Less																																																										
Opening inventory	1 600 000																																																									
Purchases	<u>7 110 000</u>	[1 AO2]																																																								
	8 710 000																																																									
Less closing inventory	<u>(3 735 000)</u>	[1 AO2] of																																																								
Cost of sales			<u>4 975 000</u>																																																							
Gross profit			725 000 [1 AO2]																																																							
Less bad debts	200 000	[1 AO2]																																																								
Increase in ADD	66 000	[1 AO3]																																																								
Operating expenses	450 000	[1 AO1]																																																								
			<u>(706 000)</u> [1 AO1] of																																																							
Profit for the year			<u>19 000</u>																																																							

Question Number	Answer	Mark
5(d)	<p>[1 AO2], [1 AO3]</p> <p>AO2: One mark for identifying the accounting concept and the need for inclusion in the financial statements.</p> <p>AO3: One mark for applying the principles of provision for the unascertained value of the expenditure to the financial statements.</p> <p>A reasonable estimate of the costs of the 'clean up' must be included in the financial statements. [1 AO3] This would comply with the prudence concept. [1 AO2]</p>	2

Question Number	Answer	Mark
5(e)	<p>[4 AO1] AO1: Up to two marks for the meaning of the term and up to two marks for where it would be applicable. Social accounting refers to the implications of accounting decisions in the social context [1 AO1] as opposed to a purely profit motive. [1 AO1] Implications that must be considered include, e.g. the local community, environment, employees, and health and safety. [2 AO1]</p>	4

Question Number	Indicative content
5(f)	<p>[1 A02], [2 A03], [3 A04]</p> <p>Potential positive arguments for the business</p> <ul style="list-style-type: none"> • Harit is making a small profit. • If bad debts can be controlled, the profit and ROCE will be good. • Demand for the product is increasing and therefore future profits should increase. <p>Potential negative points for the business</p> <ul style="list-style-type: none"> • Inventory has significantly increased over the three months, tying up cash in inventory. • There are too many long-standing debts, credit control is required • The profit is very low due to bad debts. • Probable social issues with the local community. • Possible safety issues that will require financial resources to improve.

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 that are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5–6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information, and an appropriate decision is made.

Question Number	Answer	Mark
6(a)	<p>[2 AO1] AO1: One mark for identifying each difference, up to a maximum of two marks. Examples:</p> <ul style="list-style-type: none"> Income and expenditure lists income and expenditure for a period of time, whereas a statement of financial position is at a point in time. [1 AO1] Income and expenditure is a revenue statement, whereas a statement of financial position contains all assets and liabilities. [1 AO1] Income and expenditure has no set order whereas a statement of financial position categorises all assets and liabilities. [1 AO1] 	2

Question Number	Answer	Mark																																										
6(b)(i)	<p>[3 AO1], [6 AO2], [1 AO3] AO1: Three marks for stating the correct narrative and bringing down the balances. AO2: Six marks for applying correct adjustments to income. AO3: One mark for analysing the subscriptions and establishing the value of the bad debt.</p> <p style="text-align: center;">Subscriptions Account</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 10%; text-align: center;">£</th> <th style="width: 10%;"></th> <th style="width: 30%;"></th> <th style="width: 10%; text-align: center;">£</th> <th style="width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>Balance b/d</td> <td style="text-align: right;">850</td> <td>[1 AO2]</td> <td>Balance b/d</td> <td style="text-align: right;">320</td> <td>[1 AO2]</td> </tr> <tr> <td>Income and expenditure [1 AO1]</td> <td style="text-align: right;">5 830</td> <td>[1 AO2]</td> <td>Bank</td> <td style="text-align: right;">580</td> <td>[1 AO2]</td> </tr> <tr> <td></td> <td></td> <td></td> <td>Bad debts</td> <td style="text-align: right;">330</td> <td>[1 AO3]</td> </tr> <tr> <td>Balance c/d</td> <td style="text-align: right;"><u>600</u></td> <td>[1 AO2]</td> <td>Balance c/d</td> <td style="text-align: right;"><u>1 050</u></td> <td>[1 AO2]</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>7 280</u></td> <td></td> <td></td> <td style="text-align: right;"><u>7 280</u></td> <td></td> </tr> <tr> <td>Balance b/d</td> <td style="text-align: right;">1 050</td> <td>[1 AO1]</td> <td>Balance b/d</td> <td style="text-align: right;">600</td> <td>[1 AO1]</td> </tr> </tbody> </table>		£			£		Balance b/d	850	[1 AO2]	Balance b/d	320	[1 AO2]	Income and expenditure [1 AO1]	5 830	[1 AO2]	Bank	580	[1 AO2]				Bad debts	330	[1 AO3]	Balance c/d	<u>600</u>	[1 AO2]	Balance c/d	<u>1 050</u>	[1 AO2]		<u>7 280</u>			<u>7 280</u>		Balance b/d	1 050	[1 AO1]	Balance b/d	600	[1 AO1]	10
	£			£																																								
Balance b/d	850	[1 AO2]	Balance b/d	320	[1 AO2]																																							
Income and expenditure [1 AO1]	5 830	[1 AO2]	Bank	580	[1 AO2]																																							
			Bad debts	330	[1 AO3]																																							
Balance c/d	<u>600</u>	[1 AO2]	Balance c/d	<u>1 050</u>	[1 AO2]																																							
	<u>7 280</u>			<u>7 280</u>																																								
Balance b/d	1 050	[1 AO1]	Balance b/d	600	[1 AO1]																																							

Question Number	Answer	Mark																																																															
6(b)(ii)	<p>[4 AO1], [5 AO2], [3 AO3]</p> <p>AO1: Four marks for recording given information in an appropriate format.</p> <p>AO2: Five marks for applying adjustments to given information and recording this correctly in the income and expenditure account.</p> <p>AO3: Three marks for analysing given information and recording this correctly in the income and expenditure account.</p> <p>Income and Expenditure Account for the year ended 31 December 2014</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: right;">£</th> <th style="width: 20%; text-align: right;">£</th> </tr> </thead> <tbody> <tr> <td><u>Income</u></td> <td></td> <td></td> </tr> <tr> <td>Subscriptions</td> <td></td> <td style="text-align: right;">5 830 [1 AO1] of</td> </tr> <tr> <td>Social evenings</td> <td></td> <td></td> </tr> <tr> <td>Income</td> <td style="text-align: right;">890</td> <td></td> </tr> <tr> <td>Expenditure 750 + 180</td> <td style="text-align: right;">930 [1 AO2]</td> <td></td> </tr> <tr> <td>Loss on social evening</td> <td></td> <td style="text-align: right;">(40) [1 AO3]</td> </tr> <tr> <td>Refreshments</td> <td></td> <td></td> </tr> <tr> <td>Income</td> <td style="text-align: right;">2 650</td> <td></td> </tr> <tr> <td>Expenditure 60 + 1400 – 140</td> <td style="text-align: right;">1 320 [1 AO2]</td> <td></td> </tr> <tr> <td>Profit on refreshments</td> <td></td> <td style="text-align: right;">1 330 [1 AO3]</td> </tr> <tr> <td>Bank interest</td> <td></td> <td style="text-align: right;">170 [1 AO1]</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">7 290</td> </tr> <tr> <td><u>Less expenditure</u></td> <td></td> <td></td> </tr> <tr> <td>Rent</td> <td></td> <td style="text-align: right;">2 500 [1 AO1]</td> </tr> <tr> <td>Heat and light</td> <td style="text-align: right;">790 + 70 [1 AO2] + 130 [1 AO2]</td> <td style="text-align: right;">990</td> </tr> <tr> <td>Depreciation – equipment</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">3 000 + 800 [1 AO3] – 2 900</td> <td style="text-align: right;">900 [1 AO1]</td> </tr> <tr> <td>Treasurer’s honorarium</td> <td></td> <td style="text-align: right;">200 [1 AO2]</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">4 590</td> </tr> <tr> <td>Surplus</td> <td></td> <td style="text-align: right;"><u>2 700</u></td> </tr> </tbody> </table>		£	£	<u>Income</u>			Subscriptions		5 830 [1 AO1] of	Social evenings			Income	890		Expenditure 750 + 180	930 [1 AO2]		Loss on social evening		(40) [1 AO3]	Refreshments			Income	2 650		Expenditure 60 + 1400 – 140	1 320 [1 AO2]		Profit on refreshments		1 330 [1 AO3]	Bank interest		170 [1 AO1]			7 290	<u>Less expenditure</u>			Rent		2 500 [1 AO1]	Heat and light	790 + 70 [1 AO2] + 130 [1 AO2]	990	Depreciation – equipment				3 000 + 800 [1 AO3] – 2 900	900 [1 AO1]	Treasurer’s honorarium		200 [1 AO2]			4 590	Surplus		<u>2 700</u>	12
	£	£																																																															
<u>Income</u>																																																																	
Subscriptions		5 830 [1 AO1] of																																																															
Social evenings																																																																	
Income	890																																																																
Expenditure 750 + 180	930 [1 AO2]																																																																
Loss on social evening		(40) [1 AO3]																																																															
Refreshments																																																																	
Income	2 650																																																																
Expenditure 60 + 1400 – 140	1 320 [1 AO2]																																																																
Profit on refreshments		1 330 [1 AO3]																																																															
Bank interest		170 [1 AO1]																																																															
		7 290																																																															
<u>Less expenditure</u>																																																																	
Rent		2 500 [1 AO1]																																																															
Heat and light	790 + 70 [1 AO2] + 130 [1 AO2]	990																																																															
Depreciation – equipment																																																																	
	3 000 + 800 [1 AO3] – 2 900	900 [1 AO1]																																																															
Treasurer’s honorarium		200 [1 AO2]																																																															
		4 590																																																															
Surplus		<u>2 700</u>																																																															

Question Number	Indicative Content
6(c)	<p>[1 AO2], [2 AO3], [3 AO4]</p> <p>Potential arguments for the chairman's view</p> <ul style="list-style-type: none"> • Improve the cash flow by obtaining payment early. • 'Ties' members into the club for an extended period. • Probably lower bad debts. • Reduced collection costs for subscriptions. <p>Potential arguments for the treasurer's view</p> <ul style="list-style-type: none"> • The club is making a surplus and therefore generating adequate cash. • The club has adequate cash. • The club would then be committed to providing the service for an extended period. <p>The total amount collected from five-year members would be less than annual members.</p>

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 that 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.

Write your name here

Surname	Other names
---------	-------------

**Pearson Edexcel
International
Advanced Level**

Centre Number

--	--	--	--	--

Candidate Number

--	--	--	--	--

Accounting

IAL 2 Level

Paper 2: Corporate and Management Accounting

Sample assessment material for first teaching
September 2015
Time: 3 hours

Paper Reference
WAC12

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **both** questions in Section A and **three** questions from Section B.
- Answer the questions in the spaces provided
– *there may be more space than you need.*

Information

- The total mark for this paper is 200.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ►

S49006A

©2015 Pearson Education Ltd.



PEARSON

1/

(ii) payback period, showing your answer in years and months

(6)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(iii) average rate of return (accounting rate of return).

(9)

A series of horizontal dotted lines for writing the answer.

South Island Supermarkets is also considering another location at Tai Hang for the online selling operation. The figures calculated for the Tai Hang location are as follows:

- Initial cost of project: £30 million
- Net present value after 5 years: £8.262 million
- Profitability index: 27.54
- Payback period: 3 years 9.1 months
- Average rate of return (Accounting rate of return): 12%.

(b) (i) Calculate the profitability index for Kowloon, clearly stating the formula used. (4)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(ii) Explain how the profitability index can be useful when evaluating projects. (4)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(c) Explain, with reasons, the most suitable location for the project.

(8)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(c) Prepare the acquisition account in the books of Dhaka Industrials plc.

(8)

A series of horizontal dotted lines for writing the answer.

(d) Prepare the Statement of financial position of Dhaka Industrials plc on 1 January 2014, after the purchase of Eastern Engineering plc.

(16)

A large rectangular area with horizontal dotted lines for writing the answer.

A large rectangular area with rounded corners, containing numerous horizontal dotted lines for writing.

(e) Explain the term **corporate governance**.

(4)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(f) Evaluate the role of an auditor, with reference to how an auditor may play a role in the takeover of Eastern Engineering plc.

(12)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

Area with horizontal dotted lines for writing.

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

SECTION B

**Answer THREE questions in this section. Write your answers in the spaces provided.
Refer to the resource booklet where instructed.**

See resource for Question 3

3 (a) Calculate the:

(i) number of hours worked by each member of staff in Week 7

(4)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(ii) total hours worked in the Speaker Department.

(1)

.....

.....

(b) For the planned production of 640 speakers for Week 7, calculate the:

(i) standard labour cost of production

(2)

.....

.....

.....

.....

(ii) actual labour cost of production

(3)

.....

.....

.....

.....

.....

.....

.....

.....

(iii) labour efficiency variance

(3)

.....

.....

.....

.....

.....

.....

.....

.....

(iv) labour rate variance

(5)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(d) Explain a better, alternative payment system from Jurong Sounds Limited's point of view.

(4)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(Total for Question 3 = 30 marks)

A large rectangular area with rounded corners, containing numerous horizontal dotted lines for writing.

On 1 January 2015, Wilson Brothers Department Stores asked HotSpot plc to supply 9 000 heaters during January at a price of £12 per heater.

- (b) Explain whether HotSpot plc should sell the 5 000 heaters in the inventory to Wilson Brothers Department Stores at a price of £12 per heater, to meet part of the order.

(6)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(c) Evaluate which **one** of the three following options HotSpot plc should select, using marginal costing and the information above.

- Option 1
- Option 2
- Reject the order

(6)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(d) Explain **three** other factors that HotSpot plc may consider in making the decisions in (b) and (c), before deciding whether or not to supply Wilson Brothers Department Stores.

(6)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(Total for Question 4 = 30 marks)

A large rectangular area with rounded corners, containing numerous horizontal dotted lines for writing.

(b) Evaluate how well Mombassa Hardware plc has managed liquidity in the year ended 31 December 2014.

(6)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(Total for Question 5 = 30 marks)

(b) Calculate the break-even point for the company in units of output.

(5)

A series of horizontal dotted lines for writing the answer.

(c) Calculate the margin of safety in sales revenue.

(2)

.....

.....

.....

.....

.....

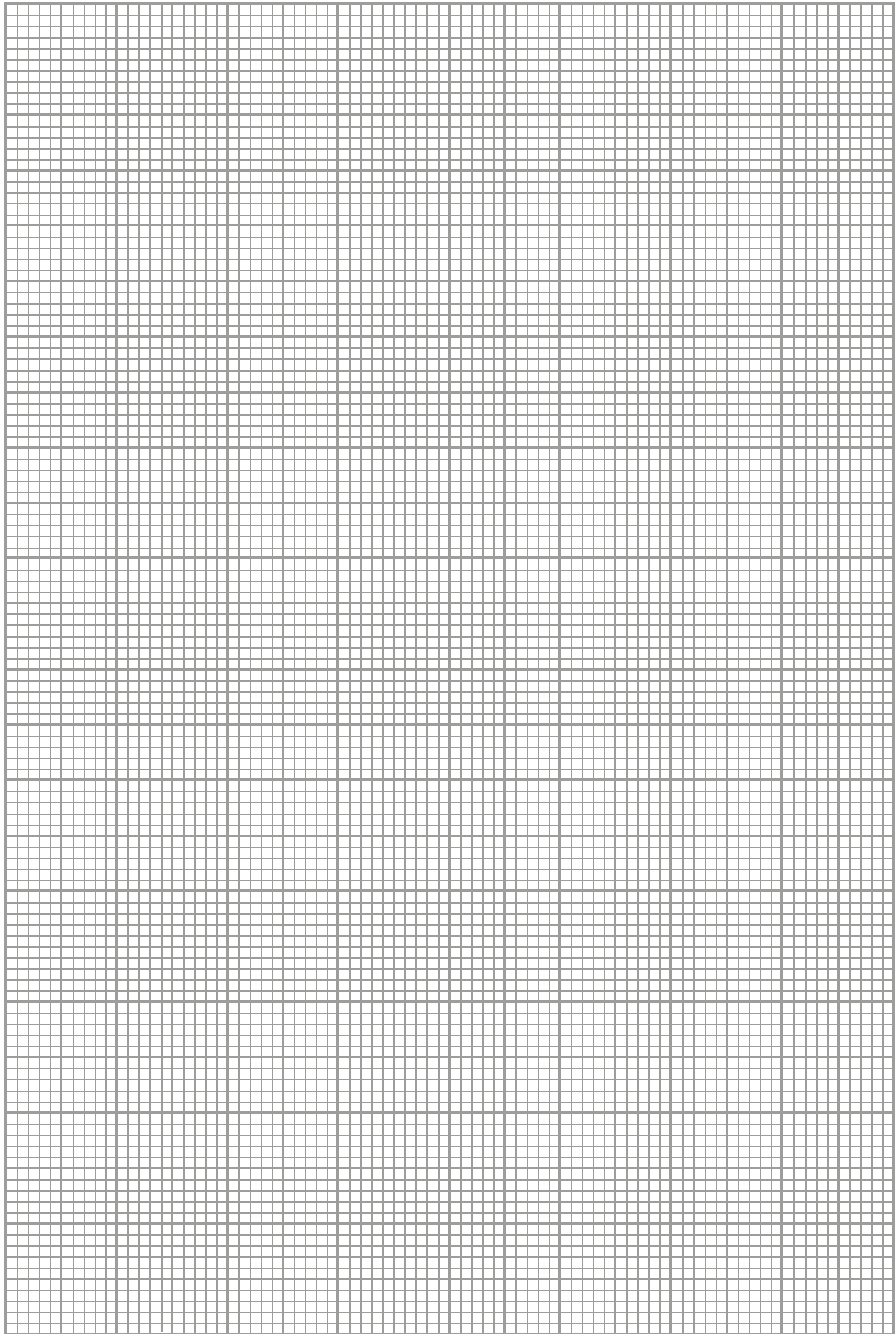
.....

Marcos also likes to see the figures for the year shown on a graph.

(d) Complete the graph for the year ended 31 December 2014 to show:

- fixed costs
- total costs
- sales revenue
- break-even point
- margin of safety in sales units
- angle of incidence
- area of profit or loss.

(7)



Marcos knows 2014 has been a successful year. He has set a target of a profit of £150 000 for the next year, 2015. Marcos knows some costs will increase in 2015, so he intends to increase his selling price.

The following information is available for 2015:

- Premises rent to increase by £350 per quarter.
- Material costs to be £30 per surfboard.
- Manager's salary per month to remain unchanged.
- Direct labour costs to increase by £3 per surfboard.
- Other fixed costs to rise by 15% per quarter.
- Expected sales units 3 200.
- All production to be sold.

(e) Calculate the selling price Marcos must set for 2015, to achieve a profit of £150 000.

(6)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(f) Evaluate the decision to increase the selling price for 2015.

(6)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(Total for Question 6 = 30 marks)

TOTAL FOR SECTION B = 90 MARKS
TOTAL FOR PAPER = 200 MARKS

Pearson Edexcel IAL

Accounting

IA2 Level

Paper 2: Corporate and Management Accounting

Sample assessment material for first teaching
September 2015

Resource booklet

Paper Reference

WAC12

Do not return this resource booklet with the question paper.

Turn over ►

S49006A

©2015 Pearson Education Ltd.



PEARSON

SECTION A

Resource for Question 1

You are the Cost Accountant for South Island Supermarkets. The directors have decided to modernise the company and are considering opening an online selling operation, to be located in Kowloon.

The following information is available

- Forecasts show that the initial cost of the investment will be £40 million.
- Running expenses, including depreciation, for the operation for the first two years are forecast to be £19 million per year.
- In years 3 and 4, running expenses, including depreciation, are forecast to rise by £2 million per year.
- In year 5, running expenses, including depreciation, will rise by a further £3 million per year.
- Depreciation will be £8 million per year for the first five years of the operation.
- In the first year, it is expected that online sales will be £10 million.
- In years 2 and 3, online sales are expected to be £25 million per year.
- In years 4 and 5, online sales are expected to be £35 million per year.
- It is company policy to have a payback period of three years on investment projects.
- The company's cost of capital is 8%.
- The following is an extract from the present value table:

	8%
Year 1	0.926
Year 2	0.857
Year 3	0.794
Year 4	0.735
Year 5	0.681

- 1** (a) Calculate for the project the:
- (i) net present value (12)
 - (ii) payback period, showing your answer in years and months (6)
 - (iii) average rate of return (accounting rate of return). (9)

South Island Supermarkets is also considering another location at Tai Hang for the online selling operation. The figures calculated for the Tai Hang location are as follows:

- Initial cost of project: £30 million
 - Net present value after 5 years: £8.262 million
 - Profitability index: 27.54
 - Payback period: 3 years 9.1 months
 - Average rate of return (Accounting rate of return): 12%.
- (b) (i) Calculate the profitability index for Kowloon, clearly stating the formula used. (4)
- (ii) Explain how the profitability index can be useful when evaluating projects. (4)
- (c) Explain, with reasons, the most suitable location for the project. (8)
- (d) Evaluate how ICT could be used to select the location for the new store and to sell online. (12)

(Total for Question 1 = 55 marks)

Resource for Question 2

Dhaka Industrials purchased Eastern Engineering plc on 1 January 2015. The directors of Dhaka Industrials plc agreed to take over all of the assets and to settle all the liabilities of Eastern Engineering plc.

The Statements of financial position of the two companies on 31 December 2014, before any revaluations, were as follows:

	Eastern Engineering plc		Dhaka Industrials plc	
	£m	£m	£m	£m
Assets				
Non-current assets				
Property, plant and equipment	720		2 450	
Intangible assets	12		118	
		732		2 568
Current assets				
Inventories	27		132	
Trade and other receivables	10		84	
Cash and Cash equivalents	5		289	
		<u>42</u>		<u>505</u>
Total assets		<u><u>774</u></u>		<u><u>3 073</u></u>
Equity and liabilities	£	£	£	£
Equity				
Ordinary shares of £1 each	---			
Ordinary shares of £0.50 each	400			
Share premium	120		300	
Retained earnings	132		683	
Total capital and reserves		652		2 783
Non-current liabilities				
5.5% Debenture 2019	60		---	
Bank loan	45		210	
		105		210
Current liabilities				
Trade and other payables	10		56	
Current tax payable	5		24	
Short-term provisions	2		---	
		<u>17</u>		<u>80</u>
Total Equity and liabilities		<u><u>774</u></u>		<u><u>3 073</u></u>

Additional information

After an inspection of the books and the assets of Eastern Engineering plc, the following valuations were agreed:

- Property with a book value of £429m had a current market value of £454m
- Plant with a book value of £238m was reduced by £49m
- Equipment with a book value of £53m was reduced to a value of £38m
- Intangibles were reduced by 25%
- Inventories were reduced to a net realisable value of £21m
- Trade receivables were reduced by 10%
- Current tax payable was reduced by £1m.

Goodwill was agreed at three times the balance in the retained earnings of Eastern Engineering plc at 31 December 2014, before any revaluations.

- 2 (a) Calculate the purchase price of Eastern Engineering plc. (7)

The purchase was settled on the following terms. For every one share held in Eastern Engineering plc, a shareholder received:

- one ordinary share of £1 in Dhaka Industrials plc at a premium of 20 pence (£0.20)
- the balance per share to be paid in cash.

- (b) Calculate the amount of cash a shareholder in Eastern Engineering plc would receive for every share held. (8)

- (c) Prepare the acquisition account in the books of Dhaka Industrials plc. (8)

- (d) Prepare the Statement of financial position of Dhaka Industrials plc on 1 January 2014, after the purchase of Eastern Engineering plc. (16)

- (e) Explain the term **corporate governance**. (4)

- (f) Evaluate the role of an auditor, with reference to how an auditor may play a role in the takeover of Eastern Engineering plc. (12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

SECTION B

Resource for Question 3

Jurong Sounds Limited produces audio equipment at its factory. You have just been appointed as the Cost Accountant for the company. You are looking at the performance of the Speaker Department.

The following information is available:

- The department employs four workers.
- The production target for the week is 640 speakers, which must be met.
- Each member of staff has a target output of 160 speakers per week.
- The standard cost of producing one speaker is 15 minutes labour, with labour being paid at £6.80 per hour.
- Labour is scheduled to work 8 hours a day, 5 days a week.
- If a worker fails to meet their production target in normal time, they must work overtime to reach their target.
- If a minimum of an extra 30 minutes are recorded on the time card, this will represent half an hour's (30 minutes) overtime.
- Overtime is paid at the rate of £10.20 per hour.

The staff time cards for the Speaker Department for Week 7 are shown below.

JURONG SOUNDS LIMITED DEPARTMENT: SPEAKER						
NAME: MIRA						
WEEK 7						
Hours	IN	OUT		IN	OUT	
Mon	8.00	12.00		1.00	5.00	
Tues	8.00	12.00		1.00	5.00	
Weds	8.00	12.00		1.00	5.00	
Thurs	8.00	12.00		1.00	5.00	
Fri	8.00	12.00		1.00	5.00	

JURONG SOUNDS LIMITED DEPARTMENT: SPEAKER						
NAME: JARED						
WEEK 7						
Hours	IN	OUT		IN	OUT	
Mon	8.00	12.00		1.00	5.00	
Tues	8.00	12.00		1.00	5.00	
Weds	8.00	12.00		1.00	6.02	
Thurs	8.00	12.00		1.00	6.03	
Fri	8.00	12.00		1.00	6.01	

- 3** (a) Calculate the:
- (i) number of hours worked by each member of staff in Week 7 (4)
 - (ii) total hours worked in the Speaker Department. (1)
- (b) For the planned production of 640 speakers for Week 7, calculate the:
- (i) standard labour cost of production (2)
 - (ii) actual labour cost of production (3)
 - (iii) labour efficiency variance (3)
 - (iv) labour rate variance (5)
 - (v) total labour variance. (2)
- (c) Evaluate the payment system currently being used by Jurong Sounds Limited. (6)
- (d) Explain a better, alternative payment system from Jurong Sounds Limited's point of view. (4)

(Total for Question 3 = 30 marks)

Resource for Question 4

HotSpot plc is a new company producing small heaters. HotSpot plc has a two-year contract to supply a major electrical chain, Double E plc, with 40 000 heaters per year.

The following information is available for the year ended 31 December 2014.

Opening inventory (stock)	Nil
Production	45 000 heaters per year
Semi-variable costs	£132 000 per year plus £1.50 per heater
Fixed overheads	£4 000 per month
Direct materials	£2.50 per heater
Direct labour	1 hour's work per heater at a wage rate of £6.50 per hour
Sales price	£16 per heater
Closing inventory	5 000 heaters

Additional information

If HotSpot plc decides to sell the inventory of 5 000 heaters to Wilson Brothers Department Stores, the company has the following options to supply the remainder of the order:

- **Option 1:** HotSpot plc will produce 4 000 extra heaters to fulfil the order. This would require workers to work overtime, paid at double time, at a wage rate of £13 an hour. All other costs remain the same.
- **Option 2:** HotSpot plc can buy the heaters at a price of £11 each from another firm.

OR

- **Reject the order**

- 4 (a) Prepare for management a Statement of profit or loss and other comprehensive income for the year ended 31 December 2014.

Closing inventory is to be valued using absorption costing.

(12)

On 1 January 2015, Wilson Brothers Department Stores asked HotSpot plc to supply 9 000 heaters during January at a price of £12 per heater.

- (b) Explain whether HotSpot plc should sell the 5 000 heaters in the inventory to Wilson Brothers Department Stores at a price of £12 per heater, to meet part of the order.

(6)

- (c) Evaluate which one of the three following options HotSpot plc should select, using marginal costing and the information in the Resource:

- Option 1
- Option 2
- Reject the order.

(6)

- (d) Explain **three** other factors that HotSpot plc may consider in making the decisions in (b) and (c), before deciding whether or not to supply Wilson Brothers Department Stores.

(6)

(Total for Question 4 = 30 marks)

Resource for Question 5

The Statements of financial position of Mombassa Hardware plc at 31 December 2013 and 31 December 2014 were as follows:

	31 December 2013	31 December 2014
	£	£
ASSETS		
Non-current assets		
Non-current assets at cost	950 000	1 048 000
Provision for depreciation	<u>(325 000)</u>	<u>(346 000)</u>
	625 000	702 000
Current assets		
Inventories	217 000	238 000
Trade and other receivables	146 000	135 000
Cash	<u>12 000</u>	<u>19 000</u>
	375 000	392 000
Total assets	<u><u>1 000 000</u></u>	<u><u>1 094 000</u></u>
Equity and liabilities		
Equity		
Share capital – £1 ordinary shares	480 000	400 000
Share premium	240 000	200 000
Retained earnings	103 000	88 000
Total capital and reserves	823 000	688 000
Non-current liabilities		
7% Debenture 2024	-----	250 000
Current liabilities		
Trade and other payables	139 000	152 000
Tax payable	38 000	4 000
	<u>177 000</u>	<u>156 000</u>
Total equity and liabilities	<u><u>1 000 000</u></u>	<u><u>1 094 000</u></u>

Additional information

- Property was bought for £140 000 on 1 January 2014.
- Computers bought for £42 000 were sold for £6 000 on 1 January 2014. The carrying (net book) value of the property was £14 000.
- At 12 February 2014, a final dividend of 6 pence (£0.06) per share was paid to all ordinary shareholders.
- On 16 March 2014, a 7% Debenture maturing in 2024 was issued. Interest payments are every six months, starting in September 2014.

- On 19 April 2014, 80 000 £1 ordinary shares were redeemed at the same price they were issued, i.e. with a 50 pence (£0.50) premium.
- At 28 August 2014, an interim dividend of 2 pence (£0.02) per share was paid to all ordinary shareholders.
- Operating profit before tax for the year ended 31 December 2014 was £25 800.

5 (a) Prepare the Statement of cash flows for the year ended 31 December 2014 for Mombassa Hardware plc in accordance with International Accounting Standard (IAS) 7.

(24)

(b) Evaluate how well Mombassa Hardware plc has managed liquidity in the year ended 31 December 2014.

(6)

(Total for Question 5 = 30 marks)

Resource for Question 6

Wave Rider Limited produces surfboards. The company rents premises on the seafront, where it makes the surfboards it sells to customers.

The following information is available for the year ended 31 December 2014:

- Premises rent £4 250 per quarter (3 months)
- Material costs £28 per surfboard
- Manager's salary £2 100 per month
- Direct labour costs £32 per surfboard
- Other fixed costs £1 600 per quarter (3 months)
- Selling price £120 per surfboard
- Sales units 3 127 for the year
- All production was sold.

6 You are the Accountant for Wave Rider Limited, and must prepare some figures for a meeting with Marcos, the owner of the company.

For the year ended 31 December 2014

- (a) Prepare a Statement of profit or loss and other comprehensive income. (4)
- (b) Calculate the break-even point for the company in units of output. (5)
- (c) Calculate the margin of safety in sales revenue. (2)

Marcos also likes to see the figures for the year shown on a graph.

- (d) Complete the graph for the year ended 31 December 2014 to show:
- fixed costs
 - total costs
 - sales revenue
 - break-even point
 - margin of safety in sales units
 - angle of incidence
 - area of profit or loss.
- (7)

Marcos knows 2014 has been a successful year. He has set a target of a profit of £150 000 for the next year, 2015. Marcos knows some costs will increase in 2015, so he intends to increase his selling price.

The following information is available for 2015:

- Premises rent to increase by £350 per quarter.
- Material costs to be £30 per surfboard.
- Manager's salary per month to remain unchanged.
- Direct labour costs to increase by £3 per surfboard.
- Other fixed costs to rise by 15% per quarter.
- Expected sales units 3 200.
- All production to be sold.

(e) Calculate the selling price Marcos must set for 2015, to achieve a profit of £150 000.

(6)

(f) Evaluate the decision to increase the selling price for 2015.

(6)

(Total for Question 6 = 30 marks)

TOTA FOR SECTION B = 90 MARKS

TOTAL FOR PAPER = 200 MARKS

Question Number	Answer	Mark																																																
1(a)(i)	<p>[6 AO1], [6 AO2] AO1: Six marks for correct technique to calculate net cash flow each month. AO2: Six marks for correct procedure to calculate discounted cash flow and total.</p> <table border="1"> <thead> <tr> <th></th> <th>Cash Inflow</th> <th>Cash Outflow</th> <th>Net Cash Flow</th> <th>Discount Factor</th> <th>Discounted Cash Flow</th> </tr> </thead> <tbody> <tr> <td>Year 0</td> <td></td> <td></td> <td>- 40</td> <td>1</td> <td>- 40.000 [1 AO1]</td> </tr> <tr> <td>Year 1</td> <td>10</td> <td>11</td> <td>- 1 [1 AO1]</td> <td>0.926</td> <td>- 0.926 [1 AO2]</td> </tr> <tr> <td>Year 2</td> <td>25</td> <td>11</td> <td>14 [1 AO1]</td> <td>0.857</td> <td>11.998 [1 AO2]</td> </tr> <tr> <td>Year 3</td> <td>25</td> <td>13</td> <td>12 [1 AO1]</td> <td>0.794</td> <td>9.528 [1 AO2]</td> </tr> <tr> <td>Year 4</td> <td>35</td> <td>13</td> <td>22 [1 AO1]</td> <td>0.735</td> <td>16.170 [1 AO2]</td> </tr> <tr> <td>Year 5</td> <td>35</td> <td>16</td> <td>19 [1 AO1]</td> <td>0.681</td> <td>12.939 [1 AO2]</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>NPV</td> <td>9.709 [1 AO2]</td> </tr> </tbody> </table> <p><i>of rule applies to discounted cash flow calculations</i></p>		Cash Inflow	Cash Outflow	Net Cash Flow	Discount Factor	Discounted Cash Flow	Year 0			- 40	1	- 40.000 [1 AO1]	Year 1	10	11	- 1 [1 AO1]	0.926	- 0.926 [1 AO2]	Year 2	25	11	14 [1 AO1]	0.857	11.998 [1 AO2]	Year 3	25	13	12 [1 AO1]	0.794	9.528 [1 AO2]	Year 4	35	13	22 [1 AO1]	0.735	16.170 [1 AO2]	Year 5	35	16	19 [1 AO1]	0.681	12.939 [1 AO2]					NPV	9.709 [1 AO2]	12
	Cash Inflow	Cash Outflow	Net Cash Flow	Discount Factor	Discounted Cash Flow																																													
Year 0			- 40	1	- 40.000 [1 AO1]																																													
Year 1	10	11	- 1 [1 AO1]	0.926	- 0.926 [1 AO2]																																													
Year 2	25	11	14 [1 AO1]	0.857	11.998 [1 AO2]																																													
Year 3	25	13	12 [1 AO1]	0.794	9.528 [1 AO2]																																													
Year 4	35	13	22 [1 AO1]	0.735	16.170 [1 AO2]																																													
Year 5	35	16	19 [1 AO1]	0.681	12.939 [1 AO2]																																													
				NPV	9.709 [1 AO2]																																													

Question Number	Answer															
1(a)(ii)	<p>[6 AO2] AO2: Six marks for correct procedure to calculate payback period.</p> <table border="1"> <thead> <tr> <th>Payback Period</th> <th>Net Cash Flow</th> <th>Cumulative</th> </tr> </thead> <tbody> <tr> <td>Year 1</td> <td>- 1</td> <td>- 1</td> </tr> <tr> <td>Year 2</td> <td>14</td> <td>13 [1 AO2]</td> </tr> <tr> <td>Year 3</td> <td>12</td> <td>25</td> </tr> <tr> <td>Year 4</td> <td>22</td> <td>47 [1 AO2]</td> </tr> </tbody> </table> <p>Payback period = 3 years + $\left(\frac{15}{22} [1 AO2] \times 12 [1 AO2]\right)$ months = 3 years [1 AO2] 8.18 months [1 AO2]</p> <p><i>of rule applies to all calculations</i></p>	Payback Period	Net Cash Flow	Cumulative	Year 1	- 1	- 1	Year 2	14	13 [1 AO2]	Year 3	12	25	Year 4	22	47 [1 AO2]
Payback Period	Net Cash Flow	Cumulative														
Year 1	- 1	- 1														
Year 2	14	13 [1 AO2]														
Year 3	12	25														
Year 4	22	47 [1 AO2]														

6

Question Number	Answer	Mark
1(a)(iii)	<p>[9 AO2] AO2: Nine marks for correct procedure to calculate accounting rate of return. Average Rate of Return</p> <p>Total Profit of Project = £66m [1 AO2] - £40m [1 AO2] = £26m [1 AO2]</p> <p>Average Annual return = $\frac{\text{£26m of [1 AO2]}}{5 \text{ years [1 AO2]}}$ = £5.2m per year of [1 AO2]</p> <p>Accounting Rate of Return = $\frac{\text{£5.2m of [1 AO2]}}{\text{£(40 + 0)/2 [1 AO2]}} \times 100$ = 26% of [1 AO2]</p> <p><i>of rule applies to all calculations</i></p>	9

Question Number	Answer	Mark
1(b)(i)	<p>[1 AO1], [3 AO2] AO1: One mark for correct demonstration of recall of formula. AO2: Three marks for correct procedure to calculate profitability index.</p> <p>Profitability Index = $\frac{\text{Net Present Value}}{\text{Initial Cost of Project}} \times 100$ [1 AO1]</p> <p>Profitability Index of Kowloon = $\frac{9.709 \text{ [1 AO2]}}{40 \text{ [1 AO2]}} \times 100 = 24.273 \text{ [1 AO2]}$</p>	4

Question Number	Answer	Mark
1(b)(ii)	<p>[2 A02], [2 A03] A02: Two marks for correct understanding of profitability index. A03: Two marks for correct communication of profitability index to compare projects of different costs.</p> <p>The profitability index (PI) shows whether a project is worth investing in or not. [1 A03] If the PI is greater than zero, the project is worth investing in. [1 A03] The PI also allows projects of different initial costs to be compared. [1 A02] The higher the PI, the better the financial return for the company. [1 A02]</p>	4

Question Number	Indicative content	Mark
1(c)	<p>[2 AO1], [4 AO3], [2 AO4]</p> <p>The case for Kowloon Payback is shorter by 5.28 months. Average rate of return is higher by 1%. The net present value is higher by £1.447 million. This takes account of the falling value of money over time.</p> <p>The case for Tai Hang The profitability index is greater by 3.267. This takes account of the different initial costs of the project.</p> <p><u>Recommendation</u> The profitability index for Tai Hang is greater than for Kowloon, which means Tai Hang gives a greater return for every pound invested and should be chosen.</p>	8

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-3	Isolated elements of knowledge and understanding that 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 that 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	7-8	Accurate and thorough understanding, supported throughout by relevant application to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects. An attempt at an assessment is presented, using financial and maybe non-financial information, in an appropriate format and communicates reasoned explanations.

Question Number	Indicative content	Mark
1(d)	<p>[1 AO1], [1 AO2], [4 AO3], [6 AO4]</p> <p>Answers may include:</p> <p><u>Case for ICT</u></p> <ul style="list-style-type: none"> • Saves time and therefore money, compared to preparing accounts by hand. • Many accounting packages are available, and these can produce sales invoices, discounts, aged list of debtors, payroll, cash flow, tax returns and create final accounts etc. • Electronic Point of Sale ensures a perpetual, up-to-date stock control system for stock levels, stock valuation, and reordering. • Some packages are widely used, which allows auditors to be familiar with their use, making audits more thorough and meaningful. Packages should leave an audit trail. • Spreadsheets can be used for budgets, job costing, variances etc. <p><u>Case against ICT</u></p> <ul style="list-style-type: none"> • Financial cost of hardware, software, staff training, running costs, maintenance etc. • If staff are not trained, or are unskilled, they can make errors, which the computer may compound. • Security risks, especially if the public can access the system to make purchases online. Also from staff, who may have to be restricted to certain areas. • Computer crashes, freezes etc., which may result in a loss of information. <p>Should conclude that ICT is very advantageous for accounting.</p>	12

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1–3	Isolated elements of knowledge and understanding that is recall based. Weak or no relevant application. Generic assertions may be present.
Level 2	4–6	Elements of knowledge and understanding that are applied to accounting. Chains of reasoning are present, but may be incomplete or invalid. A generic or superficial assessment is present.
Level 3	7–9	Accurate and thorough understanding, supported throughout by relevant application, maybe 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 information in an appropriate format and communicates reasoned explanations.
Level 4	10–12	Accurate and thorough knowledge and understanding, supported maybe 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 perhaps non-financial information, and makes an informed conclusion.

Question Number	Answer	Mark																																						
2 (a)	<p>[7 AO1] AO1: Seven marks for demonstrating knowledge of correct accounting procedures to calculate purchase price.</p> <table border="1"> <thead> <tr> <th colspan="3">Calculation of Purchase Price</th> </tr> </thead> <tbody> <tr> <td>Property</td> <td>454</td> <td rowspan="3">[1 AO1] – 3 figures</td> </tr> <tr> <td>Plant</td> <td>189</td> </tr> <tr> <td>Equipment</td> <td>38</td> </tr> <tr> <td>Intangibles</td> <td>9</td> <td>[1 AO1]</td> </tr> <tr> <td>Inventories</td> <td>21</td> <td rowspan="3">[1 AO1] – 3 figures</td> </tr> <tr> <td>Trade and other receivables</td> <td>9</td> </tr> <tr> <td>Cash and cash equivalents</td> <td>5</td> </tr> <tr> <td>Debenture</td> <td>(60)</td> <td rowspan="2">[1 AO1] – 2 figures</td> </tr> <tr> <td>Bank loan</td> <td>(45)</td> </tr> <tr> <td>Trade and other payables</td> <td>(10)</td> <td rowspan="3">[1 AO1] – 3 figures</td> </tr> <tr> <td>Current tax payable</td> <td>(4)</td> </tr> <tr> <td>Short-term provisions</td> <td>(2)</td> </tr> <tr> <td>Goodwill</td> <td>396</td> <td>[1 AO1]</td> </tr> <tr> <td>Purchase price</td> <td>1000</td> <td>[1 AO1] <i>of</i></td> </tr> </tbody> </table>	Calculation of Purchase Price			Property	454	[1 AO1] – 3 figures	Plant	189	Equipment	38	Intangibles	9	[1 AO1]	Inventories	21	[1 AO1] – 3 figures	Trade and other receivables	9	Cash and cash equivalents	5	Debenture	(60)	[1 AO1] – 2 figures	Bank loan	(45)	Trade and other payables	(10)	[1 AO1] – 3 figures	Current tax payable	(4)	Short-term provisions	(2)	Goodwill	396	[1 AO1]	Purchase price	1000	[1 AO1] <i>of</i>	7
Calculation of Purchase Price																																								
Property	454	[1 AO1] – 3 figures																																						
Plant	189																																							
Equipment	38																																							
Intangibles	9	[1 AO1]																																						
Inventories	21	[1 AO1] – 3 figures																																						
Trade and other receivables	9																																							
Cash and cash equivalents	5																																							
Debenture	(60)	[1 AO1] – 2 figures																																						
Bank loan	(45)																																							
Trade and other payables	(10)	[1 AO1] – 3 figures																																						
Current tax payable	(4)																																							
Short-term provisions	(2)																																							
Goodwill	396	[1 AO1]																																						
Purchase price	1000	[1 AO1] <i>of</i>																																						

Question Number	Answer	Mark
2 (b)	<p>[2 AO2], [6 AO3] AO2: Up to two marks for correct accounting technique in calculating total amount of shares. AO3: Up to six marks for analysing data to calculate cash received per share.</p> <p>Number of shares in</p> <p style="padding-left: 40px;">Eastern Engineering plc = (400m × 2) [1 AO2]</p> <p style="padding-left: 120px;">= 800m [1 AO2]</p> <p>Total amount received per share = $\frac{\pounds 1\,000\text{m}}{800\text{m}}$ [1 AO3] <i>of</i></p> <p style="padding-left: 40px;">= £1.25 per share [1 AO3] <i>of</i></p> <p style="padding-left: 40px;">Value of share received = (£1 nominal value + 20p premium) [1 AO3]</p> <p style="padding-left: 40px;">= £1.20 [1 AO3]</p> <p>So, value of cash received = (£1.25 - £1.20) [1 AO3]</p> <p style="padding-left: 40px;">= 5p per share [1 AO3] <i>Of</i></p>	8

Question Number	Answer	Mark																																																													
2 (c)	<p>[8 AO2] Eight marks for applying knowledge of accounting procedures and preparing the account in an appropriate format.</p>																																																														
Acquisition Account																																																															
1 Jan	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Property, plant + equipment</td> <td style="width: 10%; text-align: right;">681</td> <td style="width: 10%;"></td> </tr> <tr> <td>Intangibles</td> <td style="text-align: right;">9</td> <td style="text-align: right;">[1 AO2]</td> </tr> <tr> <td>Inventories</td> <td style="text-align: right;">21</td> <td></td> </tr> <tr> <td>Trade receivables</td> <td style="text-align: right;">9</td> <td style="text-align: right;">[1 AO2]</td> </tr> <tr> <td>Cash</td> <td style="text-align: right;">5</td> <td></td> </tr> <tr> <td>Goodwill</td> <td style="text-align: right;">396</td> <td style="text-align: right;">[1 AO2]</td> </tr> <tr> <td></td> <td style="border-top: 1px solid black; text-align: right;">1121</td> <td></td> </tr> </table>	Property, plant + equipment	681		Intangibles	9	[1 AO2]	Inventories	21		Trade receivables	9	[1 AO2]	Cash	5		Goodwill	396	[1 AO2]		1121		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">1 Jan</td> <td style="width: 10%;"></td> <td style="width: 10%; text-align: right;">60</td> <td style="width: 10%;"></td> </tr> <tr> <td>Debenture</td> <td></td> <td style="text-align: right;">60</td> <td style="text-align: right;">[1 AO2]</td> </tr> <tr> <td>Bank loan</td> <td></td> <td style="text-align: right;">45</td> <td></td> </tr> <tr> <td>Trade payables</td> <td></td> <td style="text-align: right;">10</td> <td></td> </tr> <tr> <td>Current tax payable</td> <td></td> <td style="text-align: right;">4</td> <td style="text-align: right;">[1 AO2]</td> </tr> <tr> <td>Short-term provisions</td> <td></td> <td style="text-align: right;">2</td> <td></td> </tr> <tr> <td>Purchase price: Cash</td> <td></td> <td style="text-align: right;">40</td> <td style="text-align: right;">[1 AO2]</td> </tr> <tr> <td></td> <td style="padding-left: 20px;">Shares</td> <td style="text-align: right;">800</td> <td style="text-align: right;">[1 AO2]</td> </tr> <tr> <td></td> <td style="padding-left: 20px;">Share premium</td> <td style="text-align: right; border-top: 1px solid black;">160</td> <td style="text-align: right;">[1 AO2]</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">1121</td> <td></td> </tr> </table>	1 Jan		60		Debenture		60	[1 AO2]	Bank loan		45		Trade payables		10		Current tax payable		4	[1 AO2]	Short-term provisions		2		Purchase price: Cash		40	[1 AO2]		Shares	800	[1 AO2]		Share premium	160	[1 AO2]			1121	
Property, plant + equipment	681																																																														
Intangibles	9	[1 AO2]																																																													
Inventories	21																																																														
Trade receivables	9	[1 AO2]																																																													
Cash	5																																																														
Goodwill	396	[1 AO2]																																																													
	1121																																																														
1 Jan		60																																																													
Debenture		60	[1 AO2]																																																												
Bank loan		45																																																													
Trade payables		10																																																													
Current tax payable		4	[1 AO2]																																																												
Short-term provisions		2																																																													
Purchase price: Cash		40	[1 AO2]																																																												
	Shares	800	[1 AO2]																																																												
	Share premium	160	[1 AO2]																																																												
		1121																																																													
		8																																																													

Question Number	Answer	Mark	
2 (d)	<p>[5 AO1], [6 AO2], [5 AO3]</p> <p>AO1: Five marks for demonstrating correct knowledge of accounting procedures and techniques.</p> <p>AO2: Six marks for correct application of accounting principles to produce a statement of financial position after the take-over.</p> <p>AO3: Five marks for correct analysis of cash paid to shareholders.</p>		
Statement of financial position at Dhaka Industrials plc			
ASSETS	Working	£m	£m
Non-current assets			
Property, plant and equipment	681 + 2 450	3 131 [1 AO1]	
Intangible assets	9 + 118 + 396	523 [2 AO3]	
			3 654
Current assets			
Inventories	21 + 132	153 [1 AO2]	
Trade and other receivables	9 + 84	93 [1 AO1]	
Cash and cash equivalents	5 + 289 [1 AO3] -40 [1 AO3]	254 [1 AO2]	
			500
Total assets			<u>4 154</u>
Equity and liabilities		£m	£m
Equity			
Ordinary shares of £1 each	1 800 + 800	2 600 [1 AO2]	
Share premium	300 + 160 [1 AO3]	460 [1 AO2]	
Retained earnings		683 [1 AO2]	
Total capital and reserves			3 743
Non-current liabilities			
5.5% Debenture 2019		60	
Bank loan	45 + 210	255 [1 AO1]	
			315
Current liabilities			
Trade and other payables	10 + 56	66 [1 AO1]	
Current tax payable	4 + 24	28 [1 AO2]	
Short-term provisions		2 [1 AO1]	
			96
Total equity and liabilities			<u>4 154</u>

16

Question Number	Answer	Mark
2 (e)	<p>[2 AO1], [2 AO3] AO1: Two marks for recall of term. AO3: Two marks for communicating complex understanding of corporate governance. Answers may include: Corporate governance is the mechanisms and processes used to control and direct companies in pursuit of their objectives. [1 AO1] This will involve the rights and responsibilities of the board of directors and managers. [1 AO1] Mechanisms may include monitoring the actions, policies and decisions of companies and their agents. [1 AO3] Corporate governance practices will try to align the interests of stakeholders and minimise conflict [1 AO3].</p>	4

Question Number	Indicative content	Mark
2 (f)	<p>[1 AO1], [1 AO2], [4 AO3], [6 AO4]</p> <p><u>Case for auditor role</u></p> <ul style="list-style-type: none"> • External auditors are independent, scrutinisers of accounts and records. • External auditors take an objective view of transactions, records and events. • Internal and external auditors carry out audits that may detect errors, omissions and fraud in the accounts. • Auditors try to ensure that the accounts show a true and fair view. • Auditors may well be used in this scenario, to ensure that the assets and liabilities of Eastern Engineering plc have an accurate value. This could be done by inspecting books, records, and assets etc. • External auditors produce an Auditors' Report that states if the accounts give a true and fair view, and have been prepared properly. • Companies must have accounts audited by law, which is a statement that shows auditors are important. <p><u>Case against auditor role</u></p> <ul style="list-style-type: none"> • Auditors may not detect all errors, omissions and fraud. • External auditors may not be totally independent of the clients who have hired them. This is why audits must be put out to tender every 10 years. • External auditors may be wary of disagreeing with clients who may offer other well-paid work, e.g. management consultancy. <p>Should conclude that auditors have a valuable role to play.</p>	4

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1–3	Isolated elements of knowledge and understanding that 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 that may be applied to the scenario. Chains of reasoning are present, but may be incomplete or invalid. A generic or superficial assessment is present.
Level 3	7–9	Accurate and thorough understanding, supported throughout by relevant application to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects. An attempt at an assessment is presented, using financial and non-financial information, in an appropriate format and communicates reasoned explanations.
Level 4	10–12	Accurate and thorough knowledge and understanding, supported throughout by relevant and application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised, using financial and maybe non-financial information, and makes an informed decision.

Question Number	Answer	Mark
3 (a)(i)	[4 AO1] AO1: Four marks for correctly calculating time cards to calculate hours worked. Mira 40 hours [1 AO1] Jared 43 hours [1 AO1] Aqila 42 hours [1 AO1] Luqman 44.5 hours [1 AO1]	4

Question Number	Answer	Mark
3 (a)(ii)	[1 AO2] AO2: One mark for correctly adding up total. Total hours worked = 169.5 [1 AO2] of	1

Question Number	Answer	Mark
3 (b)(i)	<p>[2 AO2] AO2: Two marks for using correct procedure to calculate standard labour cost. Standard labour cost = $(4 \times 40 \times \text{£}6.80)$ [1 AO2] = $\text{£}1\,088$ [1 AO2]</p>	2

Question Number	Answer	Mark
3 (b)(ii)	<p>[2 AO2], [1 AO3] AO2: Two marks for using correct procedure in calculating actual labour cost. AO3: One mark for the correct labour cost. Actual labour cost = $(160 \times \text{£}6.80)$ [1 AO2] + $(9.5 \times \text{£}10.20)$ [1 AO2] <i>of</i> = $\text{£}1\,088 + \text{£}96.90 = \text{£}1\,184.90$ [1 AO3] <i>of</i></p>	3

Question Number	Answer	Mark
3(b)(iii)	<p>[2 AO2], [1 AO3] AO2: Two marks for using correct procedure in calculating the efficiency variance. AO3: One mark for the correct variance, including the correct orientation of the variance. Labour efficiency variance = $(169.5 \text{ of} - 160)$ [1 AO2] $\times 6.80$ [1 AO2] = $\text{£}64.60$ Adv [1 AO3] <i>of</i></p>	3

Question Number	Answer	Mark
3(b)(iv)	<p>[4 AO2], [1 AO3] AO2: Four marks for using the correct technique to calculate labour rate variance. AO3: One mark for the correct variance, including the correct orientation of the variance. Labour rate variance $\frac{(1184.90 \text{ [1 AO2]} - \text{£}6.80 \text{ [1 AO2]})}{169.5 \text{ [1 AO2]}} \times 160 \text{ [1 AO2]}$ = $(\text{£}6.99 - \text{£}6.80) \times 169.5 = \text{£}32.30$ Adv [1 AO3] <i>of</i></p>	5

Question Number	Answer	Mark
3(b)(v)	<p>[1 A02], [1 A03] A02: One mark for using the correct technique to calculate total labour variance. A03: One mark for the correct variance, including the correct orientation of the variance.</p> <p>= (£1 184.90 - £1 088) [1 A02] = £96.90 Adv [1 A03] of</p>	2

Question Number	Indicative content	Mark
3(c)	<p>[6 A04]</p> <p><u>Case for the present system</u> Having a target production of 640 speakers may motivate workers. Motivated workers will be productive.</p> <p><u>Case against present system</u> Having a production target of 640 that is difficult to reach may demotivate workers. Demotivated workers will not be productive. Good workers, e.g. Mira, may receive only the basic pay rate. Poor workers, e.g. Luqman, receive the benefit of overtime pay. Conclusion is that the present system is poor.</p>	6

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1–2	Isolated elements of knowledge and understanding that is recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
Level 2	3–4	Elements of knowledge and understanding that are applied to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects related to the scenario, although these may be incomplete or sometimes invalid. An attempt at an assessment is presented, using financial and maybe non-financial information, in an appropriate format and communicates reasoned explanations.
Level 3	5–6	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 informed conclusion.

Question Number	Answer	Mark
3(d)	<p>[1 AO1], [3 AO1] AO1: One mark for stating alternative payment system. AO3: Three marks for explaining why this new system is better than the existing system.</p> <p>A better system to introduce is to pay workers according to output produced, i.e. piecework. [1 AO1] This is better than the present system of payment by time worked. [1 AO3] The new system will mean the better, more productive workers, will receive a higher pay [1 AO3] than the less-productive workers. [1 AO3]</p> <p>Allow three AO3 marks for single, suitable well-developed response.</p>	4

Question Number	Answer	Mark																																																				
4(a)	<p>[12 AO2] AO2: Twelve marks for applying knowledge and understanding to prepare a statement of profit or loss and other comprehensive income.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;">Sales</td> <td style="width: 45%;">(45 000 – 5000) x £16.00 [1 AO1]</td> <td style="width: 15%; text-align: right;">= 640 000 [1 AO1]</td> <td style="width: 25%;"></td> </tr> <tr> <td>Direct</td> <td style="text-align: right;">(112 500)</td> <td></td> <td>[1 AO2]</td> </tr> <tr> <td>Direct labour</td> <td style="text-align: right;">(292 500)</td> <td></td> <td>[1 AO2]</td> </tr> <tr> <td>Semi-variable costs</td> <td style="text-align: right;">(199 500)</td> <td></td> <td>[1 AO2]</td> </tr> <tr> <td>Fixed factory overheads</td> <td style="text-align: right;">(48 000)</td> <td></td> <td>[1 AO2]</td> </tr> <tr> <td>Subtotal</td> <td style="text-align: right; border-top: 1px solid black;">652 500</td> <td></td> <td></td> </tr> <tr> <td colspan="4">Less</td> </tr> <tr> <td>Closing stock</td> <td style="text-align: right;">72 500</td> <td style="text-align: right;">(5 see below)</td> <td></td> </tr> <tr> <td>Cost of sales</td> <td></td> <td style="text-align: right; border-top: 1px solid black;">(580 000)</td> <td></td> </tr> <tr> <td>Net profit for the year</td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">60 000</td> <td style="text-align: right;">[1 AO2]</td> </tr> <tr> <td colspan="4">Calculation of stock, i.e. (5) shown above</td> </tr> <tr> <td>Valuation of closing stock</td> <td style="text-align: right;">$\frac{652\,500}{45\,000}$ [1 AO2]</td> <td style="text-align: right;">of</td> <td style="text-align: right;">= £14.50 per unit [1 AO2] of</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">(£14.5 of x 5 000) [1 AO2]</td> <td style="text-align: right;">= £72 500 [1 AO2] of</td> </tr> </table>	Sales	(45 000 – 5000) x £16.00 [1 AO1]	= 640 000 [1 AO1]		Direct	(112 500)		[1 AO2]	Direct labour	(292 500)		[1 AO2]	Semi-variable costs	(199 500)		[1 AO2]	Fixed factory overheads	(48 000)		[1 AO2]	Subtotal	652 500			Less				Closing stock	72 500	(5 see below)		Cost of sales		(580 000)		Net profit for the year		60 000	[1 AO2]	Calculation of stock, i.e. (5) shown above				Valuation of closing stock	$\frac{652\,500}{45\,000}$ [1 AO2]	of	= £14.50 per unit [1 AO2] of			(£14.5 of x 5 000) [1 AO2]	= £72 500 [1 AO2] of	12
Sales	(45 000 – 5000) x £16.00 [1 AO1]	= 640 000 [1 AO1]																																																				
Direct	(112 500)		[1 AO2]																																																			
Direct labour	(292 500)		[1 AO2]																																																			
Semi-variable costs	(199 500)		[1 AO2]																																																			
Fixed factory overheads	(48 000)		[1 AO2]																																																			
Subtotal	652 500																																																					
Less																																																						
Closing stock	72 500	(5 see below)																																																				
Cost of sales		(580 000)																																																				
Net profit for the year		60 000	[1 AO2]																																																			
Calculation of stock, i.e. (5) shown above																																																						
Valuation of closing stock	$\frac{652\,500}{45\,000}$ [1 AO2]	of	= £14.50 per unit [1 AO2] of																																																			
		(£14.5 of x 5 000) [1 AO2]	= £72 500 [1 AO2] of																																																			

Question Number	Answer	Mark
4(b)	<p>[2 AO2], [4 AO3] AO2: Two marks for calculating marginal cost. AO3: Four marks for comparing marginal costs with selling price, calculating contribution and deciding to sell.</p> <p>The marginal cost of producing the units is ($\pounds 1.50 + \pounds 2.50$ [1 AO3] + $\pounds 6.50$ [1 AO2] = $\pounds 10.50$ [1 AO2] <i>of</i></p> <p>The 5 000 heaters should be sold [1 AO3] as there is a positive contribution [1 AO3] <i>of</i> $\pounds 1.50$ per heater. [1 AO3]</p>	6

Question Number	Answer	Mark
4(c)	<p>[6 AO4] AO4: Six marks for evaluating the options and accepting Option 2 and rejecting the other possibilities.</p> <p>Option 1 The marginal cost of producing another 4 000 is ($\pounds 1.50 + \pounds 2.50 + \pounds 13$) = $\pounds 17$ [1 AO4] <i>of</i></p> <p>Therefore the units should not be produced. [1 AO4] as there is a negative contribution of $\pounds 5$ per heater. [1 AO4]</p> <p>Option 2 Offer to supply from the other firm should be accepted. [1 AO4] as a profit of $\pounds 1$ per heater can be made. [1 AO4]</p> <p>Reject the order The order should not be rejected because this would reduce potential profit. [1 AO4]</p>	6

Question Number	Answer	Mark
4(d)	<p>[3 AO1], [3 AO3] AO1: One mark for identifying each factor, up to three marks. AO3: One mark for developing each factor, up to three marks.</p> <p>Example: Contract with Wilson Brothers Department Stores could lead to further business in the future [1 AO1] and this could be at higher price with a greater profit margin. [1 AO3]</p> <p>Enables the heaters to be sold in a different market [1 AO1] which should raise profile of company. [1 AO3]</p> <p>Selling at the lower price may upset Double E plc [1 AO1] who may demand a lower price or find a different supplier. [1 AO3]</p>	6

Question Number	Answer																																																																																																
5(a)	<p>[5 AO1], [12 AO2], [7 AO3]</p> <p>AO1: Five marks for demonstrating knowledge of accounting procedures, using figures from statement of financial position and additional information.</p> <p>AO2: Twelve marks for application of knowledge of accounting techniques, making calculations from figures on the statement of financial position.</p> <p>AO3: Seven marks for analysis of figures to produce statement of cash flow.</p> <table border="1"> <thead> <tr> <th colspan="3">Statement of Cash Flow for y/e 31 December 2014</th> </tr> </thead> <tbody> <tr> <td colspan="3">Cash flows from operating activities</td> </tr> <tr> <td>Profit from operations (25 800 + 8 750)</td> <td>34550</td> <td>[1 AO3]</td> </tr> <tr> <td>Add depreciation</td> <td>49000</td> <td>[2 AO3]</td> </tr> <tr> <td>Add loss on sale of fixed asset</td> <td>8000</td> <td>[1 AO3]</td> </tr> <tr> <td>Operating cash flow before working capital changes</td> <td>91550</td> <td>[1 AO2]</td> </tr> <tr> <td>Increase in inventories</td> <td>-21000</td> <td>[1 AO2]</td> </tr> <tr> <td>Decrease in trade receivables</td> <td>11000</td> <td>[1 AO2]</td> </tr> <tr> <td>Increase in trade payables</td> <td>13000</td> <td>[1 AO2]</td> </tr> <tr> <td>Cash generated from operations</td> <td>94550</td> <td>[1 AO2]</td> </tr> <tr> <td>Less interest paid: Debenture</td> <td>-8750</td> <td>[1 AO3]</td> </tr> <tr> <td>Less tax paid</td> <td>-38000</td> <td>[1 AO2]</td> </tr> <tr> <td>Net cash from operating activities</td> <td>47800</td> <td>[1 AO2]</td> </tr> <tr> <td colspan="3">Cash flow from investing activities</td> </tr> <tr> <td>Payments to acquire tangible fixed assets</td> <td>-140000</td> <td>[1 AO1]</td> </tr> <tr> <td>Proceeds from sale of tangible fixed assets</td> <td>6000</td> <td>[1 AO1]</td> </tr> <tr> <td>Net cash used in investing activities</td> <td>-134000</td> <td>[1 AO2]</td> </tr> <tr> <td colspan="3">Cash flow from financing activities</td> </tr> <tr> <td>Redemption of ordinary shares</td> <td>-80000</td> <td>[1 AO2]</td> </tr> <tr> <td>Redemption of shares premium</td> <td>-40000</td> <td>[1 AO2]</td> </tr> <tr> <td>Issue of debenture</td> <td>250000</td> <td>[1 AO1]</td> </tr> <tr> <td>Dividends paid: Final 2013</td> <td>-28800</td> <td>[1 AO3]</td> </tr> <tr> <td>Interim 2014</td> <td>-8000</td> <td>[1 AO3]</td> </tr> <tr> <td>Net cash used in financing activities</td> <td>93200</td> <td>[1 AO2]</td> </tr> <tr> <td>Net decrease in cash and cash equivalents</td> <td>7000</td> <td>[1 AO2]</td> </tr> <tr> <td>Cash and cash equivalents at the beginning of the year</td> <td>12000</td> <td>[1 AO1]</td> </tr> <tr> <td>Cash and cash equivalents at the end of the year</td> <td>19000</td> <td>[1 AO1]</td> </tr> <tr> <td>Net increase in cash and cash equivalents</td> <td>7000</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">24</td> </tr> <tr> <td colspan="3"><u>Depreciation calculation</u></td> </tr> <tr> <td>(325 000 - 28 000) = 297 000</td> <td></td> <td></td> </tr> <tr> <td>(346 000 - 297 000) = 49 000</td> <td></td> <td></td> </tr> </tbody> </table>	Statement of Cash Flow for y/e 31 December 2014			Cash flows from operating activities			Profit from operations (25 800 + 8 750)	34550	[1 AO3]	Add depreciation	49000	[2 AO3]	Add loss on sale of fixed asset	8000	[1 AO3]	Operating cash flow before working capital changes	91550	[1 AO2]	Increase in inventories	-21000	[1 AO2]	Decrease in trade receivables	11000	[1 AO2]	Increase in trade payables	13000	[1 AO2]	Cash generated from operations	94550	[1 AO2]	Less interest paid: Debenture	-8750	[1 AO3]	Less tax paid	-38000	[1 AO2]	Net cash from operating activities	47800	[1 AO2]	Cash flow from investing activities			Payments to acquire tangible fixed assets	-140000	[1 AO1]	Proceeds from sale of tangible fixed assets	6000	[1 AO1]	Net cash used in investing activities	-134000	[1 AO2]	Cash flow from financing activities			Redemption of ordinary shares	-80000	[1 AO2]	Redemption of shares premium	-40000	[1 AO2]	Issue of debenture	250000	[1 AO1]	Dividends paid: Final 2013	-28800	[1 AO3]	Interim 2014	-8000	[1 AO3]	Net cash used in financing activities	93200	[1 AO2]	Net decrease in cash and cash equivalents	7000	[1 AO2]	Cash and cash equivalents at the beginning of the year	12000	[1 AO1]	Cash and cash equivalents at the end of the year	19000	[1 AO1]	Net increase in cash and cash equivalents	7000				24	<u>Depreciation calculation</u>			(325 000 - 28 000) = 297 000			(346 000 - 297 000) = 49 000		
Statement of Cash Flow for y/e 31 December 2014																																																																																																	
Cash flows from operating activities																																																																																																	
Profit from operations (25 800 + 8 750)	34550	[1 AO3]																																																																																															
Add depreciation	49000	[2 AO3]																																																																																															
Add loss on sale of fixed asset	8000	[1 AO3]																																																																																															
Operating cash flow before working capital changes	91550	[1 AO2]																																																																																															
Increase in inventories	-21000	[1 AO2]																																																																																															
Decrease in trade receivables	11000	[1 AO2]																																																																																															
Increase in trade payables	13000	[1 AO2]																																																																																															
Cash generated from operations	94550	[1 AO2]																																																																																															
Less interest paid: Debenture	-8750	[1 AO3]																																																																																															
Less tax paid	-38000	[1 AO2]																																																																																															
Net cash from operating activities	47800	[1 AO2]																																																																																															
Cash flow from investing activities																																																																																																	
Payments to acquire tangible fixed assets	-140000	[1 AO1]																																																																																															
Proceeds from sale of tangible fixed assets	6000	[1 AO1]																																																																																															
Net cash used in investing activities	-134000	[1 AO2]																																																																																															
Cash flow from financing activities																																																																																																	
Redemption of ordinary shares	-80000	[1 AO2]																																																																																															
Redemption of shares premium	-40000	[1 AO2]																																																																																															
Issue of debenture	250000	[1 AO1]																																																																																															
Dividends paid: Final 2013	-28800	[1 AO3]																																																																																															
Interim 2014	-8000	[1 AO3]																																																																																															
Net cash used in financing activities	93200	[1 AO2]																																																																																															
Net decrease in cash and cash equivalents	7000	[1 AO2]																																																																																															
Cash and cash equivalents at the beginning of the year	12000	[1 AO1]																																																																																															
Cash and cash equivalents at the end of the year	19000	[1 AO1]																																																																																															
Net increase in cash and cash equivalents	7000																																																																																																
		24																																																																																															
<u>Depreciation calculation</u>																																																																																																	
(325 000 - 28 000) = 297 000																																																																																																	
(346 000 - 297 000) = 49 000																																																																																																	

Question Number	Indicative content	Mark
5(b)	<p>[6 AO4]</p> <p><u>Managed liquidity well</u> Cash and cash equivalents have risen by £7 000 in the year. Proceeds from debenture issue exceed money spent on redemption of shares, and an inflow of funds from financing activities. An operating profit was made so cash is generated through operating activities.</p> <p><u>Managed liquidity poorly</u> Large sum spent on acquiring property, means outflow of funds from investing activities. About one-third of the operating profit for 2014 has already been paid out as an interim dividend. Long-term effect of issue of debenture may be negative. Conclusion is that handling of liquidity has been reasonable. Apply same box as question 3.</p>	6

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1–2	Isolated elements of knowledge and understanding that are recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
Level 2	3–4	Elements of knowledge and understanding that are applied to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects related to the scenario, although these may be incomplete or sometimes invalid. An attempt at an assessment is presented, using financial information, in an appropriate format and communicates reasoned explanations.
Level 3	5–6	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 information, and makes informed conclusion.

Question Number	Answer	Mark
6(a)	<p>[4 AO2] AO2: Four marks for preparing a correct statement of profit or loss and other comprehensive income. <u>Statement of Profit or Loss and Other Comprehensive Income</u> Revenue 375 240 [1 AO2] Less Materials (87 556) Direct labour (100 064) (both figures for 1 mark AO2) Manager (25 200) Rent (17 000) Other fixed costs (6 400) (3 figures for 1 mark AO2) (236 220) Net profit for the year 139 020 [1 AO2] <i>of</i></p>	4

Question Number	Answer	Mark
6(b)	<p>[4 AO2], [1 AO3] AO2: Four marks for using correct procedures to calculate break-even point. AO3: One mark for correct analysis of fixed costs. Fixed costs = £25 200 + £17000 + £6 400 = £48 600 [1 AO3] Variable costs per unit = £28 + £32 = £60 [1 AO2]</p> <p>Break-even point $\frac{\text{£48 600}}{\text{£120} - \text{£60}}$ [1 AO2] <i>of</i> = 810 units [1 AO2] <i>of</i></p>	5

Question Number	Answer	Mark
6(c)	<p>[2 AO2] AO2: Two marks for calculating the margin of safety. Sales revenue at break-even point = £120 x 810 = £97 200 [1 AO2] BEP in sales revenue = £375 240 - £97 200 = £278 040 [1 AO2]</p>	2

Question Number	Indicative content	Mark
6(f)	<p>[6 AO4] Answers may include the following:</p> <p><u>Case against increasing prices</u> Increase in prices will probably reduce sales of surfboards, especially if competitor prices are lower. Is it possible to reduce increases in rent by negotiating with the landlord? Is it possible to reduce other fixed costs, e.g. insurance, heating?</p> <p><u>Case for increasing prices</u> Marcos may not be able to negotiate with the landlord, or reduce other fixed costs. The market (i.e. customers) may be able to withstand a price increase of £7.80, which is an increase of 6.5%. Wave Rider Limited has absorbed some of the increases in cost and has reduced its net profit margin in percentage terms.</p>	6

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1–2	Isolated elements of knowledge and understanding that is recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
Level 2	3–4	Elements of knowledge and understanding that are applied to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects related to the scenario, although these may be incomplete or sometimes invalid. An attempt at an assessment is presented, using financial information, in an appropriate format and communicates reasoned explanations.
Level 3	5–6	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised, using financial and maybe non-financial information, and makes an informed recommendation or decision.

For information about Edexcel, BTEC or LCCI qualifications
visit qualifications.pearson.com

Edexcel is a registered trademark of Pearson Education Limited

Pearson Education Limited, Registered in England and Wales No. 872828
Registered Office: 80 Strand, London WC2R 0RL
VAT Reg No GB 278 537121