



**LCCI**  
International  
Qualifications



**L4**

# Pearson LCCI Level 4 Certificate in Financial Accounting (VRQ)

**(ASE20101)**

## SAMPLE ASSESSMENT MATERIALS

**Issue 2**

For first teaching from September 2015

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This sample assessment material is Issue 2. Key changes are sidelined in the document. We will inform centres of any changes to this issue. The latest issue can be found on our website, [qualifications.pearson.com](http://qualifications.pearson.com)

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

# Pearson LCCI

## Certificate in Financial Accounting (VRQ) Level 4

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

Paper Reference  
**ASE20101**

**Complete the details below in block capitals.**

Candidate name

Centre Code

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Candidate ID Number

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**You do not need any other materials.**

Total Marks

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### Instructions

- Use **black** ink or ball-point pen  
– *pencil can only be used for graphs, charts, diagrams, etc.*
- **Fill in the boxes** at the top of this page with your name, candidate number, centre code and your candidate ID number.
- Answer **all** questions.
- Answer the questions in the spaces provided  
– *there may be more space than you need.*
- Answers should be given to an appropriate degree of accuracy.

### Information

- The total mark for this paper is 125.
- The marks for **each** question are shown in brackets  
– *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

### Advice

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

Turn over ►

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**PEARSON**

**Answer ALL questions. Write your answers in the spaces provided.**

- 1** (a) Give the definition of **assets** in accordance with The International Accounting Standards Board's (IASB) *Framework for the Preparation and Presentation of Financial Statements*.

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- (b) Give the definition of **liabilities** in accordance with The International Accounting Standards Board's (IASB) *Framework for the Preparation and Presentation of Financial Statements*.

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(c) Explain the objective of an external audit of the financial statements of an entity.

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Pickles, a public company, provides packaging products to mail order and internet retailers. Pickles is the market leader in its sector and is trying to keep ahead of the competition by researching new packaging products. Pickles is about to launch a new type of packaging on to the market. The new packaging product is expected to be commercially viable and Pickles has sufficient resources to complete the development of the new packaging product.

Pickles has developed this product from original research that started three years ago. The research and development had three phases.

- Phase 1 – July 2011 to May 2012 – research into possible new types of material carried out by a local university department at a cost of \$75 000.
- Phase 2 – June 2012 to April 2013 – consultancy fees of \$192 000 incurred for the investigation of the commercial possibilities of the newly discovered material.
- Phase 3 – June 2013 to May 2014 – costs of developing the product and preparing for product launch were \$223 000.

(d) Explain, with reasons, how Pickles should treat each phase of the research and development costs in its financial statements for the years ended 31 May 2012, 2013 and 2014. Your explanation should include reference to IAS 38 Intangible Assets.

(i) Phase 1

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(ii) Phase 2

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(iii) Phase 3

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(e) Explain when revenue, arising from the sale of goods, should be recognised in accordance with IAS 18 Revenue.

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**(Total for Question 1 = 25 marks)**



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**QUESTION 2 BEGINS ON THE NEXT PAGE.**

- 2 Khalifa Ltd is a large wholesale company. It has provided its Trial Balance for 31 March 2014.

**Trial Balance for Khalifa Ltd - 31 March 2014**

|   | <b>Dr</b>           | <b>Cr</b>           |
|---|---------------------|---------------------|
|   | <b>\$000</b>        | <b>\$000</b>        |
| Ordinary share capital (\$1 shares)                       |                     | 100                 |
| Retained earnings   |                     | 520                 |
| 12% debentures  |                     | 100                 |
| Buildings at cost   | 600                 |                     |
| Building's accumulated depreciation at 1 April 2014       |                     | 48                  |
| Motor vehicles at cost                                    | 80                  |                     |
| Motor vehicles accumulated depreciation at 1 April 2014   |                     | 32                  |
| Office equipment at cost                                  | 55                  |                     |
| Office equipment accumulated depreciation at 1 April 2014 |                     | 35                  |
| Dividend paid   | 6                   |                     |
| Suspense account  |                     | 80                  |
| Inventory at 1 April 2013                                 | 150                 |                     |
| Revenue   |                     | 1 900               |
| Purchases   | 780                 |                     |
| Debenture interest  | 3                   |                     |
| Distribution costs  | 194                 |                     |
| Administrative expenses                                   | 262                 |                     |
| Returns outwards  |                     | 15                  |
| Trade receivables   | 140                 |                     |
| Trade payables  |                     | 120                 |
| Cash and cash equivalents                                 | 680                 |                     |
|   | <b><u>2 950</u></b> | <b><u>2 950</u></b> |

**Additional information:**

1. At 31 March 2014 inventory was counted and found to have a cost of \$160 000. Its net realisable value was \$155 000.
2. Electricity charges of \$28 000 were owed at the end of the year and had not been accounted for. Electricity charges are treated as administrative expenses.
3. The last rates bill was \$24 000 and covered the year to 30 June 2014. Rates are treated as administrative expenses.
4. Debenture interest from 1 July 2013 to 31 March 2014 has not yet been accrued.
5. Income Tax for the year has been estimated at \$70 000.
6. During the year Khalifa Ltd sold a building that was purchased in April 2010 for \$100 000 in April 2010. The accumulated depreciation for the building at the date of disposal was \$16 000. The sale proceeds of \$80 000 had been recorded correctly in the bank and the corresponding entry had been posted to the suspense account. No other entries had been processed in the records in respect of this disposal.
7. Motor vehicles at cost included \$20 000 additions made during the year.
8. The directors wish to remove from the records office equipment that was scrapped during the year with zero proceeds. The original cost of the office equipment was \$15 000 and the net book value at 31 March 2014 was \$2 000.
9. The directors wish to revalue buildings on 31 March 2014 to \$850 000. No depreciation is to be charged in the year of revaluation.
10. Khalifa Ltd has the following depreciation policy:
  - motor vehicles – 25% reducing balance method to be included in distribution costs
  - office equipment – 20% straight-line method to be included in administrative expenses.

A full year's depreciation is charged in the year of purchase, but none in the year of sale.
11. On 1 April 2014, the management of Khalifa Ltd were advised that one of its customers, that had been in some financial difficulties at 31 March 2014, had gone into liquidation and that the \$22 000 balance outstanding at 31 March 2014 was unlikely to be paid. Irrecoverable debts are treated as administrative expenses.

(a) Prepare the journal entries to eliminate the balance on Khalifa Ltd's suspense account.

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(b) Prepare the journal entry to revalue the buildings to \$850 000.

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(c) Prepare a statement of profit or loss for Khalifa Ltd for the year ended 31 March 2014. You are advised to show your workings.

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(d) Prepare a schedule of non-current assets for Khalifa Ltd at 31 March 2014.

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(e) Outline the effect on the financial statements of Khalifa Ltd if no adjustment had been made for the electricity charges owing and the prepayment of rates detailed in additional information 2 and 3.

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**(Total for Question 2 = 40 marks)**

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**QUESTION 3 BEGINS ON THE NEXT PAGE.**

- 3 The following are draft statements of financial position at 31 March 2014 for two entities.

**Statements of financial position as at 31 March 2014**

|                                     | Notes | Taylor       | Finch        |
|-------------------------------------|-------|--------------|--------------|
|                                     |       | \$000        | \$000        |
| <b>Non-current Assets</b>           |       |              |              |
| Property, plant and equipment       | 2     | 1 840        | 1 060        |
| Investments                         | 1     | 1 600        |              |
| <b>Current Assets</b>               |       |              |              |
| Inventory                           | 4     | 310          | 236          |
| Trade receivables                   |       | 140          | 119          |
| Cash and cash equivalents           | 5     | <u>71</u>    | <u>27</u>    |
| <b>Total Assets</b>                 |       | <u>3 961</u> | <u>1 442</u> |
| <b>Equity and Liabilities</b>       |       |              |              |
| Equity shares of \$1 each           |       | 1 800        | 550          |
| Share premium                       |       | 277          | 150          |
| Retained earnings                   |       | <u>814</u>   | <u>339</u>   |
|                                     |       | <u>3 091</u> | <u>1 039</u> |
| <b>Non-current Liabilities</b>      |       |              |              |
| Borrowings                          |       | 800          | 250          |
| <b>Current Liabilities</b>          |       |              |              |
| Trade payables                      |       | <u>270</u>   | <u>153</u>   |
| <b>Total Equity and Liabilities</b> |       | <u>3 961</u> | <u>1 442</u> |

**The following notes are also relevant:**

1. Taylor's investments comprise the following:
  - Taylor acquired 80% of Finch's equity shares on 1 April 2012, paying \$1 350 000.  
At this date Finch's retained earnings were \$119 000
  - On 1 April 2012 Taylor advanced Finch a 10-year loan of \$250 000
  - It is the policy of the group to value the non-controlling interest in Finch at the date of acquisition at the fair value. The fair value of the non-controlling interest of Finch was \$400 000 on 1 April 2012.
2. The fair value of Finch's property, plant and equipment on 1 April 2012 exceeded its carrying value by \$320 000. The excess of fair value over carrying value was attributed to buildings owned by Finch. At the date of acquisition these buildings had a remaining useful life of 20 years. Taylor's accounting policy is to depreciate buildings using the straight line basis with no residual value.
3. Taylor carried out an impairment review of the goodwill arising on the acquisition of Finch and found that, as at 31 March 2014, the goodwill had been impaired by \$41 000.
4. Finch occasionally trades with Taylor. During February 2014, Taylor sold Finch goods for \$440 000. Taylor uses a mark-up of 25% on cost. At 31 March 2014 all the goods are in Finch's inventory.
5. On 30 March 2014 Taylor sent a cheque to Finch for \$110 000, but the cheque was not received and recorded in Finch's accounts until 3 April 2014.

Prepare the Consolidated statement of financial position for Taylor as at 31 March 2014, in accordance with the requirements of International Financial Reporting Standards (IFRS). You are advised to show your workings.

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**QUESTION 4 BEGINS ON THE NEXT PAGE.**

- 4 Mr Echo is an investor considering whether to invest in either public company Privilege plc or Lucky plc. You have obtained the statement of profit or loss and the statement of financial position for each of these companies for the year ended 31 December 2014:

| <b>Privilege plc</b>               |                 |
|------------------------------------|-----------------|
| <b>Statement of profit or loss</b> |                 |
|                                    | \$000           |
| Revenue                            | 25 550          |
| Cost of sales                      | <u>(17 250)</u> |
| Gross profit                       | 8 300           |
| Operating expenses                 | <u>(3 500)</u>  |
| Operating profit                   | 4 800           |
| Finance cost                       | <u>(1 205)</u>  |
| Profit before tax                  | 3 595           |
| Income tax expense                 | <u>(863)</u>    |
| Profit for the year after tax      | <u>2 732</u>    |

| <b>Lucky plc</b>                   |                |
|------------------------------------|----------------|
| <b>Statement of profit or loss</b> |                |
|                                    | \$000          |
| Revenue                            | 12 200         |
| Cost of sales                      | <u>(7 320)</u> |
| Gross profit                       | 4 880          |
| Operating expenses                 | <u>(1 520)</u> |
| Operating profit                   | 3 360          |
| Finance cost                       | <u>(10)</u>    |
| Profit before tax                  | 3 350          |
| Income tax expense                 | <u>(804)</u>   |
| Profit for the year after tax      | <u>2 546</u>   |

### Statement of financial position as at 31 December 2014

|                                     | Privilege plc |                     | Lucky plc  |                     |
|-------------------------------------|---------------|---------------------|------------|---------------------|
|                                     | \$000         | \$000               | \$000      | \$000               |
| <b>Non-current Assets</b>           |               |                     |            |                     |
| Property, plant and equipment       |               | 2 330               |            | 2 220               |
|                                     |               |                     |            |                     |
| <b>Current Assets</b>               |               |                     |            |                     |
| Inventory                           | 1 422         |                     | 255        |                     |
| Trade receivables                   | 3 145         |                     | 1 005      |                     |
| Cash and cash equivalents           | <u>205</u>    |                     | <u>103</u> |                     |
|                                     |               | <u>4 772</u>        |            | <u>1 363</u>        |
| <b>Total Assets</b>                 |               | <b><u>7 102</u></b> |            | <b><u>3 583</u></b> |
|                                     |               |                     |            |                     |
| <b>Equity</b>                       |               |                     |            |                     |
| Ordinary share capital              |               | 200                 |            | 200                 |
| Retained profits                    |               | <u>3 485</u>        |            | <u>2 582</u>        |
| <b>Total Equity</b>                 |               | <b>3 685</b>        |            | <b>2 782</b>        |
|                                     |               |                     |            |                     |
| <b>Non-current Liabilities</b>      |               |                     |            |                     |
| Borrowings                          |               | 2 000               |            | 200                 |
|                                     |               |                     |            |                     |
| <b>Current Liabilities</b>          |               |                     |            |                     |
| Trade payables                      |               | 1 417               |            | 601                 |
| <b>Total Equity and Liabilities</b> |               | <b><u>7 102</u></b> |            | <b><u>3 583</u></b> |



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# Mark Scheme

## Sample Assessment Materials

### Pearson LCCI Level 4 Certificate in Financial Accounting (VRQ) (ASE20101)

## General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.
- Where marks are awarded for own figure answers, these marks can only be awarded if evidence of how the candidate arrived at their values has been provided (their workings).
- If candidates fail to provide their workings when instructed in the paper, it may not be possible to achieve all marks associated with the question, even if the final answer is correct.
- For calculation questions full marks can be awarded where correct answer is seen with no workings shown, unless question states that candidate must provide workings.

## Abbreviations

**of**    **Own Figure rule**

Accuracy marks can be awarded where the candidates' answer does not match the mark scheme, though is accurate based on their valid method.

**cao**    **Correct Answer Only rule**

Accuracy marks will only be awarded if the candidates' answer is correct, and in line with the mark scheme.

| Question    | Answer (AO1) 3   | Mark       |
|-------------|--|------------|
| <b>1(a)</b> | <b>Award 1 mark for each component. Maximum 3 marks.</b><br><br>Asset - a resource controlled by the entity (1) as a result of past events (1) and from which future economic benefits are expected to flow to the entity. (1) | <b>(3)</b> |

| Question    | Answer (AO1) 3   | Mark       |
|-------------|--|------------|
| <b>1(b)</b> | <b>Award 1 mark for each component. Maximum 3 marks.</b><br><br>Liability - a present obligation (1) of the entity arising from past events (1), the settlement of which is expected to result in an outflow of resources from the entity. (1) | <b>(3)</b> |

| Question    | Answer (AO1) 4  | Mark       |
|-------------|---|------------|
| <b>1(c)</b> | <b>2 marks for description and 2 marks for explanation.</b><br><br>The objective of an external audit is for the auditor to express an opinion (1) as to whether the entity's financial statements are fairly presented (1), e.g. that they: <ul style="list-style-type: none"> <li>• show a true (accurate) and fair (unbiased) view (1)</li> <li>• have been properly prepared in accordance with the applicable reporting framework/relevant legislation/applicable accounting standards (1).</li> </ul> | <b>(4)</b> |

| Question       | Answer (AO1) 1/(AO2) 1/(AO3) 1  | Mark       |
|----------------|---|------------|
| <b>1(d)(i)</b> | <b>Award 1 mark (AO1) for memorising that in the year ending 31 May 2012, Phase 1 is a research activity. Award 1 mark (AO2) for performing procedure of expensing \$75 000 to the statement of profit or loss as incurred. Award 1 mark (AO3) for communicating understanding that research costs must be recognised as an expense and written off as incurred.</b><br><br>All research costs must be recognised as an expense and written off as incurred. (1) In the year ending 31 May 2012, Phase 1 is a research activity. (1) \$75 000 should be charged to the statement of profit or loss as incurred. (1) | <b>(3)</b> |

| Question        | Answer (AO1) 1/(AO2) 1/(AO3) 1   |            |
|-----------------|--|------------|
| <b>1(d)(ii)</b> | <p><b>Award 1 mark (AO1) for memorising that in the year ending 31 May 2013, Phase 2 is a research activity. Award 1 mark (AO2) for performing procedure of expensing \$192 000 to the statement of profit or loss as incurred. Award 1 mark (AO3) for communicating understanding that research costs must be recognised as an expense and written off as incurred.</b></p> <p>In the year ending 31 May 2013, Phase 2 could be described as an applied research activity because it is research towards a particular aim. (1) IAS 38 specifies that expenditure on the search for, evaluation and final selection of applications of research findings is an example of research phase expenditure. (1) The \$192 000 incurred should be charged to the statement of profit or loss as incurred. (1)</p> | <b>(3)</b> |

| Question         | Answer (AO1) 2/(AO2) 2/(AO3) 2  |            |
|------------------|---|------------|
| <b>1(d)(iii)</b> | <p><b>Award a maximum of 2 marks* (AO1) for memorising the development expenditure criteria. Award 1 mark (AO2) for perform procedures of capitalising \$223 000 to the statement of financial position and 1 mark for (AO2) perform procedure for stating amortisation will commence in future periods. Award 1 mark for (AO3) communicating understanding as stating the development expenditure meets the criteria of IAS 38. Award 1 mark for (AO3) communicating understanding as stating the development expenditure that does not generate future economic benefit must be expensed.</b></p> <p><b>*1 mark for 3 points of development expenditure criteria. 2 marks for 6 points of development expenditure criteria.</b></p> <p>Development costs must be recognised as an intangible non-current asset if they meet specified conditions that demonstrate the development will generate future economic benefits. (1)<br/>Development costs must be written off as incurred if they do not generate future economic benefit. (1)</p> <p>Development expenditure criteria:</p> <ul style="list-style-type: none"> <li>• technical feasibility</li> <li>• intention to complete the project</li> <li>• ability to use or sell the developed item</li> <li>• probability of future economic benefits should be demonstrated</li> <li>• sufficient resources to complete the project</li> <li>• expenditure can be measured reliably.</li> </ul> <p>Using the information given in the question, it is indicating that development expenditure meets the criteria of IAS 38. (1)<br/>In the year ending 31 May 2014, the \$223 000 development costs must be capitalised as an intangible non-current asset in the statement of financial position. (1)<br/>This will be amortised over future periods to match with the income generated by the new product. (1)</p> | <b>(6)</b> |

| Question    | Answer (AO3) 3  | Mark       |
|-------------|---|------------|
| <b>1(e)</b> | <p><b>Award up to 3 marks for explanation covering any three of:</b></p> <p>When:</p> <ul style="list-style-type: none"> <li>the seller has transferred to the buyer the significant risks and rewards of ownership (1)</li> <li>the seller retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold (1)</li> <li>the amount of revenue can be measured reliably(1)</li> <li>it is probable that the economic benefits associated with the transaction will flow to the seller (1)</li> <li>the costs incurred or to be incurred in respect of the transaction can be measured reliably (1)</li> </ul> | <b>(3)</b> |

| Question                             | Answer (AO2) 4   | Mark    |         |         |                  |        |  |                                      |        |  |                                     |       |  |                  |  |         |            |
|--------------------------------------|--|---------|---------|---------|------------------|--------|--|--------------------------------------|--------|--|-------------------------------------|-------|--|------------------|--|---------|------------|
| <b>2(a)</b>                          | <p><b>1 mark per row, including correct label and figure.</b></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="text-align: right; width: 20%;">Dr (\$)</th> <th style="text-align: right; width: 20%;">Cr (\$)</th> </tr> </thead> <tbody> <tr> <td>Suspense account</td> <td style="text-align: right;">80 000</td> <td></td> </tr> <tr> <td>Buildings - accumulated depreciation</td> <td style="text-align: right;">16 000</td> <td></td> </tr> <tr> <td>Income statement – loss on disposal</td> <td style="text-align: right;">4 000</td> <td></td> </tr> <tr> <td>Buildings - cost</td> <td></td> <td style="text-align: right;">100 000</td> </tr> </tbody> </table> |         | Dr (\$) | Cr (\$) | Suspense account | 80 000 |  | Buildings - accumulated depreciation | 16 000 |  | Income statement – loss on disposal | 4 000 |  | Buildings - cost |  | 100 000 | <b>(4)</b> |
|                                      | Dr (\$)  | Cr (\$) |         |         |                  |        |  |                                      |        |  |                                     |       |  |                  |  |         |            |
| Suspense account                     | 80 000   |         |         |         |                  |        |  |                                      |        |  |                                     |       |  |                  |  |         |            |
| Buildings - accumulated depreciation | 16 000   |         |         |         |                  |        |  |                                      |        |  |                                     |       |  |                  |  |         |            |
| Income statement – loss on disposal  | 4 000  |         |         |         |                  |        |  |                                      |        |  |                                     |       |  |                  |  |         |            |
| Buildings - cost                     |  | 100 000 |         |         |                  |        |  |                                      |        |  |                                     |       |  |                  |  |         |            |

| Question                             | Answer (AO2) 3   | Mark    |         |         |                              |         |  |                                      |        |  |                     |  |         |            |
|--------------------------------------|--|---------|---------|---------|------------------------------|---------|--|--------------------------------------|--------|--|---------------------|--|---------|------------|
| <b>2(b)</b>                          | <p><b>1 mark per row, including correct label and figure</b></p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="width: 60%;"></th> <th style="text-align: right; width: 20%;">Dr (\$)</th> <th style="text-align: right; width: 20%;">Cr (\$)</th> </tr> </thead> <tbody> <tr> <td>Buildings - cost / valuation</td> <td style="text-align: right;">350 000</td> <td></td> </tr> <tr> <td>Buildings - accumulated depreciation</td> <td style="text-align: right;">32 000</td> <td></td> </tr> <tr> <td>Revaluation reserve</td> <td></td> <td style="text-align: right;">382 000</td> </tr> </tbody> </table> |         | Dr (\$) | Cr (\$) | Buildings - cost / valuation | 350 000 |  | Buildings - accumulated depreciation | 32 000 |  | Revaluation reserve |  | 382 000 | <b>(3)</b> |
|                                      | Dr (\$)  | Cr (\$) |         |         |                              |         |  |                                      |        |  |                     |  |         |            |
| Buildings - cost / valuation         | 350 000  |         |         |         |                              |         |  |                                      |        |  |                     |  |         |            |
| Buildings - accumulated depreciation | 32 000   |         |         |         |                              |         |  |                                      |        |  |                     |  |         |            |
| Revaluation reserve                  |  | 382 000 |         |         |                              |         |  |                                      |        |  |                     |  |         |            |



| Question                | Answer (AO2) 15  | Mark   |    |  |         |       |  |               |       |        |              |     |       |                    |       |        |                         |       |        |                        |     |       |               |      |        |                        |     |  |          |      |     |                     |     |  |             |
|-------------------------|--|--------|----|--|---------|-------|--|---------------|-------|--------|--------------|-----|-------|--------------------|-------|--------|-------------------------|-------|--------|------------------------|-----|-------|---------------|------|--------|------------------------|-----|--|----------|------|-----|---------------------|-----|--|-------------|
| 2(c)                    | <p><b>Award 1 mark for correct title, format and layout.</b><br/> <b>Award 1 mark for correct figures as indicated.</b></p> <p style="text-align: center;"><b>Khalifa Ltd</b><br/> <b>Statement of profit or loss for the year ended 31 March 2014</b></p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: center;">\$</th> <th></th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td style="text-align: right;">1 900</td> <td></td> </tr> <tr> <td>Cost of sales</td> <td style="text-align: right;">(760)</td> <td>(3) W1</td> </tr> <tr> <td>Gross profit</td> <td style="text-align: right;">140</td> <td>(1of)</td> </tr> <tr> <td>Distribution costs</td> <td style="text-align: right;">(206)</td> <td>(1) W2</td> </tr> <tr> <td>Administrative expenses</td> <td style="text-align: right;">(320)</td> <td>(6) W3</td> </tr> <tr> <td>Profit from operations</td> <td style="text-align: right;">614</td> <td>(1of)</td> </tr> <tr> <td>Finance costs</td> <td style="text-align: right;">(12)</td> <td>(1) W4</td> </tr> <tr> <td>Profit before taxation</td> <td style="text-align: right;">602</td> <td></td> </tr> <tr> <td>Taxation</td> <td style="text-align: right;">(70)</td> <td>(1)</td> </tr> <tr> <td>Profit for the year</td> <td style="text-align: right;">532</td> <td></td> </tr> </tbody> </table> <p>W1 Cost of sales: <math>150 (1) + 780 - 155 (1) - 15 (1) = 760</math></p> <p>W2 Distribution costs: <math>194 + 12 ** (1) = 206</math><br/> ** Depreciation motor vehicles: <math>(80 - 32) \times 25\% = 12</math></p> <p>W3 Administrative expenses: <math>262 + 28 (1) - 6 (1) + 22 (1) + 4 (1) + 2** (1) + 8*** (1) = 320</math><br/> ** Loss on disposal office equipment: <math>2 - 0 = 2</math><br/> *** Depreciation office equipment: <math>(55 - 15) \times 20\% = 8</math></p> <p>W4 Finance costs: <math>3 + 9 (accrual) (1) = 12</math></p> |        | \$ |  | Revenue | 1 900 |  | Cost of sales | (760) | (3) W1 | Gross profit | 140 | (1of) | Distribution costs | (206) | (1) W2 | Administrative expenses | (320) | (6) W3 | Profit from operations | 614 | (1of) | Finance costs | (12) | (1) W4 | Profit before taxation | 602 |  | Taxation | (70) | (1) | Profit for the year | 532 |  | <b>(15)</b> |
|                         | \$   |        |    |  |         |       |  |               |       |        |              |     |       |                    |       |        |                         |       |        |                        |     |       |               |      |        |                        |     |  |          |      |     |                     |     |  |             |
| Revenue                 | 1 900  |        |    |  |         |       |  |               |       |        |              |     |       |                    |       |        |                         |       |        |                        |     |       |               |      |        |                        |     |  |          |      |     |                     |     |  |             |
| Cost of sales           | (760)  | (3) W1 |    |  |         |       |  |               |       |        |              |     |       |                    |       |        |                         |       |        |                        |     |       |               |      |        |                        |     |  |          |      |     |                     |     |  |             |
| Gross profit            | 140  | (1of)  |    |  |         |       |  |               |       |        |              |     |       |                    |       |        |                         |       |        |                        |     |       |               |      |        |                        |     |  |          |      |     |                     |     |  |             |
| Distribution costs      | (206)  | (1) W2 |    |  |         |       |  |               |       |        |              |     |       |                    |       |        |                         |       |        |                        |     |       |               |      |        |                        |     |  |          |      |     |                     |     |  |             |
| Administrative expenses | (320)  | (6) W3 |    |  |         |       |  |               |       |        |              |     |       |                    |       |        |                         |       |        |                        |     |       |               |      |        |                        |     |  |          |      |     |                     |     |  |             |
| Profit from operations  | 614  | (1of)  |    |  |         |       |  |               |       |        |              |     |       |                    |       |        |                         |       |        |                        |     |       |               |      |        |                        |     |  |          |      |     |                     |     |  |             |
| Finance costs           | (12)   | (1) W4 |    |  |         |       |  |               |       |        |              |     |       |                    |       |        |                         |       |        |                        |     |       |               |      |        |                        |     |  |          |      |     |                     |     |  |             |
| Profit before taxation  | 602  |        |    |  |         |       |  |               |       |        |              |     |       |                    |       |        |                         |       |        |                        |     |       |               |      |        |                        |     |  |          |      |     |                     |     |  |             |
| Taxation                | (70)   | (1)    |    |  |         |       |  |               |       |        |              |     |       |                    |       |        |                         |       |        |                        |     |       |               |      |        |                        |     |  |          |      |     |                     |     |  |             |
| Profit for the year     | 532  |        |    |  |         |       |  |               |       |        |              |     |       |                    |       |        |                         |       |        |                        |     |       |               |      |        |                        |     |  |          |      |     |                     |     |  |             |

| Question  | Answer (AO3) 10 (AO4) 4 | Mark        |                            |                    |                          |                            |  |                          |  |             |  |  |  |  |  |  |                 |     |  |    |  |    |                    |           |   |  |    |     |   |  |             |     |       |   |  |   |  |           |       |  |   |  |      |                    |                  |     |  |    |  |    |                    |                     |  |  |  |  |  |  |                 |    |  |    |  |    |                    |                   |   |  |    |  |   |                    |                |      |       |   |  |   |  |              |      |     |   |  |      |     |                  |   |  |    |  |    |                    |                       |  |  |  |  |  |  |                  |     |  |    |  |    |                    |                 |     |  |    |  |    |                    |
|---|-------------------------|-------------|----------------------------|--------------------|--------------------------|----------------------------|--|--------------------------|--|-------------|--|--|--|--|--|--|-----------------|-----|--|----|--|----|--------------------|-----------|---|--|----|-----|---|--|-------------|-----|-------|---|--|---|--|-----------|-------|--|---|--|------|--------------------|------------------|-----|--|----|--|----|--------------------|---------------------|--|--|--|--|--|--|-----------------|----|--|----|--|----|--------------------|-------------------|---|--|----|--|---|--------------------|----------------|------|-------|---|--|---|--|--------------|------|-----|---|--|------|-----|------------------|---|--|----|--|----|--------------------|-----------------------|--|--|--|--|--|--|------------------|-----|--|----|--|----|--------------------|-----------------|-----|--|----|--|----|--------------------|
| <p><b>2 (d) Award 1 mark for correct title, format and layout. Award 1 mark for correct figures as indicated.</b></p> <p style="text-align: center;"><b>Khalifa Ltd</b><br/><b>Schedule of non-current assets at 31 March 2014</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">Buildings<br/>\$000</th> <th></th> <th style="text-align: center;">Motor<br/>vehicles<br/>\$000</th> <th></th> <th style="text-align: center;">Office<br/>equip<br/>\$000</th> <th></th> </tr> </thead> <tbody> <tr> <td colspan="7"><b>Cost</b></td> </tr> <tr> <td>At 1 April 2013</td> <td style="text-align: center;">600</td> <td></td> <td style="text-align: center;">60</td> <td></td> <td style="text-align: center;">55</td> <td style="text-align: center;">(1)<br/>for<br/>line</td> </tr> <tr> <td>Additions</td> <td style="text-align: center;">-</td> <td></td> <td style="text-align: center;">20</td> <td style="text-align: center;">(1)</td> <td style="text-align: center;">-</td> <td></td> </tr> <tr> <td>Revaluation</td> <td style="text-align: center;">350</td> <td style="text-align: center;">(1of)</td> <td style="text-align: center;">-</td> <td></td> <td style="text-align: center;">-</td> <td></td> </tr> <tr> <td>Disposals</td> <td style="text-align: center;">(100)</td> <td></td> <td style="text-align: center;">-</td> <td></td> <td style="text-align: center;">(15)</td> <td style="text-align: center;">(1)<br/>for<br/>line</td> </tr> <tr> <td>At 31 March 2014</td> <td style="text-align: center;">850</td> <td></td> <td style="text-align: center;">80</td> <td></td> <td style="text-align: center;">40</td> <td style="text-align: center;">(1)<br/>for<br/>line</td> </tr> <tr> <td colspan="7"><b>Depreciation</b></td> </tr> <tr> <td>At 1 April 2013</td> <td style="text-align: center;">48</td> <td></td> <td style="text-align: center;">32</td> <td></td> <td style="text-align: center;">35</td> <td style="text-align: center;">(1)<br/>for<br/>line</td> </tr> <tr> <td>Charge for the yr</td> <td style="text-align: center;">-</td> <td></td> <td style="text-align: center;">12</td> <td></td> <td style="text-align: center;">8</td> <td style="text-align: center;">(1)<br/>for<br/>line</td> </tr> <tr> <td>On revaluation</td> <td style="text-align: center;">(32)</td> <td style="text-align: center;">(1of)</td> <td style="text-align: center;">-</td> <td></td> <td style="text-align: center;">-</td> <td></td> </tr> <tr> <td>On disposals</td> <td style="text-align: center;">(16)</td> <td style="text-align: center;">(1)</td> <td style="text-align: center;">-</td> <td></td> <td style="text-align: center;">(13)</td> <td style="text-align: center;">(1)</td> </tr> <tr> <td>At 31 March 2014</td> <td style="text-align: center;">0</td> <td></td> <td style="text-align: center;">44</td> <td></td> <td style="text-align: center;">30</td> <td style="text-align: center;">(1)<br/>for<br/>line</td> </tr> <tr> <td colspan="7"><b>Net book value</b></td> </tr> <tr> <td>At 31 March 2014</td> <td style="text-align: center;">850</td> <td></td> <td style="text-align: center;">36</td> <td></td> <td style="text-align: center;">10</td> <td style="text-align: center;">(1)<br/>for<br/>line</td> </tr> <tr> <td>At 1 April 2014</td> <td style="text-align: center;">552</td> <td></td> <td style="text-align: center;">28</td> <td></td> <td style="text-align: center;">20</td> <td style="text-align: center;">(1)<br/>for<br/>line</td> </tr> </tbody> </table> |                         |             |                            | Buildings<br>\$000 |                          | Motor<br>vehicles<br>\$000 |  | Office<br>equip<br>\$000 |  | <b>Cost</b> |  |  |  |  |  |  | At 1 April 2013 | 600 |  | 60 |  | 55 | (1)<br>for<br>line | Additions | - |  | 20 | (1) | - |  | Revaluation | 350 | (1of) | - |  | - |  | Disposals | (100) |  | - |  | (15) | (1)<br>for<br>line | At 31 March 2014 | 850 |  | 80 |  | 40 | (1)<br>for<br>line | <b>Depreciation</b> |  |  |  |  |  |  | At 1 April 2013 | 48 |  | 32 |  | 35 | (1)<br>for<br>line | Charge for the yr | - |  | 12 |  | 8 | (1)<br>for<br>line | On revaluation | (32) | (1of) | - |  | - |  | On disposals | (16) | (1) | - |  | (13) | (1) | At 31 March 2014 | 0 |  | 44 |  | 30 | (1)<br>for<br>line | <b>Net book value</b> |  |  |  |  |  |  | At 31 March 2014 | 850 |  | 36 |  | 10 | (1)<br>for<br>line | At 1 April 2014 | 552 |  | 28 |  | 20 | (1)<br>for<br>line |
|   | Buildings<br>\$000      |             | Motor<br>vehicles<br>\$000 |                    | Office<br>equip<br>\$000 |                            |  |                          |  |             |  |  |  |  |  |  |                 |     |  |    |  |    |                    |           |   |  |    |     |   |  |             |     |       |   |  |   |  |           |       |  |   |  |      |                    |                  |     |  |    |  |    |                    |                     |  |  |  |  |  |  |                 |    |  |    |  |    |                    |                   |   |  |    |  |   |                    |                |      |       |   |  |   |  |              |      |     |   |  |      |     |                  |   |  |    |  |    |                    |                       |  |  |  |  |  |  |                  |     |  |    |  |    |                    |                 |     |  |    |  |    |                    |
| <b>Cost</b>   |                         |             |                            |                    |                          |                            |  |                          |  |             |  |  |  |  |  |  |                 |     |  |    |  |    |                    |           |   |  |    |     |   |  |             |     |       |   |  |   |  |           |       |  |   |  |      |                    |                  |     |  |    |  |    |                    |                     |  |  |  |  |  |  |                 |    |  |    |  |    |                    |                   |   |  |    |  |   |                    |                |      |       |   |  |   |  |              |      |     |   |  |      |     |                  |   |  |    |  |    |                    |                       |  |  |  |  |  |  |                  |     |  |    |  |    |                    |                 |     |  |    |  |    |                    |
| At 1 April 2013   | 600                     |             | 60                         |                    | 55                       | (1)<br>for<br>line         |  |                          |  |             |  |  |  |  |  |  |                 |     |  |    |  |    |                    |           |   |  |    |     |   |  |             |     |       |   |  |   |  |           |       |  |   |  |      |                    |                  |     |  |    |  |    |                    |                     |  |  |  |  |  |  |                 |    |  |    |  |    |                    |                   |   |  |    |  |   |                    |                |      |       |   |  |   |  |              |      |     |   |  |      |     |                  |   |  |    |  |    |                    |                       |  |  |  |  |  |  |                  |     |  |    |  |    |                    |                 |     |  |    |  |    |                    |
| Additions   | -                       |             | 20                         | (1)                | -                        |                            |  |                          |  |             |  |  |  |  |  |  |                 |     |  |    |  |    |                    |           |   |  |    |     |   |  |             |     |       |   |  |   |  |           |       |  |   |  |      |                    |                  |     |  |    |  |    |                    |                     |  |  |  |  |  |  |                 |    |  |    |  |    |                    |                   |   |  |    |  |   |                    |                |      |       |   |  |   |  |              |      |     |   |  |      |     |                  |   |  |    |  |    |                    |                       |  |  |  |  |  |  |                  |     |  |    |  |    |                    |                 |     |  |    |  |    |                    |
| Revaluation   | 350                     | (1of)       | -                          |                    | -                        |                            |  |                          |  |             |  |  |  |  |  |  |                 |     |  |    |  |    |                    |           |   |  |    |     |   |  |             |     |       |   |  |   |  |           |       |  |   |  |      |                    |                  |     |  |    |  |    |                    |                     |  |  |  |  |  |  |                 |    |  |    |  |    |                    |                   |   |  |    |  |   |                    |                |      |       |   |  |   |  |              |      |     |   |  |      |     |                  |   |  |    |  |    |                    |                       |  |  |  |  |  |  |                  |     |  |    |  |    |                    |                 |     |  |    |  |    |                    |
| Disposals   | (100)                   |             | -                          |                    | (15)                     | (1)<br>for<br>line         |  |                          |  |             |  |  |  |  |  |  |                 |     |  |    |  |    |                    |           |   |  |    |     |   |  |             |     |       |   |  |   |  |           |       |  |   |  |      |                    |                  |     |  |    |  |    |                    |                     |  |  |  |  |  |  |                 |    |  |    |  |    |                    |                   |   |  |    |  |   |                    |                |      |       |   |  |   |  |              |      |     |   |  |      |     |                  |   |  |    |  |    |                    |                       |  |  |  |  |  |  |                  |     |  |    |  |    |                    |                 |     |  |    |  |    |                    |
| At 31 March 2014  | 850                     |             | 80                         |                    | 40                       | (1)<br>for<br>line         |  |                          |  |             |  |  |  |  |  |  |                 |     |  |    |  |    |                    |           |   |  |    |     |   |  |             |     |       |   |  |   |  |           |       |  |   |  |      |                    |                  |     |  |    |  |    |                    |                     |  |  |  |  |  |  |                 |    |  |    |  |    |                    |                   |   |  |    |  |   |                    |                |      |       |   |  |   |  |              |      |     |   |  |      |     |                  |   |  |    |  |    |                    |                       |  |  |  |  |  |  |                  |     |  |    |  |    |                    |                 |     |  |    |  |    |                    |
| <b>Depreciation</b>   |                         |             |                            |                    |                          |                            |  |                          |  |             |  |  |  |  |  |  |                 |     |  |    |  |    |                    |           |   |  |    |     |   |  |             |     |       |   |  |   |  |           |       |  |   |  |      |                    |                  |     |  |    |  |    |                    |                     |  |  |  |  |  |  |                 |    |  |    |  |    |                    |                   |   |  |    |  |   |                    |                |      |       |   |  |   |  |              |      |     |   |  |      |     |                  |   |  |    |  |    |                    |                       |  |  |  |  |  |  |                  |     |  |    |  |    |                    |                 |     |  |    |  |    |                    |
| At 1 April 2013   | 48                      |             | 32                         |                    | 35                       | (1)<br>for<br>line         |  |                          |  |             |  |  |  |  |  |  |                 |     |  |    |  |    |                    |           |   |  |    |     |   |  |             |     |       |   |  |   |  |           |       |  |   |  |      |                    |                  |     |  |    |  |    |                    |                     |  |  |  |  |  |  |                 |    |  |    |  |    |                    |                   |   |  |    |  |   |                    |                |      |       |   |  |   |  |              |      |     |   |  |      |     |                  |   |  |    |  |    |                    |                       |  |  |  |  |  |  |                  |     |  |    |  |    |                    |                 |     |  |    |  |    |                    |
| Charge for the yr   | -                       |             | 12                         |                    | 8                        | (1)<br>for<br>line         |  |                          |  |             |  |  |  |  |  |  |                 |     |  |    |  |    |                    |           |   |  |    |     |   |  |             |     |       |   |  |   |  |           |       |  |   |  |      |                    |                  |     |  |    |  |    |                    |                     |  |  |  |  |  |  |                 |    |  |    |  |    |                    |                   |   |  |    |  |   |                    |                |      |       |   |  |   |  |              |      |     |   |  |      |     |                  |   |  |    |  |    |                    |                       |  |  |  |  |  |  |                  |     |  |    |  |    |                    |                 |     |  |    |  |    |                    |
| On revaluation  | (32)                    | (1of)       | -                          |                    | -                        |                            |  |                          |  |             |  |  |  |  |  |  |                 |     |  |    |  |    |                    |           |   |  |    |     |   |  |             |     |       |   |  |   |  |           |       |  |   |  |      |                    |                  |     |  |    |  |    |                    |                     |  |  |  |  |  |  |                 |    |  |    |  |    |                    |                   |   |  |    |  |   |                    |                |      |       |   |  |   |  |              |      |     |   |  |      |     |                  |   |  |    |  |    |                    |                       |  |  |  |  |  |  |                  |     |  |    |  |    |                    |                 |     |  |    |  |    |                    |
| On disposals  | (16)                    | (1)         | -                          |                    | (13)                     | (1)                        |  |                          |  |             |  |  |  |  |  |  |                 |     |  |    |  |    |                    |           |   |  |    |     |   |  |             |     |       |   |  |   |  |           |       |  |   |  |      |                    |                  |     |  |    |  |    |                    |                     |  |  |  |  |  |  |                 |    |  |    |  |    |                    |                   |   |  |    |  |   |                    |                |      |       |   |  |   |  |              |      |     |   |  |      |     |                  |   |  |    |  |    |                    |                       |  |  |  |  |  |  |                  |     |  |    |  |    |                    |                 |     |  |    |  |    |                    |
| At 31 March 2014  | 0                       |             | 44                         |                    | 30                       | (1)<br>for<br>line         |  |                          |  |             |  |  |  |  |  |  |                 |     |  |    |  |    |                    |           |   |  |    |     |   |  |             |     |       |   |  |   |  |           |       |  |   |  |      |                    |                  |     |  |    |  |    |                    |                     |  |  |  |  |  |  |                 |    |  |    |  |    |                    |                   |   |  |    |  |   |                    |                |      |       |   |  |   |  |              |      |     |   |  |      |     |                  |   |  |    |  |    |                    |                       |  |  |  |  |  |  |                  |     |  |    |  |    |                    |                 |     |  |    |  |    |                    |
| <b>Net book value</b>   |                         |             |                            |                    |                          |                            |  |                          |  |             |  |  |  |  |  |  |                 |     |  |    |  |    |                    |           |   |  |    |     |   |  |             |     |       |   |  |   |  |           |       |  |   |  |      |                    |                  |     |  |    |  |    |                    |                     |  |  |  |  |  |  |                 |    |  |    |  |    |                    |                   |   |  |    |  |   |                    |                |      |       |   |  |   |  |              |      |     |   |  |      |     |                  |   |  |    |  |    |                    |                       |  |  |  |  |  |  |                  |     |  |    |  |    |                    |                 |     |  |    |  |    |                    |
| At 31 March 2014  | 850                     |             | 36                         |                    | 10                       | (1)<br>for<br>line         |  |                          |  |             |  |  |  |  |  |  |                 |     |  |    |  |    |                    |           |   |  |    |     |   |  |             |     |       |   |  |   |  |           |       |  |   |  |      |                    |                  |     |  |    |  |    |                    |                     |  |  |  |  |  |  |                 |    |  |    |  |    |                    |                   |   |  |    |  |   |                    |                |      |       |   |  |   |  |              |      |     |   |  |      |     |                  |   |  |    |  |    |                    |                       |  |  |  |  |  |  |                  |     |  |    |  |    |                    |                 |     |  |    |  |    |                    |
| At 1 April 2014   | 552                     |             | 28                         |                    | 20                       | (1)<br>for<br>line         |  |                          |  |             |  |  |  |  |  |  |                 |     |  |    |  |    |                    |           |   |  |    |     |   |  |             |     |       |   |  |   |  |           |       |  |   |  |      |                    |                  |     |  |    |  |    |                    |                     |  |  |  |  |  |  |                 |    |  |    |  |    |                    |                   |   |  |    |  |   |                    |                |      |       |   |  |   |  |              |      |     |   |  |      |     |                  |   |  |    |  |    |                    |                       |  |  |  |  |  |  |                  |     |  |    |  |    |                    |                 |     |  |    |  |    |                    |
|   |                         | <b>(14)</b> |                            |                    |                          |                            |  |                          |  |             |  |  |  |  |  |  |                 |     |  |    |  |    |                    |           |   |  |    |     |   |  |             |     |       |   |  |   |  |           |       |  |   |  |      |                    |                  |     |  |    |  |    |                    |                     |  |  |  |  |  |  |                 |    |  |    |  |    |                    |                   |   |  |    |  |   |                    |                |      |       |   |  |   |  |              |      |     |   |  |      |     |                  |   |  |    |  |    |                    |                       |  |  |  |  |  |  |                  |     |  |    |  |    |                    |                 |     |  |    |  |    |                    |

| Question    | Answer (AO4) 4  | Mark       |
|-------------|---|------------|
| <b>2(e)</b> | <p><b>Award 1 mark for each point identified</b></p> <ul style="list-style-type: none"> <li>• Profit would be overstated by \$22 000 (1)</li> <li>• Trade and other payables would be understated by \$28 000 (1)</li> <li>• Trade and other receivables would be understated by \$6 000 (1)</li> <li>• Net assets would be overstated by \$22 000 (1)</li> </ul> | <b>(4)</b> |

| Question                                    | Answer (AO2) 36  | Mark          |     |               |     |                   |     |                       |            |  |          |      |          |                   |        |                                    |                     |          |     |            |                 |                          |     |                   |        |                         |  |  |      |   |              |  |       |                                    |    |   |    |        |        |       |        |                        |                  |  |     |        |        |       |                |  |     |  |
|---|--|---------------|-----|---------------|-----|-------------------|-----|-----------------------|------------|--|----------|------|----------|-------------------|--------|------------------------------------|---------------------|----------|-----|------------|-----------------|--------------------------|-----|-------------------|--------|-------------------------|--|--|------|---|--------------|--|-------|------------------------------------|----|---|----|--------|--------|-------|--------|------------------------|------------------|--|-----|--------|--------|-------|----------------|--|-----|--|
| <b>3</b>                                    | <p>Workings (All workings in \$000)</p> <p>Working 1 (W1): Fair value of net assets of Finch at acquisition</p> <table> <tr> <td>Equity shares</td> <td>550</td> </tr> <tr> <td>Share premium</td> <td>150</td> </tr> <tr> <td>Retained earnings</td> <td>119</td> </tr> <tr> <td>Fair value adjustment</td> <td><u>320</u></td> </tr> <tr> <td></td> <td>1 139(2)</td> </tr> </table> <p>(2 marks for cao. 1 mark for 3 out of 4 net assets.)</p> <p>Working 2 (W2): Goodwill – Finch</p> <table> <tr> <td>Cost</td> <td>1 350(1)</td> </tr> <tr> <td>Fair value of NCI</td> <td>400(1)</td> </tr> <tr> <td>Fair value of net assets acquired:</td> <td><u>(1 139)</u>(of)</td> </tr> <tr> <td>Goodwill</td> <td>611</td> </tr> <tr> <td>Impairment</td> <td><u>(41)</u>(1)</td> </tr> <tr> <td>Balance at 31 March 2014</td> <td>570</td> </tr> </table> <p>Working 3 (W3): NCI</p> <table> <tr> <td>Fair value of NCI</td> <td>400(1)</td> </tr> <tr> <td>20% of post acq profits</td> <td></td> </tr> <tr> <td>(339 – 119 = 220 – 16 = 204(1) × 20%(1))</td> <td>40.8</td> </tr> <tr> <td>Less 20% of impairment (41(1) × 20%(1))</td> <td><u>(8.2)</u></td> </tr> <tr> <td></td> <td>432.6</td> </tr> </table> <p>Working 4 (W4): Intra-group trading<br/> Sale of goods from 100% owned subsidiary to parent<br/> Mark up on cost 25% = 25 ÷ 125 or 20% margin on selling price.<br/> Selling price 440; unrealised profit 440 × 20% = 88<br/> (1 for calculation)</p> <table> <tr> <td>Dr. Consolidated retained earnings</td> <td>88</td> </tr> <tr> <td>Cr. Consolidated current assets – inventory</td> <td>88</td> </tr> </table> <p>Working 5 (W5): Consolidated Trade Receivables</p> <table> <tr> <td>Taylor</td> <td>140(1)</td> </tr> <tr> <td>Finch</td> <td>119(1)</td> </tr> <tr> <td>Less cheque in transit</td> <td><u>(110)</u>(1)</td> </tr> <tr> <td></td> <td>149</td> </tr> </table> <p>Working 6 (W6): Consolidated Trade Payables</p> <table> <tr> <td>Taylor</td> <td>270(1)</td> </tr> <tr> <td>Finch</td> <td><u>153</u>(1)</td> </tr> <tr> <td></td> <td>423</td> </tr> </table> <p>Working 7 (W7): Excess depreciation on fair value adjustment<br/> Fair value adjustment = 320<br/> Economic life 20 years, straight line basis<br/> Excess depreciation = 320 ÷ 20 = 16 per year (1)</p> | Equity shares | 550 | Share premium | 150 | Retained earnings | 119 | Fair value adjustment | <u>320</u> |  | 1 139(2) | Cost | 1 350(1) | Fair value of NCI | 400(1) | Fair value of net assets acquired: | <u>(1 139)</u> (of) | Goodwill | 611 | Impairment | <u>(41)</u> (1) | Balance at 31 March 2014 | 570 | Fair value of NCI | 400(1) | 20% of post acq profits |  | (339 – 119 = 220 – 16 = 204(1) × 20%(1)) | 40.8 | Less 20% of impairment (41(1) × 20%(1)) | <u>(8.2)</u> |  | 432.6 | Dr. Consolidated retained earnings | 88 | Cr. Consolidated current assets – inventory | 88 | Taylor | 140(1) | Finch | 119(1) | Less cheque in transit | <u>(110)</u> (1) |  | 149 | Taylor | 270(1) | Finch | <u>153</u> (1) |  | 423 |  |
| Equity shares                               | 550  |               |     |               |     |                   |     |                       |            |  |          |      |          |                   |        |                                    |                     |          |     |            |                 |                          |     |                   |        |                         |  |  |      |   |              |  |       |                                    |    |   |    |        |        |       |        |                        |                  |  |     |        |        |       |                |  |     |  |
| Share premium                               | 150  |               |     |               |     |                   |     |                       |            |  |          |      |          |                   |        |                                    |                     |          |     |            |                 |                          |     |                   |        |                         |  |  |      |   |              |  |       |                                    |    |   |    |        |        |       |        |                        |                  |  |     |        |        |       |                |  |     |  |
| Retained earnings                           | 119  |               |     |               |     |                   |     |                       |            |  |          |      |          |                   |        |                                    |                     |          |     |            |                 |                          |     |                   |        |                         |  |  |      |   |              |  |       |                                    |    |   |    |        |        |       |        |                        |                  |  |     |        |        |       |                |  |     |  |
| Fair value adjustment                       | <u>320</u>   |               |     |               |     |                   |     |                       |            |  |          |      |          |                   |        |                                    |                     |          |     |            |                 |                          |     |                   |        |                         |  |  |      |   |              |  |       |                                    |    |   |    |        |        |       |        |                        |                  |  |     |        |        |       |                |  |     |  |
|   | 1 139(2)   |               |     |               |     |                   |     |                       |            |  |          |      |          |                   |        |                                    |                     |          |     |            |                 |                          |     |                   |        |                         |  |  |      |   |              |  |       |                                    |    |   |    |        |        |       |        |                        |                  |  |     |        |        |       |                |  |     |  |
| Cost  | 1 350(1)   |               |     |               |     |                   |     |                       |            |  |          |      |          |                   |        |                                    |                     |          |     |            |                 |                          |     |                   |        |                         |  |  |      |   |              |  |       |                                    |    |   |    |        |        |       |        |                        |                  |  |     |        |        |       |                |  |     |  |
| Fair value of NCI                           | 400(1)   |               |     |               |     |                   |     |                       |            |  |          |      |          |                   |        |                                    |                     |          |     |            |                 |                          |     |                   |        |                         |  |  |      |   |              |  |       |                                    |    |   |    |        |        |       |        |                        |                  |  |     |        |        |       |                |  |     |  |
| Fair value of net assets acquired:          | <u>(1 139)</u> (of)  |               |     |               |     |                   |     |                       |            |  |          |      |          |                   |        |                                    |                     |          |     |            |                 |                          |     |                   |        |                         |  |  |      |   |              |  |       |                                    |    |   |    |        |        |       |        |                        |                  |  |     |        |        |       |                |  |     |  |
| Goodwill                                    | 611  |               |     |               |     |                   |     |                       |            |  |          |      |          |                   |        |                                    |                     |          |     |            |                 |                          |     |                   |        |                         |  |  |      |   |              |  |       |                                    |    |   |    |        |        |       |        |                        |                  |  |     |        |        |       |                |  |     |  |
| Impairment                                  | <u>(41)</u> (1)  |               |     |               |     |                   |     |                       |            |  |          |      |          |                   |        |                                    |                     |          |     |            |                 |                          |     |                   |        |                         |  |  |      |   |              |  |       |                                    |    |   |    |        |        |       |        |                        |                  |  |     |        |        |       |                |  |     |  |
| Balance at 31 March 2014                    | 570  |               |     |               |     |                   |     |                       |            |  |          |      |          |                   |        |                                    |                     |          |     |            |                 |                          |     |                   |        |                         |  |  |      |   |              |  |       |                                    |    |   |    |        |        |       |        |                        |                  |  |     |        |        |       |                |  |     |  |
| Fair value of NCI                           | 400(1)   |               |     |               |     |                   |     |                       |            |  |          |      |          |                   |        |                                    |                     |          |     |            |                 |                          |     |                   |        |                         |  |  |      |   |              |  |       |                                    |    |   |    |        |        |       |        |                        |                  |  |     |        |        |       |                |  |     |  |
| 20% of post acq profits                     |  |               |     |               |     |                   |     |                       |            |  |          |      |          |                   |        |                                    |                     |          |     |            |                 |                          |     |                   |        |                         |  |  |      |   |              |  |       |                                    |    |   |    |        |        |       |        |                        |                  |  |     |        |        |       |                |  |     |  |
| (339 – 119 = 220 – 16 = 204(1) × 20%(1))    | 40.8   |               |     |               |     |                   |     |                       |            |  |          |      |          |                   |        |                                    |                     |          |     |            |                 |                          |     |                   |        |                         |  |  |      |   |              |  |       |                                    |    |   |    |        |        |       |        |                        |                  |  |     |        |        |       |                |  |     |  |
| Less 20% of impairment (41(1) × 20%(1))     | <u>(8.2)</u>   |               |     |               |     |                   |     |                       |            |  |          |      |          |                   |        |                                    |                     |          |     |            |                 |                          |     |                   |        |                         |  |  |      |   |              |  |       |                                    |    |   |    |        |        |       |        |                        |                  |  |     |        |        |       |                |  |     |  |
|   | 432.6  |               |     |               |     |                   |     |                       |            |  |          |      |          |                   |        |                                    |                     |          |     |            |                 |                          |     |                   |        |                         |  |  |      |   |              |  |       |                                    |    |   |    |        |        |       |        |                        |                  |  |     |        |        |       |                |  |     |  |
| Dr. Consolidated retained earnings          | 88   |               |     |               |     |                   |     |                       |            |  |          |      |          |                   |        |                                    |                     |          |     |            |                 |                          |     |                   |        |                         |  |  |      |   |              |  |       |                                    |    |   |    |        |        |       |        |                        |                  |  |     |        |        |       |                |  |     |  |
| Cr. Consolidated current assets – inventory | 88   |               |     |               |     |                   |     |                       |            |  |          |      |          |                   |        |                                    |                     |          |     |            |                 |                          |     |                   |        |                         |  |  |      |   |              |  |       |                                    |    |   |    |        |        |       |        |                        |                  |  |     |        |        |       |                |  |     |  |
| Taylor                                      | 140(1)   |               |     |               |     |                   |     |                       |            |  |          |      |          |                   |        |                                    |                     |          |     |            |                 |                          |     |                   |        |                         |  |  |      |   |              |  |       |                                    |    |   |    |        |        |       |        |                        |                  |  |     |        |        |       |                |  |     |  |
| Finch                                       | 119(1)   |               |     |               |     |                   |     |                       |            |  |          |      |          |                   |        |                                    |                     |          |     |            |                 |                          |     |                   |        |                         |  |  |      |   |              |  |       |                                    |    |   |    |        |        |       |        |                        |                  |  |     |        |        |       |                |  |     |  |
| Less cheque in transit                      | <u>(110)</u> (1)   |               |     |               |     |                   |     |                       |            |  |          |      |          |                   |        |                                    |                     |          |     |            |                 |                          |     |                   |        |                         |  |  |      |   |              |  |       |                                    |    |   |    |        |        |       |        |                        |                  |  |     |        |        |       |                |  |     |  |
|   | 149  |               |     |               |     |                   |     |                       |            |  |          |      |          |                   |        |                                    |                     |          |     |            |                 |                          |     |                   |        |                         |  |  |      |   |              |  |       |                                    |    |   |    |        |        |       |        |                        |                  |  |     |        |        |       |                |  |     |  |
| Taylor                                      | 270(1)   |               |     |               |     |                   |     |                       |            |  |          |      |          |                   |        |                                    |                     |          |     |            |                 |                          |     |                   |        |                         |  |  |      |   |              |  |       |                                    |    |   |    |        |        |       |        |                        |                  |  |     |        |        |       |                |  |     |  |
| Finch                                       | <u>153</u> (1)   |               |     |               |     |                   |     |                       |            |  |          |      |          |                   |        |                                    |                     |          |     |            |                 |                          |     |                   |        |                         |  |  |      |   |              |  |       |                                    |    |   |    |        |        |       |        |                        |                  |  |     |        |        |       |                |  |     |  |
|   | 423  |               |     |               |     |                   |     |                       |            |  |          |      |          |                   |        |                                    |                     |          |     |            |                 |                          |     |                   |        |                         |  |  |      |   |              |  |       |                                    |    |   |    |        |        |       |        |                        |                  |  |     |        |        |       |                |  |     |  |

| Question  | Answer (AO2) 36  | Mark   |        |                                     |     |  |        |                   |            |   |                      |                          |       |        |          |       |          |                       |        |                     |                    |  |       |  |
|---|--|--------|--------|-------------------------------------|-----|--|--------|-------------------|------------|---|----------------------|--------------------------|-------|--------|----------|-------|----------|-----------------------|--------|---------------------|--------------------|--|-------|--|
| <b>3 (cont'd)</b>                                 | <p>Working 8 (W8): Consolidated Retained Earnings</p> <table> <tr><td>Taylor</td><td>814(1)</td></tr> <tr><td>Finch (339 - 119 = 220(1)) x 80%(1)</td><td>176</td></tr> <tr><td>Goodwill impairment - Finch (41(1) x 80%(1))</td><td>(32.8)</td></tr> <tr><td>Unrealised profit</td><td>(88)(1 of)</td></tr> <tr><td>Excess depreciation on fair value adj. (16 x 80%)</td><td><u>(12.8)</u>(1 of)</td></tr> <tr><td>Balance at 31 March 2014</td><td>856.4</td></tr> </table> <p>Working 9 (W9): Consolidated Property, Plant and Equipment</p> <table> <tr><td>Taylor</td><td>1 840(1)</td></tr> <tr><td>Finch</td><td>1 060(1)</td></tr> <tr><td>Fair value adjustment</td><td>320(1)</td></tr> <tr><td>Excess depreciation</td><td><u>(16)</u>(1 of)</td></tr> <tr><td></td><td>3 204</td></tr> </table> | Taylor | 814(1) | Finch (339 - 119 = 220(1)) x 80%(1) | 176 | Goodwill impairment - Finch (41(1) x 80%(1)) | (32.8) | Unrealised profit | (88)(1 of) | Excess depreciation on fair value adj. (16 x 80%) | <u>(12.8)</u> (1 of) | Balance at 31 March 2014 | 856.4 | Taylor | 1 840(1) | Finch | 1 060(1) | Fair value adjustment | 320(1) | Excess depreciation | <u>(16)</u> (1 of) |  | 3 204 |  |
| Taylor  | 814(1)   |        |        |                                     |     |  |        |                   |            |   |                      |                          |       |        |          |       |          |                       |        |                     |                    |  |       |  |
| Finch (339 - 119 = 220(1)) x 80%(1)               | 176  |        |        |                                     |     |  |        |                   |            |   |                      |                          |       |        |          |       |          |                       |        |                     |                    |  |       |  |
| Goodwill impairment - Finch (41(1) x 80%(1))      | (32.8)   |        |        |                                     |     |  |        |                   |            |   |                      |                          |       |        |          |       |          |                       |        |                     |                    |  |       |  |
| Unrealised profit                                 | (88)(1 of)   |        |        |                                     |     |  |        |                   |            |   |                      |                          |       |        |          |       |          |                       |        |                     |                    |  |       |  |
| Excess depreciation on fair value adj. (16 x 80%) | <u>(12.8)</u> (1 of)   |        |        |                                     |     |  |        |                   |            |   |                      |                          |       |        |          |       |          |                       |        |                     |                    |  |       |  |
| Balance at 31 March 2014                          | 856.4  |        |        |                                     |     |  |        |                   |            |   |                      |                          |       |        |          |       |          |                       |        |                     |                    |  |       |  |
| Taylor  | 1 840(1)   |        |        |                                     |     |  |        |                   |            |   |                      |                          |       |        |          |       |          |                       |        |                     |                    |  |       |  |
| Finch   | 1 060(1)   |        |        |                                     |     |  |        |                   |            |   |                      |                          |       |        |          |       |          |                       |        |                     |                    |  |       |  |
| Fair value adjustment                             | 320(1)   |        |        |                                     |     |  |        |                   |            |   |                      |                          |       |        |          |       |          |                       |        |                     |                    |  |       |  |
| Excess depreciation                               | <u>(16)</u> (1 of)   |        |        |                                     |     |  |        |                   |            |   |                      |                          |       |        |          |       |          |                       |        |                     |                    |  |       |  |
|   | 3 204  |        |        |                                     |     |  |        |                   |            |   |                      |                          |       |        |          |       |          |                       |        |                     |                    |  |       |  |

| Question                                    | Answer (AO2) 36  | Mark                      |              |              |                                    |  |       |               |  |            |  |  |       |                       |  |  |                                 |     |  |                  |     |  |   |            |  |  |  |            |                     |  |              |  |  |  |               |  |  |               |          |  |               |        |  |                        |       |  |                               |              |  |  |  |       |                                |  |  |            |  |        |                                  |  |  |                            |  |  |               |  |            |  |  |  |                                     |  |              |             |
|---|--|---------------------------|--------------|--------------|------------------------------------|--|-------|---------------|--|------------|--|--|-------|-----------------------|--|--|---------------------------------|-----|--|------------------|-----|--|---|------------|--|--|--|------------|---------------------|--|--------------|--|--|--|---------------|--|--|---------------|----------|--|---------------|--------|--|------------------------|-------|--|-------------------------------|--------------|--|--|--|-------|--------------------------------|--|--|------------|--|--------|----------------------------------|--|--|----------------------------|--|--|---------------|--|------------|--|--|--|-------------------------------------|--|--------------|-------------|
| <b>3 (cont'd)</b>                           | <p><b>1 mark is awarded for correct title, format and layout of columns.</b></p> <p>Statement of financial position for Taylor as at 31 March 2014</p> <table border="1"> <thead> <tr> <th><b>Non-current Assets</b></th> <th><b>\$000</b></th> <th><b>\$000</b></th> </tr> </thead> <tbody> <tr><td>Property, plant and equipment (W9)</td><td></td><td>3 204</td></tr> <tr><td>Goodwill (W3)</td><td></td><td><u>570</u></td></tr> <tr><td></td><td></td><td>3 774</td></tr> <tr><td><b>Current Assets</b></td><td></td><td></td></tr> <tr><td>Inventory (310+236(1)-88(1 of))</td><td>458</td><td></td></tr> <tr><td>Receivables (W5)</td><td>149</td><td></td></tr> <tr><td>Cash and cash equivalents (71+27(1)+110(1))</td><td><u>208</u></td><td></td></tr> <tr><td></td><td></td><td><u>815</u></td></tr> <tr><td><b>Total Assets</b></td><td></td><td><u>4 589</u></td></tr> <tr><td></td><td></td><td></td></tr> <tr><td><b>Equity</b></td><td></td><td></td></tr> <tr><td>Share capital</td><td>1 800(1)</td><td></td></tr> <tr><td>Share premium</td><td>277(1)</td><td></td></tr> <tr><td>Retained earnings (W8)</td><td>856.4</td><td></td></tr> <tr><td>Non-controlling interest (W4)</td><td><u>432.6</u></td><td></td></tr> <tr><td></td><td></td><td>3 366</td></tr> <tr><td><b>Non-current Liabilities</b></td><td></td><td></td></tr> <tr><td>Borrowings</td><td></td><td>800(1)</td></tr> <tr><td>Cancel out inter-company loan(1)</td><td></td><td></td></tr> <tr><td><b>Current Liabilities</b></td><td></td><td></td></tr> <tr><td>Payables (W6)</td><td></td><td><u>423</u></td></tr> <tr><td></td><td></td><td></td></tr> <tr><td><b>Total Equity and Liabilities</b></td><td></td><td><u>4 589</u></td></tr> </tbody> </table> | <b>Non-current Assets</b> | <b>\$000</b> | <b>\$000</b> | Property, plant and equipment (W9) |  | 3 204 | Goodwill (W3) |  | <u>570</u> |  |  | 3 774 | <b>Current Assets</b> |  |  | Inventory (310+236(1)-88(1 of)) | 458 |  | Receivables (W5) | 149 |  | Cash and cash equivalents (71+27(1)+110(1)) | <u>208</u> |  |  |  | <u>815</u> | <b>Total Assets</b> |  | <u>4 589</u> |  |  |  | <b>Equity</b> |  |  | Share capital | 1 800(1) |  | Share premium | 277(1) |  | Retained earnings (W8) | 856.4 |  | Non-controlling interest (W4) | <u>432.6</u> |  |  |  | 3 366 | <b>Non-current Liabilities</b> |  |  | Borrowings |  | 800(1) | Cancel out inter-company loan(1) |  |  | <b>Current Liabilities</b> |  |  | Payables (W6) |  | <u>423</u> |  |  |  | <b>Total Equity and Liabilities</b> |  | <u>4 589</u> | <b>(36)</b> |
| <b>Non-current Assets</b>                   | <b>\$000</b>   | <b>\$000</b>              |              |              |                                    |  |       |               |  |            |  |  |       |                       |  |  |                                 |     |  |                  |     |  |   |            |  |  |  |            |                     |  |              |  |  |  |               |  |  |               |          |  |               |        |  |                        |       |  |                               |              |  |  |  |       |                                |  |  |            |  |        |                                  |  |  |                            |  |  |               |  |            |  |  |  |                                     |  |              |             |
| Property, plant and equipment (W9)          |  | 3 204                     |              |              |                                    |  |       |               |  |            |  |  |       |                       |  |  |                                 |     |  |                  |     |  |   |            |  |  |  |            |                     |  |              |  |  |  |               |  |  |               |          |  |               |        |  |                        |       |  |                               |              |  |  |  |       |                                |  |  |            |  |        |                                  |  |  |                            |  |  |               |  |            |  |  |  |                                     |  |              |             |
| Goodwill (W3)                               |  | <u>570</u>                |              |              |                                    |  |       |               |  |            |  |  |       |                       |  |  |                                 |     |  |                  |     |  |   |            |  |  |  |            |                     |  |              |  |  |  |               |  |  |               |          |  |               |        |  |                        |       |  |                               |              |  |  |  |       |                                |  |  |            |  |        |                                  |  |  |                            |  |  |               |  |            |  |  |  |                                     |  |              |             |
|   |  | 3 774                     |              |              |                                    |  |       |               |  |            |  |  |       |                       |  |  |                                 |     |  |                  |     |  |   |            |  |  |  |            |                     |  |              |  |  |  |               |  |  |               |          |  |               |        |  |                        |       |  |                               |              |  |  |  |       |                                |  |  |            |  |        |                                  |  |  |                            |  |  |               |  |            |  |  |  |                                     |  |              |             |
| <b>Current Assets</b>                       |  |                           |              |              |                                    |  |       |               |  |            |  |  |       |                       |  |  |                                 |     |  |                  |     |  |   |            |  |  |  |            |                     |  |              |  |  |  |               |  |  |               |          |  |               |        |  |                        |       |  |                               |              |  |  |  |       |                                |  |  |            |  |        |                                  |  |  |                            |  |  |               |  |            |  |  |  |                                     |  |              |             |
| Inventory (310+236(1)-88(1 of))             | 458  |                           |              |              |                                    |  |       |               |  |            |  |  |       |                       |  |  |                                 |     |  |                  |     |  |   |            |  |  |  |            |                     |  |              |  |  |  |               |  |  |               |          |  |               |        |  |                        |       |  |                               |              |  |  |  |       |                                |  |  |            |  |        |                                  |  |  |                            |  |  |               |  |            |  |  |  |                                     |  |              |             |
| Receivables (W5)                            | 149  |                           |              |              |                                    |  |       |               |  |            |  |  |       |                       |  |  |                                 |     |  |                  |     |  |   |            |  |  |  |            |                     |  |              |  |  |  |               |  |  |               |          |  |               |        |  |                        |       |  |                               |              |  |  |  |       |                                |  |  |            |  |        |                                  |  |  |                            |  |  |               |  |            |  |  |  |                                     |  |              |             |
| Cash and cash equivalents (71+27(1)+110(1)) | <u>208</u>   |                           |              |              |                                    |  |       |               |  |            |  |  |       |                       |  |  |                                 |     |  |                  |     |  |   |            |  |  |  |            |                     |  |              |  |  |  |               |  |  |               |          |  |               |        |  |                        |       |  |                               |              |  |  |  |       |                                |  |  |            |  |        |                                  |  |  |                            |  |  |               |  |            |  |  |  |                                     |  |              |             |
|   |  | <u>815</u>                |              |              |                                    |  |       |               |  |            |  |  |       |                       |  |  |                                 |     |  |                  |     |  |   |            |  |  |  |            |                     |  |              |  |  |  |               |  |  |               |          |  |               |        |  |                        |       |  |                               |              |  |  |  |       |                                |  |  |            |  |        |                                  |  |  |                            |  |  |               |  |            |  |  |  |                                     |  |              |             |
| <b>Total Assets</b>                         |  | <u>4 589</u>              |              |              |                                    |  |       |               |  |            |  |  |       |                       |  |  |                                 |     |  |                  |     |  |   |            |  |  |  |            |                     |  |              |  |  |  |               |  |  |               |          |  |               |        |  |                        |       |  |                               |              |  |  |  |       |                                |  |  |            |  |        |                                  |  |  |                            |  |  |               |  |            |  |  |  |                                     |  |              |             |
|   |  |                           |              |              |                                    |  |       |               |  |            |  |  |       |                       |  |  |                                 |     |  |                  |     |  |   |            |  |  |  |            |                     |  |              |  |  |  |               |  |  |               |          |  |               |        |  |                        |       |  |                               |              |  |  |  |       |                                |  |  |            |  |        |                                  |  |  |                            |  |  |               |  |            |  |  |  |                                     |  |              |             |
| <b>Equity</b>                               |  |                           |              |              |                                    |  |       |               |  |            |  |  |       |                       |  |  |                                 |     |  |                  |     |  |   |            |  |  |  |            |                     |  |              |  |  |  |               |  |  |               |          |  |               |        |  |                        |       |  |                               |              |  |  |  |       |                                |  |  |            |  |        |                                  |  |  |                            |  |  |               |  |            |  |  |  |                                     |  |              |             |
| Share capital                               | 1 800(1)   |                           |              |              |                                    |  |       |               |  |            |  |  |       |                       |  |  |                                 |     |  |                  |     |  |   |            |  |  |  |            |                     |  |              |  |  |  |               |  |  |               |          |  |               |        |  |                        |       |  |                               |              |  |  |  |       |                                |  |  |            |  |        |                                  |  |  |                            |  |  |               |  |            |  |  |  |                                     |  |              |             |
| Share premium                               | 277(1)   |                           |              |              |                                    |  |       |               |  |            |  |  |       |                       |  |  |                                 |     |  |                  |     |  |   |            |  |  |  |            |                     |  |              |  |  |  |               |  |  |               |          |  |               |        |  |                        |       |  |                               |              |  |  |  |       |                                |  |  |            |  |        |                                  |  |  |                            |  |  |               |  |            |  |  |  |                                     |  |              |             |
| Retained earnings (W8)                      | 856.4  |                           |              |              |                                    |  |       |               |  |            |  |  |       |                       |  |  |                                 |     |  |                  |     |  |   |            |  |  |  |            |                     |  |              |  |  |  |               |  |  |               |          |  |               |        |  |                        |       |  |                               |              |  |  |  |       |                                |  |  |            |  |        |                                  |  |  |                            |  |  |               |  |            |  |  |  |                                     |  |              |             |
| Non-controlling interest (W4)               | <u>432.6</u>   |                           |              |              |                                    |  |       |               |  |            |  |  |       |                       |  |  |                                 |     |  |                  |     |  |   |            |  |  |  |            |                     |  |              |  |  |  |               |  |  |               |          |  |               |        |  |                        |       |  |                               |              |  |  |  |       |                                |  |  |            |  |        |                                  |  |  |                            |  |  |               |  |            |  |  |  |                                     |  |              |             |
|   |  | 3 366                     |              |              |                                    |  |       |               |  |            |  |  |       |                       |  |  |                                 |     |  |                  |     |  |   |            |  |  |  |            |                     |  |              |  |  |  |               |  |  |               |          |  |               |        |  |                        |       |  |                               |              |  |  |  |       |                                |  |  |            |  |        |                                  |  |  |                            |  |  |               |  |            |  |  |  |                                     |  |              |             |
| <b>Non-current Liabilities</b>              |  |                           |              |              |                                    |  |       |               |  |            |  |  |       |                       |  |  |                                 |     |  |                  |     |  |   |            |  |  |  |            |                     |  |              |  |  |  |               |  |  |               |          |  |               |        |  |                        |       |  |                               |              |  |  |  |       |                                |  |  |            |  |        |                                  |  |  |                            |  |  |               |  |            |  |  |  |                                     |  |              |             |
| Borrowings                                  |  | 800(1)                    |              |              |                                    |  |       |               |  |            |  |  |       |                       |  |  |                                 |     |  |                  |     |  |   |            |  |  |  |            |                     |  |              |  |  |  |               |  |  |               |          |  |               |        |  |                        |       |  |                               |              |  |  |  |       |                                |  |  |            |  |        |                                  |  |  |                            |  |  |               |  |            |  |  |  |                                     |  |              |             |
| Cancel out inter-company loan(1)            |  |                           |              |              |                                    |  |       |               |  |            |  |  |       |                       |  |  |                                 |     |  |                  |     |  |   |            |  |  |  |            |                     |  |              |  |  |  |               |  |  |               |          |  |               |        |  |                        |       |  |                               |              |  |  |  |       |                                |  |  |            |  |        |                                  |  |  |                            |  |  |               |  |            |  |  |  |                                     |  |              |             |
| <b>Current Liabilities</b>                  |  |                           |              |              |                                    |  |       |               |  |            |  |  |       |                       |  |  |                                 |     |  |                  |     |  |   |            |  |  |  |            |                     |  |              |  |  |  |               |  |  |               |          |  |               |        |  |                        |       |  |                               |              |  |  |  |       |                                |  |  |            |  |        |                                  |  |  |                            |  |  |               |  |            |  |  |  |                                     |  |              |             |
| Payables (W6)                               |  | <u>423</u>                |              |              |                                    |  |       |               |  |            |  |  |       |                       |  |  |                                 |     |  |                  |     |  |   |            |  |  |  |            |                     |  |              |  |  |  |               |  |  |               |          |  |               |        |  |                        |       |  |                               |              |  |  |  |       |                                |  |  |            |  |        |                                  |  |  |                            |  |  |               |  |            |  |  |  |                                     |  |              |             |
|   |  |                           |              |              |                                    |  |       |               |  |            |  |  |       |                       |  |  |                                 |     |  |                  |     |  |   |            |  |  |  |            |                     |  |              |  |  |  |               |  |  |               |          |  |               |        |  |                        |       |  |                               |              |  |  |  |       |                                |  |  |            |  |        |                                  |  |  |                            |  |  |               |  |            |  |  |  |                                     |  |              |             |
| <b>Total Equity and Liabilities</b>         |  | <u>4 589</u>              |              |              |                                    |  |       |               |  |            |  |  |       |                       |  |  |                                 |     |  |                  |     |  |   |            |  |  |  |            |                     |  |              |  |  |  |               |  |  |               |          |  |               |        |  |                        |       |  |                               |              |  |  |  |       |                                |  |  |            |  |        |                                  |  |  |                            |  |  |               |  |            |  |  |  |                                     |  |              |             |

| Question                                 | Answer (AO2) 8  | Mark                               |                                    |           |       |                                   |  |                             |                              |                  |                                     |                                |                                |             |  |                          |                        |  |   |                            |                            |                |  |                                    |                                 |                                      |                                     |                                    |                                    |                               |                       |                               |                            |            |
|--|---|------------------------------------|------------------------------------|-----------|-------|-----------------------------------|--|-----------------------------|------------------------------|------------------|-------------------------------------|--------------------------------|--------------------------------|-------------|--|--------------------------|------------------------|--|---|----------------------------|----------------------------|----------------|--|------------------------------------|---------------------------------|--------------------------------------|-------------------------------------|------------------------------------|------------------------------------|-------------------------------|-----------------------|-------------------------------|----------------------------|------------|
| <b>4(a)</b>                              | <p><b>2 marks per correct set of ratios, must calculate ratios for both companies. Maximum 8 marks.</b></p> <table border="1"> <thead> <tr> <th></th> <th></th> <th>Privilege</th> <th>Lucky</th> </tr> </thead> <tbody> <tr> <td>Return on Capital Employed (ROCE)</td> <td>(Profit on ordinary activities before interest and tax (PBIT) ÷ Capital employed) x 100%</td> <td>4 800 ÷ 5 685 x 100 = 84.4%</td> <td>3 360 ÷ 2 982 x 100 = 114.6%</td> </tr> <tr> <td>Operating margin</td> <td>(Operating profit ÷ Revenue) x 100%</td> <td>(4 800 ÷ 25 550) x 100 = 18.8%</td> <td>(3 360 ÷ 12 200) x 100 = 27.5%</td> </tr> <tr> <td>Quick ratio</td> <td>(Current Assets – Inventory) ÷ Current Liabilities</td> <td>3 350 ÷ 1 417 = 2.36 : 1</td> <td>1 108 ÷ 601 = 1.84 : 1</td> </tr> <tr> <td>Asset turnover ratio (utilisation ratio)</td> <td>Revenue ÷ Capital employed (as in ROCE)</td> <td>25 550 ÷ 5 685 = 4.5 times</td> <td>12 200 ÷ 2 982 = 4.1 times</td> </tr> <tr> <td>Inventory days</td> <td>(Inventory (closing or average) ÷ Cost of sales) x 365</td> <td>(1 442 ÷ 17 250) x 365 = 30.5 days</td> <td>(255 ÷ 7 320) x 365 = 12.7 days</td> </tr> <tr> <td>Receivables Collection Period (days)</td> <td>(Trade Receivables ÷ Revenue) x 365</td> <td>(3 145 ÷ 25 550) x 365 = 44.9 days</td> <td>(1 005 ÷ 12 200) x 365 = 30.1 days</td> </tr> <tr> <td>Gearing ratio (Debt ÷ Equity)</td> <td>(Debt ÷ Equity) x 100</td> <td>(2 000 ÷ 3 685) x 100 = 54.3%</td> <td>(200 ÷ 2 782) x 100 = 7.2%</td> </tr> </tbody> </table> |                                    |                                    | Privilege | Lucky | Return on Capital Employed (ROCE) | (Profit on ordinary activities before interest and tax (PBIT) ÷ Capital employed) x 100% | 4 800 ÷ 5 685 x 100 = 84.4% | 3 360 ÷ 2 982 x 100 = 114.6% | Operating margin | (Operating profit ÷ Revenue) x 100% | (4 800 ÷ 25 550) x 100 = 18.8% | (3 360 ÷ 12 200) x 100 = 27.5% | Quick ratio | (Current Assets – Inventory) ÷ Current Liabilities | 3 350 ÷ 1 417 = 2.36 : 1 | 1 108 ÷ 601 = 1.84 : 1 | Asset turnover ratio (utilisation ratio) | Revenue ÷ Capital employed (as in ROCE) | 25 550 ÷ 5 685 = 4.5 times | 12 200 ÷ 2 982 = 4.1 times | Inventory days | (Inventory (closing or average) ÷ Cost of sales) x 365 | (1 442 ÷ 17 250) x 365 = 30.5 days | (255 ÷ 7 320) x 365 = 12.7 days | Receivables Collection Period (days) | (Trade Receivables ÷ Revenue) x 365 | (3 145 ÷ 25 550) x 365 = 44.9 days | (1 005 ÷ 12 200) x 365 = 30.1 days | Gearing ratio (Debt ÷ Equity) | (Debt ÷ Equity) x 100 | (2 000 ÷ 3 685) x 100 = 54.3% | (200 ÷ 2 782) x 100 = 7.2% | <b>(8)</b> |
|  |   | Privilege                          | Lucky                              |           |       |                                   |  |                             |                              |                  |                                     |                                |                                |             |  |                          |                        |  |   |                            |                            |                |  |                                    |                                 |                                      |                                     |                                    |                                    |                               |                       |                               |                            |            |
| Return on Capital Employed (ROCE)        | (Profit on ordinary activities before interest and tax (PBIT) ÷ Capital employed) x 100%  | 4 800 ÷ 5 685 x 100 = 84.4%        | 3 360 ÷ 2 982 x 100 = 114.6%       |           |       |                                   |  |                             |                              |                  |                                     |                                |                                |             |  |                          |                        |  |   |                            |                            |                |  |                                    |                                 |                                      |                                     |                                    |                                    |                               |                       |                               |                            |            |
| Operating margin                         | (Operating profit ÷ Revenue) x 100%   | (4 800 ÷ 25 550) x 100 = 18.8%     | (3 360 ÷ 12 200) x 100 = 27.5%     |           |       |                                   |  |                             |                              |                  |                                     |                                |                                |             |  |                          |                        |  |   |                            |                            |                |  |                                    |                                 |                                      |                                     |                                    |                                    |                               |                       |                               |                            |            |
| Quick ratio                              | (Current Assets – Inventory) ÷ Current Liabilities  | 3 350 ÷ 1 417 = 2.36 : 1           | 1 108 ÷ 601 = 1.84 : 1             |           |       |                                   |  |                             |                              |                  |                                     |                                |                                |             |  |                          |                        |  |   |                            |                            |                |  |                                    |                                 |                                      |                                     |                                    |                                    |                               |                       |                               |                            |            |
| Asset turnover ratio (utilisation ratio) | Revenue ÷ Capital employed (as in ROCE)   | 25 550 ÷ 5 685 = 4.5 times         | 12 200 ÷ 2 982 = 4.1 times         |           |       |                                   |  |                             |                              |                  |                                     |                                |                                |             |  |                          |                        |  |   |                            |                            |                |  |                                    |                                 |                                      |                                     |                                    |                                    |                               |                       |                               |                            |            |
| Inventory days                           | (Inventory (closing or average) ÷ Cost of sales) x 365  | (1 442 ÷ 17 250) x 365 = 30.5 days | (255 ÷ 7 320) x 365 = 12.7 days    |           |       |                                   |  |                             |                              |                  |                                     |                                |                                |             |  |                          |                        |  |   |                            |                            |                |  |                                    |                                 |                                      |                                     |                                    |                                    |                               |                       |                               |                            |            |
| Receivables Collection Period (days)     | (Trade Receivables ÷ Revenue) x 365   | (3 145 ÷ 25 550) x 365 = 44.9 days | (1 005 ÷ 12 200) x 365 = 30.1 days |           |       |                                   |  |                             |                              |                  |                                     |                                |                                |             |  |                          |                        |  |   |                            |                            |                |  |                                    |                                 |                                      |                                     |                                    |                                    |                               |                       |                               |                            |            |
| Gearing ratio (Debt ÷ Equity)            | (Debt ÷ Equity) x 100   | (2 000 ÷ 3 685) x 100 = 54.3%      | (200 ÷ 2 782) x 100 = 7.2%         |           |       |                                   |  |                             |                              |                  |                                     |                                |                                |             |  |                          |                        |  |   |                            |                            |                |  |                                    |                                 |                                      |                                     |                                    |                                    |                               |                       |                               |                            |            |

| Question    | Indicative content (AO3) 4/(AO4) 6/(AO5) 6  |
|-------------|---|
| <b>4(b)</b> | <ul style="list-style-type: none"> <li>• Both companies are very profitable relative to capital employed and each makes huge profit per share (assuming \$1 ordinary shares), therefore both companies would be acceptable.</li> <li>• Lucky plc is a smaller operation but has higher profitability ratios throughout. This might indicate that it is the better choice.</li> <li>• Lucky plc trading shows higher gross margins and that operating costs are kept under control, leading to better operating margins. This indicates that it is the better choice.</li> <li>• Working capital management is very healthy in both companies, therefore both companies are acceptable.</li> <li>• The current and quick ratios are very high for both companies showing no risk of not being able to pay debt, therefore both companies are acceptable.</li> <li>• Privilege plc is better in this regard and also works its assets slightly harder in generating revenue. Therefore Privilege plc would be more acceptable.</li> <li>• Lucky plc manages working capital better, turning over inventory in 11 days (Privilege plc 30.5) and collecting debts within 30 days (Privilege plc 44.9). This indicates that it is the better choice.</li> <li>• Privilege and Lucky's payables are the same. Therefore both companies are acceptable.</li> <li>• Overall, Lucky plc has a shorter working capital cycle making it more able to withstand working capital fluctuations, so is the better choice.</li> <li>• Lucky plc is operating with almost no loans and could improve profits by using loans if any additional capital is needed. Privilege's plc debt/equity of 51.4% shows a high proportion of debt, and unless there has been short-term borrowing during the year, the interest rate is very high at <math>1205 \div 2000 = 60.3\%</math>. It is generally accepted that businesses with a low debt/equity are more favourable so Lucky plc would be a better choice.</li> <li>• Overall, Lucky plc has a better financial performance.</li> </ul> |

| Level   | Mark    | Descriptor   |
|---------|---------|--|
|         | 0       | Question not attempted or response completely irrelevant or inaccurate   |
| Level 1 | 1 - 5   | Displays limited application of Accounting theories or concepts in an appropriate context. A largely descriptive approach with unsupported or generalised examples, which are not related to the question scenario. Factors to support a logical chain of reasoning are not present or are not examined methodically. A supported conclusion is not present or the conclusion presented is not supported by evidence drawn from the question scenario.   |
| Level 2 | 6 -11   | Displays application of Accounting theories or concepts in an appropriate and relevant context. A largely descriptive approach with examples drawn from the question scenario. Factors to support a chain of reasoning are identified and supported by evidence drawn from the question scenario but are not examined methodically and the chain of reasoning presented is not sufficiently well developed or balanced to support a robust supported conclusion.   |
| Level 3 | 12 - 16 | Displays an understanding of Accounting theories or concepts which are applied in a relevant context. Displays the ability to link knowledge and understanding using relevant examples and inferences drawn from the question scenario. Displays an understanding of the essential themes present in the question scenario broken down into their constituent parts in order to present a logical and coherent chain of reasoning. Careful consideration is given to all relevant factors drawn from the question scenario with additional evidence drawn from relevant theory in order to present a reasoned and logically robust conclusion. |



September 2015

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**LCCI**  
International  
Qualifications

**L4**

**Pearson  
LCCI Level 4 Certificate  
in Management Accounting  
(VRQ)  
(ASE20102)**

**SAMPLE ASSESSMENT MATERIALS**

**Issue 2**

For first teaching from September 2015

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This sample assessment material is Issue 2. Key changes are sidlined in the document. We will inform centres of any changes to this issue. The latest issue can be found on our website, [qualifications.pearson.com](http://qualifications.pearson.com)

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# Pearson LCCI

## Certificate in Management Accounting (VRQ)

Level 4

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

Paper Reference

**ASE20102**

Complete the details below in block capitals.

Candidate name

Centre Code

Candidate Number

Candidate ID Number

Total Marks

**You do not need any other materials.**

### Instructions

- Use **black** ink or ball-point pen  
– *pencil can only be used for graphs, charts, diagrams, etc.*
- **Fill in the boxes** at the top of this page with your name, candidate number, centre code and your candidate ID number.
- Answer **all** questions.
- Answer the questions in the spaces provided  
– *there may be more space than you need.*
- Answers should be given to an appropriate degree of accuracy.

### Information

- The total mark for this paper is 120.
- The marks for **each** question are shown in brackets  
– *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

### Advice

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

Turn over ►

S48190A

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PEARSON

**Answer ALL questions. Write your answers in the spaces provided.**

- 1** Woodham plc is a company that manufactures a product called the CR3.

**Sales of CR3 units**

| <b>Jul</b> | <b>Aug</b> | <b>Sep</b> | <b>Oct</b> |
|------------|------------|------------|------------|
| 13 500     | 14 760     | 16 020     | 19 980     |

10% of CR3 units produced are discovered to be defective and have to be thrown away.

One CR3 unit contains 2.5 kg of Material X.

The directors of Woodham plc have decided that each month's closing inventory of CR3 units should represent 75% of the following month's sales.

The directors have also decided that the inventory of Material X, which at the start of July will be 28 000 kg, should be reduced at a rate of 1 000 kg per month.

Woodham plc can buy up to 45 000 kg of Material X per month from its usual supplier at a cost of \$6.00 per kg. Any extra Material X would have to be bought from an alternative supplier at a cost of \$7.20 per kg.

All Material X is bought in the same month it is used in production.

(a) Prepare a production budget for CR3 units for the period July to September.

(6)

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(b) Prepare a purchase budget for Material X, showing quantity (kg) and monetary value (\$), for the period July to September.

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**QUESTION 2 BEGINS ON THE NEXT PAGE.**



2 Hayes plc manufactures Product E.

**Budgeted and actual costs in June for Product E**

|                       | <b>Budgeted</b> |          | <b>Actual</b> |          |
|-----------------------|-----------------|----------|---------------|----------|
| <b>Production</b>     | 8 000 units     |          | 9 600 units   |          |
| <b>Material costs</b> | 3 600 kg        | \$16 200 | 4 680 kg      | \$19 890 |
| <b>Labour costs</b>   | 1 200 hours     | \$10 560 | 1 610 hours   | \$15 617 |
| <b>Overheads</b>      | \$17 040        |          | \$18 123      |          |
| <b>Total costs</b>    | \$43 800        |          | \$53 630      |          |

The material and labour costs are variable and overheads are fixed. Overheads are absorbed on the basis of direct labour hours.

**Overhead variances at the end of June**

|                      |           |
|----------------------|-----------|
| Expenditure variance | \$1 083 A |
| Volume variance      | \$3 408 F |
| Capacity variance    | \$5 822 F |
| Efficiency variance  | \$2 414 A |

(a) Describe what is meant by a basic standard

(2)

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(b) Identify **one** factor that would be responsible for June's:

(i) overhead expenditure variance

(1)

(ii) overhead volume variance.

(1)

(c) Calculate, showing your workings, the following variances for June:

(i) material usage (quantity) variance

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(ii) material price variance

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(iii) total material cost variance

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(iv) labour efficiency variance

(4)

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(v) labour rate variance

(3)

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(vi) total labour cost variance.

(1)

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(d) Prepare a statement that reconciles June's budgeted cost with the actual costs of production.

(6)

A series of horizontal dotted lines providing space for the student to write the answer to the question.

**(Total for Question 2 = 26 marks)**

**3** Battlesbridge plc manufactures its products in a factory.

The factory is situated on the outskirts of a town with a population of 100 000. It currently employs 3 000 people.

The company operates in a tough market and its sales and profitability have been falling for a number of years. The management accountant has forecast that, if things do not improve, sales and profitability will fall to a level that will threaten the existence of the company.

The forecasting approach used by the management accountant involves extrapolating the trend information from the last five years and then applying seasonal variations using the multiplicative method.

Members of the Battlesbridge sales team, who travel all over the world, have reported economic challenges facing their existing and potential customers. The company is looking to introduce one of two measures that will help it survive.

The two measures being proposed are:

- Relocating the factory to a new site that is 250 miles away. The relocation will result in significant reductions in some costs, including rent and rates. Wage levels in the new location will be 30% lower than in the current location. The new site is an old building with no insulation against the cold weather.
- Installing new technology at the current site. This will reduce production costs by 20% and will mean that the company has to make 75% of the production line staff redundant.

(a) Explain **three** weaknesses of the forecasting approach used by the management accountant.

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(b) (i) Define the term **sustainability**.

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(ii) Explain the elements of the triple bottom line in the context of sustainability.

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(c) Evaluate which of the two proposed measures by Battlesbridge plc best promotes sustainability.

(12)

Dotted lines for writing the answer.



**(Total for Question 3 = 24 marks)**

- 4 Hong Kong Leisure is a coach company that operates two types of service. One service carries passengers on short trips and the other carries passengers on long trips.

**Financial results of 2014 for Hong Kong Leisure**

|                                   | <b>Short trips</b> |
|-----------------------------------|--------------------|
|                                   | \$000              |
| Revenue                           | 2 400              |
| <b>Direct costs</b>               |                    |
| Fuel costs                        | 720                |
| Driver wages                      | 1 008              |
| Gross profit                      | 672                |
| Overhead costs and other expenses | 544                |
| Net (operating) profit            | 128                |
| Capital employed                  | 1 140              |

**Passenger mile information for short trips**

|                                  |             |
|----------------------------------|-------------|
| Actual passenger miles*          | 9.6 million |
| Maximum possible passenger miles | 12 million  |

\*A passenger mile is one passenger travelling one mile, e.g. 25 passengers on a 100-mile trip would represent 2 500 passenger miles.

- (a) Calculate the following performance indicators for short trips in 2014. Where appropriate, you should give your answer to three decimal places.

(i) Turnover per passenger mile (\$)

(1)

(ii) Gross profit (%)

(1)

(iii) Overheads and other expenses ratio (%) (1)

(iv) Net (operating) profit (%) (1)

(v) Fuel costs per passenger mile (\$) (1)

(vi) Drivers' wages per passenger mile (\$) (1)

(vii) Return on capital employed (%) (1)

(viii) Passenger miles achieved (%) (1)





**5** Wickford plc produces products A, B and C.

The trainee accountant has used predictions from the sales department about the likely demand for each product in a forecasted statement for July.

**Forecasted statement for July**

|                        | <b>A</b>    | <b>B</b>    | <b>C</b>    |
|------------------------|-------------|-------------|-------------|
| Sales                  | 2 000 units | 5 000 units | 3 000 units |
| Revenue                | \$27 900    | \$79 750    | \$59 850    |
| Material cost          | \$9 000     | \$34 500    | \$24 300    |
| Direct labour cost     | \$4 000     | \$12 000    | \$14 400    |
| Fixed overheads        | \$8 400     | \$21 000    | \$12 600    |
| Variable overheads     | \$2 100     | \$3 750     | \$2 500     |
| Profit/loss            | \$4 400     | \$8 500     | \$6 050     |
| Machine hours per unit | 0.03        | 0.04        | 0.06        |

- Material and labour costs are variable in nature.
- Material costs are \$6.00 per kg and wage rate for direct labour is \$8.00 per hour.
- The monthly overheads are fixed and have been apportioned on the basis of units sold.

After the July statement was produced, the trainee accountant admitted that he had not considered various inputs which may have been limited.

It was discovered by a manager that the following inputs were not considered:

- only 12 000 kg of material would be available in July
- only 4 250 direct labour hours would be available
- the maximum number of machine hours available would be 375.

The trainee accountant was worried about whether the figures in his July statement were still accurate.

(a) Determine whether each of the three inputs identified by the manager present a limiting factor. You must show your workings.

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**(Total for Question 5 = 26 marks)**

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**TOTAL FOR PAPER = 120 MARKS**





Mark Scheme

Sample Assessment Materials

Pearson LCCI  
Level 4 Certificate in  
Management Accounting (VRQ)  
(ASE20102)

## General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.
- Where marks are awarded for own figure answers, these marks can only be awarded if evidence of how the candidate arrived at their values has been provided (their workings).
- If candidates fail to provide their workings when instructed in the paper, it may not be possible to achieve all marks associated with the question, even if the final answer is correct.
- For calculation questions, full marks can be awarded where correct answer is seen with no workings shown, unless question states that candidate must provide workings.

## Abbreviations

- of**                    **Own Figure rule**  
Accuracy marks can be awarded where the candidates' answer does not match the mark scheme, though is accurate based on their valid method.
- cao**                    **Correct Answer Only rule**  
Accuracy marks will only be awarded if the candidates' answer is correct, and in line with the mark scheme.

| Question           | Answer (AO2) 6   | Mark     |          |     |     |       |        |        |        |               |        |        |        |               |          |          |          |                   |        |        |        |                    |        |        |        |                   |         |         |         |      |   |        |        |           |        |      |  |        |                        |           |                        |      |   |        |                        |           |                        |            |
|--------------------|--|----------|----------|-----|-----|-------|--------|--------|--------|---------------|--------|--------|--------|---------------|----------|----------|----------|-------------------|--------|--------|--------|--------------------|--------|--------|--------|-------------------|---------|---------|---------|------|---|--------|--------|-----------|--------|------|--|--------|------------------------|-----------|------------------------|------|---|--------|------------------------|-----------|------------------------|------------|
| 1(a)               | <p><b>Award 1 mark for each row in the Production Budget.</b></p> <table border="1" data-bbox="411 387 1315 622"> <thead> <tr> <th></th> <th>July</th> <th>Aug</th> <th>Sep</th> </tr> </thead> <tbody> <tr> <td>Sales</td> <td>13 500</td> <td>14 760</td> <td>16 020</td> </tr> <tr> <td>Closing Stock</td> <td>11 070</td> <td>12 015</td> <td>14 985</td> </tr> <tr> <td>Opening Stock</td> <td>(10 125)</td> <td>(11 070)</td> <td>(12 015)</td> </tr> <tr> <td>Production (good)</td> <td>14 445</td> <td>15 705</td> <td>18 990</td> </tr> <tr> <td>Production (total)</td> <td>16 050</td> <td>17 450</td> <td>21 100</td> </tr> <tr> <td>Substandard units</td> <td>(1 605)</td> <td>(1 745)</td> <td>(2 110)</td> </tr> </tbody> </table> <p><b>Sales and Opening stock are not own figure.<br/>Substandard units are own figure.</b></p> <p><b>Workings:</b></p> <ul style="list-style-type: none"> <li>1 mark for calculating all three closing stock levels of CR3 units for July, August and September, e.g.</li> </ul> <table border="1" data-bbox="411 913 1286 1088"> <tbody> <tr> <td>July</td> <td>75% of 14 760 (previous month's CR3 unit sales)<br/>= 11 070</td> </tr> <tr> <td>August</td> <td>12 015</td> </tr> <tr> <td>September</td> <td>14 985</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>1 mark for calculating the number of good (non-defective) CR3 units that need to be produced for July, August and September, e.g.</li> </ul> <table border="1" data-bbox="411 1249 1289 1451"> <tbody> <tr> <td>July</td> <td>16 050 (production total)<br/>- 1 605 (no. of defective units)<br/>= 14 445<br/>(apply of rule)</td> </tr> <tr> <td>August</td> <td>15 705 (apply of rule)</td> </tr> <tr> <td>September</td> <td>18 990 (apply of rule)</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>1 mark for calculating the total number of CR3 units that need to be produced for July, August and September (before deducting the defective units), e.g.</li> </ul> <table border="1" data-bbox="411 1612 1323 1854"> <tbody> <tr> <td>July</td> <td>14 445 (no. of good CR3 units) x 100<br/>= 1 444 500<br/>/90<br/>= 16 050<br/>(apply of rule)</td> </tr> <tr> <td>August</td> <td>17 450 (apply of rule)</td> </tr> <tr> <td>September</td> <td>21 100 (apply of rule)</td> </tr> </tbody> </table> <p>Accept any reasonable responses.</p> |          | July     | Aug | Sep | Sales | 13 500 | 14 760 | 16 020 | Closing Stock | 11 070 | 12 015 | 14 985 | Opening Stock | (10 125) | (11 070) | (12 015) | Production (good) | 14 445 | 15 705 | 18 990 | Production (total) | 16 050 | 17 450 | 21 100 | Substandard units | (1 605) | (1 745) | (2 110) | July | 75% of 14 760 (previous month's CR3 unit sales)<br>= 11 070 | August | 12 015 | September | 14 985 | July | 16 050 (production total)<br>- 1 605 (no. of defective units)<br>= 14 445<br>(apply of rule) | August | 15 705 (apply of rule) | September | 18 990 (apply of rule) | July | 14 445 (no. of good CR3 units) x 100<br>= 1 444 500<br>/90<br>= 16 050<br>(apply of rule) | August | 17 450 (apply of rule) | September | 21 100 (apply of rule) | <b>(6)</b> |
|                    | July   | Aug      | Sep      |     |     |       |        |        |        |               |        |        |        |               |          |          |          |                   |        |        |        |                    |        |        |        |                   |         |         |         |      |   |        |        |           |        |      |  |        |                        |           |                        |      |   |        |                        |           |                        |            |
| Sales              | 13 500   | 14 760   | 16 020   |     |     |       |        |        |        |               |        |        |        |               |          |          |          |                   |        |        |        |                    |        |        |        |                   |         |         |         |      |   |        |        |           |        |      |  |        |                        |           |                        |      |   |        |                        |           |                        |            |
| Closing Stock      | 11 070   | 12 015   | 14 985   |     |     |       |        |        |        |               |        |        |        |               |          |          |          |                   |        |        |        |                    |        |        |        |                   |         |         |         |      |   |        |        |           |        |      |  |        |                        |           |                        |      |   |        |                        |           |                        |            |
| Opening Stock      | (10 125)   | (11 070) | (12 015) |     |     |       |        |        |        |               |        |        |        |               |          |          |          |                   |        |        |        |                    |        |        |        |                   |         |         |         |      |   |        |        |           |        |      |  |        |                        |           |                        |      |   |        |                        |           |                        |            |
| Production (good)  | 14 445   | 15 705   | 18 990   |     |     |       |        |        |        |               |        |        |        |               |          |          |          |                   |        |        |        |                    |        |        |        |                   |         |         |         |      |   |        |        |           |        |      |  |        |                        |           |                        |      |   |        |                        |           |                        |            |
| Production (total) | 16 050   | 17 450   | 21 100   |     |     |       |        |        |        |               |        |        |        |               |          |          |          |                   |        |        |        |                    |        |        |        |                   |         |         |         |      |   |        |        |           |        |      |  |        |                        |           |                        |      |   |        |                        |           |                        |            |
| Substandard units  | (1 605)  | (1 745)  | (2 110)  |     |     |       |        |        |        |               |        |        |        |               |          |          |          |                   |        |        |        |                    |        |        |        |                   |         |         |         |      |   |        |        |           |        |      |  |        |                        |           |                        |      |   |        |                        |           |                        |            |
| July               | 75% of 14 760 (previous month's CR3 unit sales)<br>= 11 070  |          |          |     |     |       |        |        |        |               |        |        |        |               |          |          |          |                   |        |        |        |                    |        |        |        |                   |         |         |         |      |   |        |        |           |        |      |  |        |                        |           |                        |      |   |        |                        |           |                        |            |
| August             | 12 015   |          |          |     |     |       |        |        |        |               |        |        |        |               |          |          |          |                   |        |        |        |                    |        |        |        |                   |         |         |         |      |   |        |        |           |        |      |  |        |                        |           |                        |      |   |        |                        |           |                        |            |
| September          | 14 985   |          |          |     |     |       |        |        |        |               |        |        |        |               |          |          |          |                   |        |        |        |                    |        |        |        |                   |         |         |         |      |   |        |        |           |        |      |  |        |                        |           |                        |      |   |        |                        |           |                        |            |
| July               | 16 050 (production total)<br>- 1 605 (no. of defective units)<br>= 14 445<br>(apply of rule)   |          |          |     |     |       |        |        |        |               |        |        |        |               |          |          |          |                   |        |        |        |                    |        |        |        |                   |         |         |         |      |   |        |        |           |        |      |  |        |                        |           |                        |      |   |        |                        |           |                        |            |
| August             | 15 705 (apply of rule)   |          |          |     |     |       |        |        |        |               |        |        |        |               |          |          |          |                   |        |        |        |                    |        |        |        |                   |         |         |         |      |   |        |        |           |        |      |  |        |                        |           |                        |      |   |        |                        |           |                        |            |
| September          | 18 990 (apply of rule)   |          |          |     |     |       |        |        |        |               |        |        |        |               |          |          |          |                   |        |        |        |                    |        |        |        |                   |         |         |         |      |   |        |        |           |        |      |  |        |                        |           |                        |      |   |        |                        |           |                        |            |
| July               | 14 445 (no. of good CR3 units) x 100<br>= 1 444 500<br>/90<br>= 16 050<br>(apply of rule)  |          |          |     |     |       |        |        |        |               |        |        |        |               |          |          |          |                   |        |        |        |                    |        |        |        |                   |         |         |         |      |   |        |        |           |        |      |  |        |                        |           |                        |      |   |        |                        |           |                        |            |
| August             | 17 450 (apply of rule)   |          |          |     |     |       |        |        |        |               |        |        |        |               |          |          |          |                   |        |        |        |                    |        |        |        |                   |         |         |         |      |   |        |        |           |        |      |  |        |                        |           |                        |      |   |        |                        |           |                        |            |
| September          | 21 100 (apply of rule)   |          |          |     |     |       |        |        |        |               |        |        |        |               |          |          |          |                   |        |        |        |                    |        |        |        |                   |         |         |         |      |   |        |        |           |        |      |  |        |                        |           |                        |      |   |        |                        |           |                        |            |

| Question          | Answer (AO2) 6  | Mark               |          |     |     |                 |        |        |        |               |        |        |        |               |          |          |          |                |        |        |        |                   |         |         |         |                   |  |  |        |            |         |         |         |      |  |        |                           |           |                           |  |                    |                    |      |        |        |        |        |        |           |        |        |      |  |        |                           |           |                           |  |
|-------------------|---|--------------------|----------|-----|-----|-----------------|--------|--------|--------|---------------|--------|--------|--------|---------------|----------|----------|----------|----------------|--------|--------|--------|-------------------|---------|---------|---------|-------------------|--|--|--------|------------|---------|---------|---------|------|--|--------|---------------------------|-----------|---------------------------|--|--------------------|--------------------|------|--------|--------|--------|--------|--------|-----------|--------|--------|------|--|--------|---------------------------|-----------|---------------------------|--|
| 1(b)              | <p><b>Award 1 mark for each row of the table, except Cost (\$6.00/kg) row.</b></p> <table border="1"> <thead> <tr> <th></th> <th>July</th> <th>Aug</th> <th>Sep</th> </tr> </thead> <tbody> <tr> <td>Production (kg)</td> <td>40 125</td> <td>43 625</td> <td>52 750</td> </tr> <tr> <td>Closing Stock</td> <td>27 000</td> <td>26 000</td> <td>25 000</td> </tr> <tr> <td>Opening Stock</td> <td>(28 000)</td> <td>(27 000)</td> <td>(26 000)</td> </tr> <tr> <td>Purchases (kg)</td> <td>39 125</td> <td>42 625</td> <td>51 750</td> </tr> <tr> <td>Cost (\$6.00/ kg)</td> <td>234 750</td> <td>255 750</td> <td>270 000</td> </tr> <tr> <td>Cost (\$7.20/ kg)</td> <td></td> <td></td> <td>48 600</td> </tr> <tr> <td>Total cost</td> <td>234 750</td> <td>255 750</td> <td>318 600</td> </tr> </tbody> </table> <p><b>Workings:</b></p> <ul style="list-style-type: none"> <li>1 mark for calculating the quantities of Material X (in kg) that will be used in production for July, August and September, e.g.</li> </ul> <table border="1"> <tbody> <tr> <td>July</td> <td>16 050 (production total)<br/>x 2.5 kg (amount of Material X in one CR3 unit)<br/>= 40 125 kg<br/>(apply of rule)</td> </tr> <tr> <td>August</td> <td>43 625 kg (apply of rule)</td> </tr> <tr> <td>September</td> <td>52 750 kg (apply of rule)</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>1 mark for calculating all three opening stock levels and all three closing stock levels of Material X (in kg) for July, August and September, e.g.</li> </ul> <table border="1"> <thead> <tr> <th></th> <th>Opening stock (kg)</th> <th>Closing stock (kg)</th> </tr> </thead> <tbody> <tr> <td>July</td> <td>28 000</td> <td>27 000</td> </tr> <tr> <td>August</td> <td>27 000</td> <td>26 000</td> </tr> <tr> <td>September</td> <td>26 000</td> <td>25 000</td> </tr> </tbody> </table> <p>Stock of materials reduced at a rate of 1 000 kg/month.</p> <ul style="list-style-type: none"> <li>1 mark for calculating the quantities of Material X (in kg) that will need to be purchased in July, August and September, e.g.</li> </ul> <table border="1"> <tbody> <tr> <td>July</td> <td>40 125 kg (Material X quantity)<br/>+ 27 000 kg (closing stock)<br/>- 28 000 kg (opening stock)<br/>= 39 125 kg (apply of rule)</td> </tr> <tr> <td>August</td> <td>42 625 kg (apply of rule)</td> </tr> <tr> <td>September</td> <td>51 750 kg (apply of rule)</td> </tr> </tbody> </table> |                    | July     | Aug | Sep | Production (kg) | 40 125 | 43 625 | 52 750 | Closing Stock | 27 000 | 26 000 | 25 000 | Opening Stock | (28 000) | (27 000) | (26 000) | Purchases (kg) | 39 125 | 42 625 | 51 750 | Cost (\$6.00/ kg) | 234 750 | 255 750 | 270 000 | Cost (\$7.20/ kg) |  |  | 48 600 | Total cost | 234 750 | 255 750 | 318 600 | July | 16 050 (production total)<br>x 2.5 kg (amount of Material X in one CR3 unit)<br>= 40 125 kg<br>(apply of rule) | August | 43 625 kg (apply of rule) | September | 52 750 kg (apply of rule) |  | Opening stock (kg) | Closing stock (kg) | July | 28 000 | 27 000 | August | 27 000 | 26 000 | September | 26 000 | 25 000 | July | 40 125 kg (Material X quantity)<br>+ 27 000 kg (closing stock)<br>- 28 000 kg (opening stock)<br>= 39 125 kg (apply of rule) | August | 42 625 kg (apply of rule) | September | 51 750 kg (apply of rule) |  |
|                   | July  | Aug                | Sep      |     |     |                 |        |        |        |               |        |        |        |               |          |          |          |                |        |        |        |                   |         |         |         |                   |  |  |        |            |         |         |         |      |  |        |                           |           |                           |  |                    |                    |      |        |        |        |        |        |           |        |        |      |  |        |                           |           |                           |  |
| Production (kg)   | 40 125  | 43 625             | 52 750   |     |     |                 |        |        |        |               |        |        |        |               |          |          |          |                |        |        |        |                   |         |         |         |                   |  |  |        |            |         |         |         |      |  |        |                           |           |                           |  |                    |                    |      |        |        |        |        |        |           |        |        |      |  |        |                           |           |                           |  |
| Closing Stock     | 27 000  | 26 000             | 25 000   |     |     |                 |        |        |        |               |        |        |        |               |          |          |          |                |        |        |        |                   |         |         |         |                   |  |  |        |            |         |         |         |      |  |        |                           |           |                           |  |                    |                    |      |        |        |        |        |        |           |        |        |      |  |        |                           |           |                           |  |
| Opening Stock     | (28 000)  | (27 000)           | (26 000) |     |     |                 |        |        |        |               |        |        |        |               |          |          |          |                |        |        |        |                   |         |         |         |                   |  |  |        |            |         |         |         |      |  |        |                           |           |                           |  |                    |                    |      |        |        |        |        |        |           |        |        |      |  |        |                           |           |                           |  |
| Purchases (kg)    | 39 125  | 42 625             | 51 750   |     |     |                 |        |        |        |               |        |        |        |               |          |          |          |                |        |        |        |                   |         |         |         |                   |  |  |        |            |         |         |         |      |  |        |                           |           |                           |  |                    |                    |      |        |        |        |        |        |           |        |        |      |  |        |                           |           |                           |  |
| Cost (\$6.00/ kg) | 234 750   | 255 750            | 270 000  |     |     |                 |        |        |        |               |        |        |        |               |          |          |          |                |        |        |        |                   |         |         |         |                   |  |  |        |            |         |         |         |      |  |        |                           |           |                           |  |                    |                    |      |        |        |        |        |        |           |        |        |      |  |        |                           |           |                           |  |
| Cost (\$7.20/ kg) |   |                    | 48 600   |     |     |                 |        |        |        |               |        |        |        |               |          |          |          |                |        |        |        |                   |         |         |         |                   |  |  |        |            |         |         |         |      |  |        |                           |           |                           |  |                    |                    |      |        |        |        |        |        |           |        |        |      |  |        |                           |           |                           |  |
| Total cost        | 234 750   | 255 750            | 318 600  |     |     |                 |        |        |        |               |        |        |        |               |          |          |          |                |        |        |        |                   |         |         |         |                   |  |  |        |            |         |         |         |      |  |        |                           |           |                           |  |                    |                    |      |        |        |        |        |        |           |        |        |      |  |        |                           |           |                           |  |
| July              | 16 050 (production total)<br>x 2.5 kg (amount of Material X in one CR3 unit)<br>= 40 125 kg<br>(apply of rule)  |                    |          |     |     |                 |        |        |        |               |        |        |        |               |          |          |          |                |        |        |        |                   |         |         |         |                   |  |  |        |            |         |         |         |      |  |        |                           |           |                           |  |                    |                    |      |        |        |        |        |        |           |        |        |      |  |        |                           |           |                           |  |
| August            | 43 625 kg (apply of rule)   |                    |          |     |     |                 |        |        |        |               |        |        |        |               |          |          |          |                |        |        |        |                   |         |         |         |                   |  |  |        |            |         |         |         |      |  |        |                           |           |                           |  |                    |                    |      |        |        |        |        |        |           |        |        |      |  |        |                           |           |                           |  |
| September         | 52 750 kg (apply of rule)   |                    |          |     |     |                 |        |        |        |               |        |        |        |               |          |          |          |                |        |        |        |                   |         |         |         |                   |  |  |        |            |         |         |         |      |  |        |                           |           |                           |  |                    |                    |      |        |        |        |        |        |           |        |        |      |  |        |                           |           |                           |  |
|                   | Opening stock (kg)  | Closing stock (kg) |          |     |     |                 |        |        |        |               |        |        |        |               |          |          |          |                |        |        |        |                   |         |         |         |                   |  |  |        |            |         |         |         |      |  |        |                           |           |                           |  |                    |                    |      |        |        |        |        |        |           |        |        |      |  |        |                           |           |                           |  |
| July              | 28 000  | 27 000             |          |     |     |                 |        |        |        |               |        |        |        |               |          |          |          |                |        |        |        |                   |         |         |         |                   |  |  |        |            |         |         |         |      |  |        |                           |           |                           |  |                    |                    |      |        |        |        |        |        |           |        |        |      |  |        |                           |           |                           |  |
| August            | 27 000  | 26 000             |          |     |     |                 |        |        |        |               |        |        |        |               |          |          |          |                |        |        |        |                   |         |         |         |                   |  |  |        |            |         |         |         |      |  |        |                           |           |                           |  |                    |                    |      |        |        |        |        |        |           |        |        |      |  |        |                           |           |                           |  |
| September         | 26 000  | 25 000             |          |     |     |                 |        |        |        |               |        |        |        |               |          |          |          |                |        |        |        |                   |         |         |         |                   |  |  |        |            |         |         |         |      |  |        |                           |           |                           |  |                    |                    |      |        |        |        |        |        |           |        |        |      |  |        |                           |           |                           |  |
| July              | 40 125 kg (Material X quantity)<br>+ 27 000 kg (closing stock)<br>- 28 000 kg (opening stock)<br>= 39 125 kg (apply of rule)  |                    |          |     |     |                 |        |        |        |               |        |        |        |               |          |          |          |                |        |        |        |                   |         |         |         |                   |  |  |        |            |         |         |         |      |  |        |                           |           |                           |  |                    |                    |      |        |        |        |        |        |           |        |        |      |  |        |                           |           |                           |  |
| August            | 42 625 kg (apply of rule)   |                    |          |     |     |                 |        |        |        |               |        |        |        |               |          |          |          |                |        |        |        |                   |         |         |         |                   |  |  |        |            |         |         |         |      |  |        |                           |           |                           |  |                    |                    |      |        |        |        |        |        |           |        |        |      |  |        |                           |           |                           |  |
| September         | 51 750 kg (apply of rule)   |                    |          |     |     |                 |        |        |        |               |        |        |        |               |          |          |          |                |        |        |        |                   |         |         |         |                   |  |  |        |            |         |         |         |      |  |        |                           |           |                           |  |                    |                    |      |        |        |        |        |        |           |        |        |      |  |        |                           |           |                           |  |





| Question | Indicative Content (AO3) 4, (AO4) 4  | Mark |
|----------|--|------|
| 1(c)     | <p><b>Production Budget - Positives:</b></p> <ul style="list-style-type: none"> <li>Producing a one year production budget would allow the production to be smoothed out/the same each month at 18 000 units of CR3 per month.</li> <li>This would avoid the need to purchase more than 45 000 kilos in one month.</li> <li>Total cost of purchasing Material X could be reduced by \$8 100.</li> </ul> <p><b>Materials Purchases Budget - Positives:</b></p> <ul style="list-style-type: none"> <li>Avoiding purchasing more than 45 000 kilos in one month could reduce the cost of materials by \$8 100.</li> <li>Does Material X have to be used in the same month as purchase? ie is it perishable?</li> </ul> <p><b>Production Budget - Negatives:</b></p> <ul style="list-style-type: none"> <li>Would a production plan of the same quantity each month suit the customers?</li> <li>Will there be higher stock holding costs for CR3, if monthly production does not meet monthly demand?</li> <li>Will there be higher stock holding costs for Material X?</li> </ul> <p><b>Materials Purchases Budget - Negatives:</b></p> <ul style="list-style-type: none"> <li>Will there be higher stock holding costs for Material X?</li> <li>Is there the physical capacity for holding larger quantities of stock?</li> </ul> | (8)  |

| Level          | Mark | Descriptor  |
|----------------|------|---|
|                | 0    | No rewardable material  |
| <b>Level 1</b> | 1-2  | Displays limited application. A largely descriptive approach with unsupported or generalised examples, which are not related to the question scenario. Factors to support a logical chain of reasoning are not present or are not examined methodically.  |
| <b>Level 2</b> | 3-5  | Displays application in an appropriate context. A largely descriptive approach with examples drawn from the question scenario. Some factors to support a chain of reasoning are identified but are not examined methodically.   |
| <b>Level 3</b> | 6-8  | Displays an understanding of considerations, which are applied in a relevant context. Displays ability to link knowledge and understanding using relevant examples and inferences drawn from the question scenario. Displays an understanding of the essential themes present in the question scenario broken down into their constituent parts in order present a logical and coherent chain of reasoning. |

| Question | Answer (AO1) 2   | Mark |
|----------|--|------|
| 2(a)     | <p><b>Award 1 mark for each point identified, up to 2 marks e.g.</b></p> <ul style="list-style-type: none"> <li>• Basic standard is a standard that is established when an activity is first undertaken (1) and has not been changed or updated for a long time (1)</li> </ul> <p>Accept any reasonable responses.</p> | (2)  |

| Question | Answer (AO1) 1   | Mark |
|----------|--|------|
| 2(b)(i)  | <p><b>Award 1 mark for the identification of an expenditure variance factor, e.g.</b></p> <ul style="list-style-type: none"> <li>• Overheads are not entirely fixed and the increase in output has caused costs to rise</li> <li>• Poor control of costs</li> <li>• Underestimation of increases in costs</li> </ul> <p>Accept any reasonable responses.</p> | (1)  |

| Question | Answer (AO1) 1  | Mark |
|----------|---|------|
| 2(b)(ii) | <p><b>Award 1 mark for the identification of a volume variance factor, e.g.</b></p> <ul style="list-style-type: none"> <li>• The company produced more units than budgeted</li> </ul> <p>Accept any reasonable responses.</p> | (1)  |

| Question | Answer (AO2) 4   | Mark       |
|----------|--|------------|
| 2(c)(i)  | <p><b>Award 1 mark for each part of the calculation and 1 mark for variance, including correct sign, up to 4 marks.</b></p> <ul style="list-style-type: none"> <li>• 1 mark for the calculation of the standard material quantity, e.g.<br/> 3 600 kg (budgeted material quantity)<br/> /8 000 (budgeted production of Product E units)<br/> = 0.45<br/> x 9 600 (actual production of Product E units)<br/> = 4 320 kg</li> <li>• 1 mark for the calculation of the standard material price, e.g.<br/> \$16 200 (budgeted material cost)<br/> /3 600 kg (budgeted material quantity)<br/> = \$4.50/kg</li> <li>• 1 mark for the calculation of the material usage (quantity) variance, e.g.<br/> 4 320 kg (standard material quantity)<br/> – 4 680 kg (actual material quantity)<br/> = -360<br/> x \$4.50/kg (standard material price)</li> <li>• 1 mark for the correct answer = \$1 620 A (accept of rule)</li> </ul> <p>Accept any reasonable responses.</p> | <b>(4)</b> |

| Question | Answer (AO2) 3   | Mark       |
|----------|--|------------|
| 2(c)(ii) | <p><b>Award 1 mark for each part of the calculation and 1 mark for variance, including correct sign, up to 3 marks.</b></p> <ul style="list-style-type: none"> <li>1 mark for the calculation of the actual material price, e.g.<br/> <math>\\$19\,890</math> (actual material cost)<br/> <math>/4\,680</math> kg (actual material quantity)<br/> <math>= \\$4.25/\text{kg}</math></li> <li>1 mark for the calculation of the material price variance, e.g.<br/> <math>(\\$4.50/\text{kg}</math> (standard material price) <math>- \\$4.25/\text{kg}</math> (actual material price))<br/> <math>\times 4\,680</math> (actual material quantity)</li> <li>1 mark for the correct answer = <math>\\$1\,170</math> F<br/>           (accept of rule)</li> </ul> <p>Accept any reasonable responses.</p> | <b>(3)</b> |

| Question  | Answer (AO2) 1  | Mark       |
|-----------|---|------------|
| 2(c)(iii) | <p><b>Award 1 mark for correct answer</b></p> <p>Total material cost variance = <math>\\$1\,620</math> A + <math>\\$1\,170</math> F = <math>\\$450</math> A<br/>           (apply o/f rule) (1)</p> | <b>(1)</b> |

| Question | Answer (AO2) 4  | Mark       |
|----------|---|------------|
| 2(c)(iv) | <p><b>Award 1 mark for each part of the calculation and 1 mark for variance, including correct sign, up to 4 marks.</b></p> <ul style="list-style-type: none"> <li>• 1 mark for the calculation of standard labour quantity, e.g.<br/> 1 200 hours (budgeted labour hours)<br/> /8 000 (budgeted production of Product E units)<br/> = 0.15<br/> x 9 600 (actual production of Product E units)<br/> = 1 440 Direct Labour Hours (DLH)</li> <li>• 1 mark for the calculation of the standard labour price, e.g.<br/> \$10 560 (budgeted labour hour cost)<br/> /1 200 hours (budgeted labour hours)<br/> = \$8.80/DLH</li> <li>• 1 mark for the calculation of the labour efficiency variance, e.g.<br/> 1 440 (standard labour quantity)<br/> – 1 610 (actual labour hours)<br/> = -170<br/> x \$8.80/DLH (standard labour price)</li> <li>• 1 mark for the correct answer = \$1 496 A (accept of rule)</li> </ul> <p>Accept any reasonable responses.</p> | <b>(4)</b> |

| Question | Answer (AO2) 3   | Mark       |
|----------|--|------------|
| 2(c)(v)  | <p><b>Award 1 mark for each part of the calculation and 1 mark for variance, including correct sign, up to 3 marks e.g.</b></p> <ul style="list-style-type: none"> <li>1 mark for the calculation of the actual labour price, e.g.<br/> <math>\\$15\,617</math> (actual labour hourly cost)<br/> <math>/1\,610</math> hours (actual labour hours)<br/> <math>= \\$9.70/\text{DLH}</math></li> <li>1 mark for the calculation of the labour rate variance, e.g.<br/> <math>\\$8.80/\text{DLH}</math> (standard labour price) <math>- \\$9.70/\text{DLH}</math> (actual labour price)<br/> <math>= -0.9</math><br/> <math>\times 1\,610</math> hours (actual labour hours)</li> <li>1 mark for the correct answer = <math>\\$1\,449</math> A (accept of rule)</li> </ul> <p>Accept any reasonable responses.</p> | <b>(3)</b> |

| Question | Answer (AO2) 1   | Mark       |
|----------|--|------------|
| 2(c)(vi) | <p><b>Award 1 mark for correct answer</b></p> <p>Total labour cost variance = <math>\\$1\,496</math> A + <math>\\$1\,449</math> F = <math>\\$2\,945</math> A<br/>         (apply o/f rule) (1)</p> | <b>(1)</b> |

| Question                  | Answer (AO2) 6  | Mark          |  |  |                           |  |  |                |  |  |                   |  |  |             |  |  |                      |  |  |                 |  |  |                   |  |  |                     |  |  |             |  |  |     |
|---------------------------|---|---------------|--|--|---------------------------|--|--|----------------|--|--|-------------------|--|--|-------------|--|--|----------------------|--|--|-----------------|--|--|-------------------|--|--|---------------------|--|--|-------------|--|--|-----|
| 2(d)                      | <table border="1" data-bbox="411 293 1114 629"> <tr><td>Standard Cost</td><td></td><td></td></tr> <tr><td>Material usage (quantity)</td><td></td><td></td></tr> <tr><td>Material price</td><td></td><td></td></tr> <tr><td>Labour efficiency</td><td></td><td></td></tr> <tr><td>Labour rate</td><td></td><td></td></tr> <tr><td>Overhead expenditure</td><td></td><td></td></tr> <tr><td>Overhead volume</td><td></td><td></td></tr> <tr><td>Overhead capacity</td><td></td><td></td></tr> <tr><td>Overhead efficiency</td><td></td><td></td></tr> <tr><td>Actual cost</td><td></td><td></td></tr> </table> <p data-bbox="411 667 1310 757"><b>Award 1 mark for the calculation of the budgeted cost and award 4 marks for showing variances award 1 mark for the calculation/insertion of the budgeted cost, up to 5 marks.</b></p> <ul data-bbox="411 792 1070 826" style="list-style-type: none"> <li>• 1 mark for calculating the standard cost, e.g.</li> </ul> <p data-bbox="411 860 1031 987"> \$43 800 (budgeted total cost)<br/> x 9 600 (actual production of Product E units)<br/> = 420 480 000<br/> /8 000 (No. of budgeted units) = \$52 560 </p> <ul data-bbox="411 1021 1257 1084" style="list-style-type: none"> <li>• 1 mark for showing material usage (quantity) and material price variances or total material variance, e.g.</li> </ul> <p data-bbox="411 1120 1315 1247"> Material usage (quantity) = \$1 620 A (apply of rule)<br/> Material price = \$1 170 F (apply of rule) or<br/> Total material variance = \$1 620 A + \$1 170 F = \$450 A (apply of rule) </p> <ul data-bbox="411 1281 1310 1344" style="list-style-type: none"> <li>• 1 mark for showing labour efficiency and labour rate variances or total labour variance, e.g.</li> </ul> <p data-bbox="411 1377 1283 1505"> Labour efficiency = \$1 496 A (apply of rule)<br/> Labour rate = \$ 1 449 A (apply of rule) or<br/> Total labour variance = \$1 496 A + \$1 449 A = \$2 945 A (apply of rule) </p> <ul data-bbox="411 1538 1222 1572" style="list-style-type: none"> <li>• 1 mark for showing overhead expenditure variance, e.g.</li> </ul> <p data-bbox="411 1606 876 1639">Overhead expenditure = \$1 083 A</p> <ul data-bbox="411 1673 1310 1736" style="list-style-type: none"> <li>• 1 mark for showing overhead capacity and overhead efficiency variances or total overhead volume variance, e.g.</li> </ul> <p data-bbox="411 1769 1147 1897"> Overhead capacity = \$5 822 F<br/> Overhead efficiency = \$2 414 A or<br/> Total overhead volume variance = \$5 822 + \$2 414 = \$3 408 F </p> <p data-bbox="411 1930 871 1964">Accept any reasonable responses.</p> | Standard Cost |  |  | Material usage (quantity) |  |  | Material price |  |  | Labour efficiency |  |  | Labour rate |  |  | Overhead expenditure |  |  | Overhead volume |  |  | Overhead capacity |  |  | Overhead efficiency |  |  | Actual cost |  |  | (6) |
| Standard Cost             |   |               |  |  |                           |  |  |                |  |  |                   |  |  |             |  |  |                      |  |  |                 |  |  |                   |  |  |                     |  |  |             |  |  |     |
| Material usage (quantity) |   |               |  |  |                           |  |  |                |  |  |                   |  |  |             |  |  |                      |  |  |                 |  |  |                   |  |  |                     |  |  |             |  |  |     |
| Material price            |   |               |  |  |                           |  |  |                |  |  |                   |  |  |             |  |  |                      |  |  |                 |  |  |                   |  |  |                     |  |  |             |  |  |     |
| Labour efficiency         |   |               |  |  |                           |  |  |                |  |  |                   |  |  |             |  |  |                      |  |  |                 |  |  |                   |  |  |                     |  |  |             |  |  |     |
| Labour rate               |   |               |  |  |                           |  |  |                |  |  |                   |  |  |             |  |  |                      |  |  |                 |  |  |                   |  |  |                     |  |  |             |  |  |     |
| Overhead expenditure      |   |               |  |  |                           |  |  |                |  |  |                   |  |  |             |  |  |                      |  |  |                 |  |  |                   |  |  |                     |  |  |             |  |  |     |
| Overhead volume           |   |               |  |  |                           |  |  |                |  |  |                   |  |  |             |  |  |                      |  |  |                 |  |  |                   |  |  |                     |  |  |             |  |  |     |
| Overhead capacity         |   |               |  |  |                           |  |  |                |  |  |                   |  |  |             |  |  |                      |  |  |                 |  |  |                   |  |  |                     |  |  |             |  |  |     |
| Overhead efficiency       |   |               |  |  |                           |  |  |                |  |  |                   |  |  |             |  |  |                      |  |  |                 |  |  |                   |  |  |                     |  |  |             |  |  |     |
| Actual cost               |   |               |  |  |                           |  |  |                |  |  |                   |  |  |             |  |  |                      |  |  |                 |  |  |                   |  |  |                     |  |  |             |  |  |     |



| Question | Answer (AO1) 3, (AO3) 3  | Mark       |
|----------|--|------------|
| 3(a)     | <p><b>1 mark for identifying each weakness, and 1 mark for developing each weakness, up to six marks e.g.</b></p> <ul style="list-style-type: none"> <li>• The approach can be used only for short-term forecasts (1) as linear movements in trends are unlikely to last long term (1).</li> <li>• This approach assumes that the trend will be affected only by the passing of time (1) and fails to consider cyclical or other factors (1).</li> <li>• This approach fails to consider other valuable sources of information that may be more relevant (1). This might include reports from sales or market research teams (1).</li> </ul> <p>Accept any reasonable responses.</p> | <b>(6)</b> |

| Question | Answer (AO1) 2   | Mark       |
|----------|--|------------|
| 3(b)(i)  | <p><b>Award 1 mark each for an aspect of sustainability, up to 2 marks, e.g.</b></p> <ul style="list-style-type: none"> <li>• The meeting of current needs (1) without compromising the needs of future generations (1)</li> </ul> <p>Accept any reasonable responses.</p> | <b>(2)</b> |

| Question | Answer (AO1) 1, (AO3) 3   | Mark       |
|----------|---|------------|
| 3(b)(ii) | <p><b>Award 1 mark for identifying all three elements of the triple bottom line.</b></p> <ul style="list-style-type: none"> <li>• Economic, social and environmental (1)</li> </ul> <p><b>Award 1 mark for developing each element in context of sustainability, up to 3 marks, e.g.</b></p> <ul style="list-style-type: none"> <li>• Economic – this refers to the economic welfare of the organisation, community or nation (1)</li> <li>• Social – this refers to the needs of the workers, families, local community or population (1)</li> <li>• Environmental – this refers to green issues, pollution or climate change (1)</li> </ul> <p>Accept any reasonable responses.</p> | <b>(4)</b> |

| Question | Indicative content (AO3) 4, (AO4) 4, (AO5) 4  |
|----------|---|
| 3(c)     | <p><b>Arguments in favour of sustainability:</b></p> <ul style="list-style-type: none"> <li>• Relocation will reduce factory costs like rent and rates – this will improve the company’s profitability and help it to survive.</li> <li>• Relocation will reduce wage bill by 30% – this will improve the company’s profitability and enable it to survive.</li> <li>• New technology will reduce production costs by 20% – this will improve the company’s profitability and enable it to survive.</li> <li>• Move will create new employment opportunities and boost the local economy in the new location, which satisfies the economic element of the triple bottom line.</li> <li>• The company may get incentives from local government agencies for creating employment in a deprived area – this will help to reduce the company’s costs and improve its profitability.</li> </ul> <p><b>Arguments against sustainability:</b></p> <ul style="list-style-type: none"> <li>• Factory is not insulated and this will result in high fuel costs of heating – this will reduce the company’s profitability and be bad for the environment.</li> <li>• Workers will be cold and working conditions will be unpleasant – this does not support the social element of the triple bottom line.</li> <li>• The move away will cause local unemployment and will harm the local economy – this will not support the social element of the triple bottom line.</li> <li>• Introducing new technology will cause up to 2 250 job losses – this will harm the local economy and not support the economic element of the triple bottom line.</li> <li>• New technology may cause more pollution than older methods – this is not good for the environment and does not support the environmental element of the triple bottom line.</li> </ul> <p>Candidates should draw together/value their arguments to provide a reasoned judgement/decision.</p> |

| <b>Level</b>   | <b>Mark</b> | <b>Descriptor</b>   |
|----------------|-------------|---|
|                | 0           | Question not attempted or response completely irrelevant or inaccurate  |
| <b>Level 1</b> | 1-3         | Displays limited application of accounting theories or concepts in an appropriate context. A largely descriptive approach with unsupported or generalised examples, which are not related to the question scenario. Factors to support a logical chain of reasoning are not present or are not examined methodically. A supported conclusion is not present or the conclusion presented is not supported by evidence drawn from the question scenario.  |
| <b>Level 2</b> | 4-7         | Displays application of accounting theories or concepts in an appropriate and relevant context. A largely descriptive approach with examples drawn from the question scenario. Factors to support a chain of reasoning are identified and supported by evidence drawn from the question scenario but are not examined methodically and the chain of reasoning presented is not sufficiently well developed or balanced to support a robust supported conclusion.  |
| <b>Level 3</b> | 8-12        | Displays an understanding of accounting theories or concepts, which are applied in a relevant context. Displays the ability to link knowledge and understanding using relevant examples and inferences drawn from the question scenario. Displays an understanding of the essential themes present in the question scenario broken down into their constituent parts in order to present a logical and coherent chain of reasoning. Careful consideration is given to all relevant factors drawn from the question scenario with additional evidence drawn from relevant theory in order to present a reasoned and logically robust conclusion. |

| Question | Answer (AO2) 1   | Mark |
|----------|--|------|
| 4(a)(i)  | <p><b>Award 1 mark for correct answer for turnover per passenger mile (\$):</b></p> <p>2 400 (turnover)<br/>/9 600 (actual passenger miles)<br/>= \$0.25</p> | (1)  |

| Question | Answer (AO2) 1   | Mark |
|----------|--|------|
| 4(a)(ii) | <p><b>Award 1 mark for correct answer for gross profit (%):</b></p> <p>672 (gross profit) / 2 400 (turnover)<br/>= 0.28<br/>x 100 = 28.00%<br/>(to 2 decimal places)</p> | (1)  |

| Question  | Answer (AO2) 1  | Mark |
|-----------|---|------|
| 4(a)(iii) | <p><b>Award 1 mark for correct answer for overhead and other expenses (%):</b></p> <p>544 (overhead costs and other expenses)<br/>/2 400 (turnover)<br/>= 0.2267<br/>x 100 = 22.67% (2d.p.)</p> | (1)  |

| Question | Answer (AO2) 1   | Mark |
|----------|--|------|
| 4(a)(iv) | <p><b>Award 1 mark for correct answer for net operating profit (%):</b></p> <p>128 (net operating profit)<br/>/2 400 (turnover)<br/>= 0.0533<br/>x 100 = 5.33% (2d.p.)</p> | (1)  |

| Question | Answer (AO2) 1   | Mark |
|----------|--|------|
| 4(a)(v)  | <p><b>Award 1 mark for correct answer for fuel costs per passenger mile (\$):</b></p> <p>720 (fuel costs)<br/> /9 600 (actual passenger miles)<br/> = \$0.075 (3d.p.)</p> <p>Answer must be to 3d.p.</p> | (1)  |

| Question | Answer (AO2) 1   | Mark |
|----------|--|------|
| 4(a)(vi) | <p><b>Award 1 mark for correct answer for drivers' wages per passenger mile (\$):</b></p> <p>1 008 (driver wages)<br/> /9 600 (actual passenger miles)<br/> = 0.105<br/> × 100<br/> = \$0.105</p> <p>Answer must be to 3d.p.</p> | (1)  |

| Question  | Answer (AO2) 1  | Mark |
|-----------|---|------|
| 4(a)(vii) | <p><b>Award 1 mark for correct answer for return on capital employed (%):</b></p> <p>128 (net (operating) profit)<br/> /1 140 (capital employed)<br/> = 0.1123<br/> × 100<br/> = 11.23% (2d.p.)</p> | (1)  |

| Question   | Answer (AO2) 1  | Mark |
|------------|---|------|
| 4(a)(viii) | <p><b>Award 1 mark for correct answer for passenger miles (%):</b></p> <p>9 600 (actual passenger miles) profit<br/> /12 000 (maximum possible passenger miles)<br/> = 0.8<br/> × 100<br/> = 80.00% (2d.p.)</p> | (1)  |

| Question | Indicative content (A03) 4, (A04) 4, (A05) 4  |
|----------|---|
| 4(b)     | <p><b>Arguments in favour of short trips:</b></p> <p>Short trips provide:</p> <ul style="list-style-type: none"> <li>• Better turnover per mile, which means the company will make more profit</li> <li>• Better return on capital employed, which will keep investors happy</li> <li>• Lower overhead percentage, which will make the company more competitive</li> <li>• Fuller use of its coach capacity, which represents better use of resources</li> </ul> <p><b>Arguments in favour of long trips:</b></p> <p>Long trips provide:</p> <ul style="list-style-type: none"> <li>• Higher gross profit percentage, which makes it easier to cover operating expenses</li> <li>• Higher net profit percentage, which means a greater proportion of revenue is potentially available for distribution to the shareholders</li> <li>• Lower fuel costs, which will improve profitability</li> <li>• Lower driver costs per mile, which will make the company more competitive</li> </ul> <p>Candidates should draw together/value their arguments to provide a reasoned judgement/decision.</p> <p>Accept any reasonable responses.</p> |

| <b>Level</b>   | <b>Mark</b> | <b>Descriptor</b>   |
|----------------|-------------|---|
|                | 0           | Question not attempted or response completely irrelevant or inaccurate  |
| <b>Level 1</b> | 1-3         | Displays limited application of accounting theories or concepts in an appropriate context. A largely descriptive approach with unsupported or generalised examples, which are not related to the question scenario. Factors to support a logical chain of reasoning are not present or are not examined methodically. A supported conclusion is not present or the conclusion presented is not supported by evidence drawn from the question scenario.  |
| <b>Level 2</b> | 4-7         | Displays application of accounting theories or concepts in an appropriate and relevant context. A largely descriptive approach with examples drawn from the question scenario. Factors to support a chain of reasoning are identified and supported by evidence drawn from the question scenario but are not examined methodically and the chain of reasoning presented is not sufficiently well developed or balanced to support a robust supported conclusion.  |
| <b>Level 3</b> | 8-12        | Displays an understanding of accounting theories or concepts, which are applied in a relevant context. Displays the ability to link knowledge and understanding using relevant examples and inferences drawn from the question scenario. Displays an understanding of the essential themes present in the question scenario broken down into their constituent parts in order to present a logical and coherent chain of reasoning. Careful consideration is given to all relevant factors drawn from the question scenario with additional evidence drawn from relevant theory in order to present a reasoned and logically robust conclusion. |

| Question | Answer (AO1) 2, (AO3) 2  | Mark |
|----------|--|------|
| 4(c)     | <p><b>1 mark for stating each non-financial performance indicator, and 1 mark for developing each non-financial performance indicator, up to 4 marks, e.g.</b></p> <p>Number of complaints/frequency of repeat custom/favourable publicity (1) allows the company to determine passenger satisfaction, which may lead to an increase in passenger numbers (1)</p> <p>Whether services run on time/frequency of breakdowns/ other vehicle-related problems (1) improves the quality of service to the passenger and therefore leads to an improvement in the company's reputation (1)</p> <p>Accept any reasonable responses.</p> | (4)  |

| Question | Answer (AO2) 3, (AO4) 1  | Mark |
|----------|--|------|
| 5(a)     | <p><b>Award 1 mark each for calculation of material quantity, direct labour hours and machine hours, up to 3 marks.</b></p> <ul style="list-style-type: none"> <li>• Award 1 mark for calculating material quantity, e.g.<br/> <math>\\$67\,800</math> (total material costs for A, B and C)<br/> <math>/\\$6.00</math> per kg (material cost per kg)<br/> <math>= 11\,300</math> kg (12 000 kg available – therefore not limiting factor)</li> <li>• Award 1 mark for calculating direct labour hours, e.g.<br/> <math>\\$30\,400</math> (total direct labour costs for A, B and C)<br/> <math>/\\$8.00</math> per hour (wage rate for direct labour)<br/> <math>= 3\,800</math> direct labour hours (4 250 direct labour hours available – therefore not limiting factor)</li> <li>• Award 1 mark for calculating number of machine hours, e.g.<br/>           (Units sold for A x machine hours per unit) + (units sold for B x machine hours per unit) + (units sold for C x machine hours per unit)<br/> <math>= (0.03 \times 2\,000) + (0.04 \times 5\,000) + (0.06 \times 3\,000) = 440</math></li> </ul> <p><b>Award 1 mark for recognising limiting factor, e.g.</b></p> <p>There are only 375 machine hours available and that this is the only limiting factor out of the three inputs.</p> <p>Accept any reasonable responses.</p> | (4)  |



| Question | Answer (AO2) 8, (AO4) 2   | Mark |   |   |          |   |          |   |   |   |                          |   |                          |   |  |   |                        |   |                        |   |  |   |   |   |   |  |
|----------|---|------|---|---|----------|---|----------|---|---|---|--------------------------|---|--------------------------|---|--|---|------------------------|---|------------------------|---|--|---|---|---|---|--|
| 5(b)     | <p><b>Award 1 mark each for calculating the variable costs, total contribution, contribution per unit and contribution per machine hour, up to 4 marks.</b></p> <ul style="list-style-type: none"> <li>Award 1 mark for calculating the variable costs for A, B and C, e.g.</li> </ul> <table border="1" data-bbox="411 488 1286 692"> <tr> <td>A</td> <td>\$9 000 (material cost)<br/>+ \$4 000 (direct labour cost)<br/>+ \$2 100 (variable overheads)<br/>= \$15 100</td> </tr> <tr> <td>B</td> <td>\$50 250</td> </tr> <tr> <td>C</td> <td>\$41 200</td> </tr> </table> <ul style="list-style-type: none"> <li>Award 1 mark for calculating the total contribution for A, B and C, e.g.</li> </ul> <table border="1" data-bbox="411 824 1286 1008"> <tr> <td>A</td> <td>\$27 900 (revenue)<br/>- \$15 100 (variable costs)<br/>= 12 800 (apply of rule)</td> </tr> <tr> <td>B</td> <td>\$29 500 (apply of rule)</td> </tr> <tr> <td>C</td> <td>\$18 650 (apply of rule)</td> </tr> </table> <ul style="list-style-type: none"> <li>Award 1 mark for contribution per unit for A, B and C</li> </ul> <table border="1" data-bbox="411 1108 1286 1285"> <tr> <td>A</td> <td>\$12 800 (total contribution)<br/>/2 000 (no. of units)<br/>= \$6.40 (apply of rule)</td> </tr> <tr> <td>B</td> <td>\$5.90 (apply of rule)</td> </tr> <tr> <td>C</td> <td>\$6.22 (apply of rule)</td> </tr> </table> <ul style="list-style-type: none"> <li>Award 1 mark for contribution per machine hour for A, B and C</li> </ul> <table border="1" data-bbox="411 1417 1286 1597"> <tr> <td>A</td> <td>\$6.40 (contribution per machine hour)<br/>/ 0.03 (machine hours per unit)<br/>= \$213.33 (accept 213) (apply of rule)</td> </tr> <tr> <td>B</td> <td>= \$147.50 (accept 148) (apply of rule)</td> </tr> <tr> <td>C</td> <td>= \$103.61 (accept 104) (apply of rule)</td> </tr> </table> | A    | \$9 000 (material cost)<br>+ \$4 000 (direct labour cost)<br>+ \$2 100 (variable overheads)<br>= \$15 100 | B | \$50 250 | C | \$41 200 | A | \$27 900 (revenue)<br>- \$15 100 (variable costs)<br>= 12 800 (apply of rule) | B | \$29 500 (apply of rule) | C | \$18 650 (apply of rule) | A | \$12 800 (total contribution)<br>/2 000 (no. of units)<br>= \$6.40 (apply of rule) | B | \$5.90 (apply of rule) | C | \$6.22 (apply of rule) | A | \$6.40 (contribution per machine hour)<br>/ 0.03 (machine hours per unit)<br>= \$213.33 (accept 213) (apply of rule) | B | = \$147.50 (accept 148) (apply of rule) | C | = \$103.61 (accept 104) (apply of rule) |  |
| A        | \$9 000 (material cost)<br>+ \$4 000 (direct labour cost)<br>+ \$2 100 (variable overheads)<br>= \$15 100   |      |   |   |          |   |          |   |   |   |                          |   |                          |   |  |   |                        |   |                        |   |  |   |   |   |   |  |
| B        | \$50 250  |      |   |   |          |   |          |   |   |   |                          |   |                          |   |  |   |                        |   |                        |   |  |   |   |   |   |  |
| C        | \$41 200  |      |   |   |          |   |          |   |   |   |                          |   |                          |   |  |   |                        |   |                        |   |  |   |   |   |   |  |
| A        | \$27 900 (revenue)<br>- \$15 100 (variable costs)<br>= 12 800 (apply of rule)   |      |   |   |          |   |          |   |   |   |                          |   |                          |   |  |   |                        |   |                        |   |  |   |   |   |   |  |
| B        | \$29 500 (apply of rule)  |      |   |   |          |   |          |   |   |   |                          |   |                          |   |  |   |                        |   |                        |   |  |   |   |   |   |  |
| C        | \$18 650 (apply of rule)  |      |   |   |          |   |          |   |   |   |                          |   |                          |   |  |   |                        |   |                        |   |  |   |   |   |   |  |
| A        | \$12 800 (total contribution)<br>/2 000 (no. of units)<br>= \$6.40 (apply of rule)  |      |   |   |          |   |          |   |   |   |                          |   |                          |   |  |   |                        |   |                        |   |  |   |   |   |   |  |
| B        | \$5.90 (apply of rule)  |      |   |   |          |   |          |   |   |   |                          |   |                          |   |  |   |                        |   |                        |   |  |   |   |   |   |  |
| C        | \$6.22 (apply of rule)  |      |   |   |          |   |          |   |   |   |                          |   |                          |   |  |   |                        |   |                        |   |  |   |   |   |   |  |
| A        | \$6.40 (contribution per machine hour)<br>/ 0.03 (machine hours per unit)<br>= \$213.33 (accept 213) (apply of rule)  |      |   |   |          |   |          |   |   |   |                          |   |                          |   |  |   |                        |   |                        |   |  |   |   |   |   |  |
| B        | = \$147.50 (accept 148) (apply of rule)   |      |   |   |          |   |          |   |   |   |                          |   |                          |   |  |   |                        |   |                        |   |  |   |   |   |   |  |
| C        | = \$103.61 (accept 104) (apply of rule)   |      |   |   |          |   |          |   |   |   |                          |   |                          |   |  |   |                        |   |                        |   |  |   |   |   |   |  |

| Question                             |  | Mark    |                               |         |   |              |     |   |              |     |   |              |     |         |               |   |  |   |  |   |  |         |              |   |      |   |      |   |      |                    |
|--------------------------------------|--|---------|-------------------------------|---------|---|--------------|-----|---|--------------|-----|---|--------------|-----|---------|---------------|---|--|---|--|---|--|---------|--------------|---|------|---|------|---|------|--------------------|
| <p><b>5(b)</b><br/><b>cont'd</b></p> | <p><b>Award 1 mark for the ranking of each product.</b></p> <ul style="list-style-type: none"> <li>Award 1 mark for the correct ranking of the three products in terms of contribution per machine hour, e.g.</li> </ul> <table border="1" data-bbox="411 421 1286 640"> <thead> <tr> <th>Product</th> <th>Contribution per machine hour</th> <th>Ranking</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>\$213.33/214</td> <td>1st</td> </tr> <tr> <td>B</td> <td>\$147.50/148</td> <td>2nd</td> </tr> <tr> <td>C</td> <td>\$103.61/104</td> <td>3rd</td> </tr> </tbody> </table> <p>Apply of rule.</p> <p><b>Award 1 mark each for calculating the number of machine hours for each product that would maximise profit, up to 3 marks.</b></p> <table border="1" data-bbox="411 869 1286 1200"> <thead> <tr> <th>Product</th> <th>Machine hours</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>2000 (no. of units)<br/>x 0.03 (machine hours per unit)<br/>= 60 machine hours (apply of rule) (1)</td> </tr> <tr> <td>B</td> <td>5000 units x 0.04<br/>= 200 machine hours (apply of rule) (1)</td> </tr> <tr> <td>C</td> <td>375 (max machine hours)<br/>- (200 (Product A machine hours)<br/>+ 60 (Product B machine hours)<br/>= 115 machine hours (apply of rule) (1)</td> </tr> </tbody> </table> <p><b>Award 1 mark for calculating the number of units for Product C.</b></p> <p>115 (machine hours)<br/>/0.06 (machine hours per unit)<br/>= 1916</p> <p><b>Award 1 mark for identifying the product mix that would maximise profit.</b></p> <table border="1" data-bbox="411 1554 1281 1697"> <thead> <tr> <th>Product</th> <th>No. of units</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>2000</td> </tr> <tr> <td>B</td> <td>5000</td> </tr> <tr> <td>C</td> <td>1916</td> </tr> </tbody> </table> <p>Accept any reasonable responses.</p> | Product | Contribution per machine hour | Ranking | A | \$213.33/214 | 1st | B | \$147.50/148 | 2nd | C | \$103.61/104 | 3rd | Product | Machine hours | A | 2000 (no. of units)<br>x 0.03 (machine hours per unit)<br>= 60 machine hours (apply of rule) (1) | B | 5000 units x 0.04<br>= 200 machine hours (apply of rule) (1) | C | 375 (max machine hours)<br>- (200 (Product A machine hours)<br>+ 60 (Product B machine hours)<br>= 115 machine hours (apply of rule) (1) | Product | No. of units | A | 2000 | B | 5000 | C | 1916 | <p><b>(10)</b></p> |
| Product                              | Contribution per machine hour  | Ranking |                               |         |   |              |     |   |              |     |   |              |     |         |               |   |  |   |  |   |  |         |              |   |      |   |      |   |      |                    |
| A                                    | \$213.33/214   | 1st     |                               |         |   |              |     |   |              |     |   |              |     |         |               |   |  |   |  |   |  |         |              |   |      |   |      |   |      |                    |
| B                                    | \$147.50/148   | 2nd     |                               |         |   |              |     |   |              |     |   |              |     |         |               |   |  |   |  |   |  |         |              |   |      |   |      |   |      |                    |
| C                                    | \$103.61/104   | 3rd     |                               |         |   |              |     |   |              |     |   |              |     |         |               |   |  |   |  |   |  |         |              |   |      |   |      |   |      |                    |
| Product                              | Machine hours  |         |                               |         |   |              |     |   |              |     |   |              |     |         |               |   |  |   |  |   |  |         |              |   |      |   |      |   |      |                    |
| A                                    | 2000 (no. of units)<br>x 0.03 (machine hours per unit)<br>= 60 machine hours (apply of rule) (1)   |         |                               |         |   |              |     |   |              |     |   |              |     |         |               |   |  |   |  |   |  |         |              |   |      |   |      |   |      |                    |
| B                                    | 5000 units x 0.04<br>= 200 machine hours (apply of rule) (1)   |         |                               |         |   |              |     |   |              |     |   |              |     |         |               |   |  |   |  |   |  |         |              |   |      |   |      |   |      |                    |
| C                                    | 375 (max machine hours)<br>- (200 (Product A machine hours)<br>+ 60 (Product B machine hours)<br>= 115 machine hours (apply of rule) (1)   |         |                               |         |   |              |     |   |              |     |   |              |     |         |               |   |  |   |  |   |  |         |              |   |      |   |      |   |      |                    |
| Product                              | No. of units   |         |                               |         |   |              |     |   |              |     |   |              |     |         |               |   |  |   |  |   |  |         |              |   |      |   |      |   |      |                    |
| A                                    | 2000   |         |                               |         |   |              |     |   |              |     |   |              |     |         |               |   |  |   |  |   |  |         |              |   |      |   |      |   |      |                    |
| B                                    | 5000   |         |                               |         |   |              |     |   |              |     |   |              |     |         |               |   |  |   |  |   |  |         |              |   |      |   |      |   |      |                    |
| C                                    | 1916   |         |                               |         |   |              |     |   |              |     |   |              |     |         |               |   |  |   |  |   |  |         |              |   |      |   |      |   |      |                    |

| Question | Indicative content (A03) 4, (A04) 4, (A05) 4   |
|----------|--|
| 5(c)     | <p><b>Advantages:</b></p> <ul style="list-style-type: none"> <li>• It can enable the company to identify which activity makes the best or most profitable use of a limited resource and this will enable the company to maximise its contribution and profit</li> <li>• Use of contribution to judge an activity is better than a profit figure that might be distorted by fixed costs, some of which (like fixed overheads) might be arbitrarily apportioned. This will enable the company to make better decisions about product mix</li> <li>• Contribution per unit can lead to distortions if units of different products consume different amounts of scarce resources, so this will enable the company to identify which product really makes best use of the resource</li> </ul> <p><b>Disadvantages:</b></p> <ul style="list-style-type: none"> <li>• The figures being used might change – demand, selling price or costs might be greater or less than expected. This will mean that any decision made regarding product mix may no longer be the most profitable</li> <li>• The approach is highly dependent on the accuracy of the figures being used – demand, selling price or costs might be greater or less than expected. This may lead to the company producing less of the most profitable product</li> <li>• This approach fails to consider that customers may want the whole range of products and will stop buying all of them if one is withdrawn</li> <li>• This approach does not consider the possibility that the products are complementary and withdrawing/limiting one will render the others useless</li> <li>• This approach will need to be adapted if there are contractual obligations. The company may not be able to legally withdraw a product</li> <li>• This approach does not consider issues like multiple selling prices, which might make it difficult for the company to identify which product really is the most profitable</li> </ul> <p>Candidates should draw together/value their arguments to provide a reasoned judgement/decision.</p> |

| <b>Level</b>   | <b>Mark</b> | <b>Descriptor</b>   |
|----------------|-------------|---|
|                | 0           | Question not attempted or response completely irrelevant or inaccurate  |
| <b>Level 1</b> | 1-3         | Displays limited application of accounting theories or concepts in an appropriate context. A largely descriptive approach with unsupported or generalised examples, which are not related to the question scenario. Factors to support a logical chain of reasoning are not present or are not examined methodically. A supported conclusion is not present or the conclusion presented is not supported by evidence drawn from the question scenario.  |
| <b>Level 2</b> | 4-7         | Displays application of accounting theories or concepts in an appropriate and relevant context. A largely descriptive approach with examples drawn from the question scenario. Factors to support a chain of reasoning are identified and supported by evidence drawn from the question scenario but are not examined methodically and the chain of reasoning presented is not sufficiently well developed or balanced to support a robust supported conclusion.  |
| <b>Level 3</b> | 8-12        | Displays an understanding of accounting theories or concepts, which are applied in a relevant context. Displays the ability to link knowledge and understanding using relevant examples and inferences drawn from the question scenario. Displays an understanding of the essential themes present in the question scenario broken down into their constituent parts in order to present a logical and coherent chain of reasoning. Careful consideration is given to all relevant factors drawn from the question scenario with additional evidence drawn from relevant theory in order to present a reasoned and logically robust conclusion. |

September 2015

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**LCCI**  
International  
Qualifications



**L4**

**Pearson  
LCCI Level 4 Certificate  
in Organisational Behaviour  
and Performance (VRQ)  
(ASE20103)**

**SAMPLE ASSESSMENT MATERIALS**

**Issue 2**

For first teaching from September 2015

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This sample assessment material is Issue 2. Key changes are sidlined in the document. We will inform centres of any changes to this issue. The latest issue can be found on our website, [qualifications.pearson.com](http://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.)*

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# Pearson LCCI

## Certificate in Organisational Behaviour and Performance (VRQ)

Level 4

Sample assessment material for first teaching  
September 2015

**Time: 2 hours**

Paper Reference

**ASE20103**

**Complete the details below in block capitals.**

Candidate name

Centre Code

Candidate Number

Candidate ID Number

**You do not need any other materials.**

Total Marks

### Instructions

- Use **black** ink or ball-point pen  
– *pencil can only be used for graphs, charts, diagrams, etc.*
- **Fill in the boxes** at the top of this page with your name, candidate number, centre code and your candidate ID number.
- Answer **all** questions.
- Answer the questions in the spaces provided  
– *there may be more space than you need.*
- Answers should be given to an appropriate degree of accuracy.

### Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets  
– *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

### Advice

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

Turn over ►

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**PEARSON**



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**Answer ALL questions. Write your answers in the spaces provided.**

**1** (a) Identify **two** characteristics of useful management information. (2)

1 .....

2 .....

(b) Identify **two** principles on which a professional code of ethical behaviour is based. (2)

1 .....

2 .....

(c) Explain how **two** examples of information technology can improve employees' personal effectiveness in the workplace. (4)

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**Read the following information and use it to answer questions 1(d) and 1(e).**

Geo plc is organised into regional business units with accountability and responsibility devolved to the manager of each of the units.

The company has identified that the South East Business Unit has been underperforming for some time. This has had an impact on levels of profit and the turnover of skilled staff has been unusually high.

The Managing Director (MD) of the company's South East Business Unit has been in the role for a number of years and has a very traditional management style and approach. There is little delegated authority to staff as the MD believes this maintains better control of the unit. The MD is solely responsible for interviewing and appointing new staff.

Some of the staff work individually and are not allocated to a team. The work environment is quiet and there is very little interaction and socialising within the teams. The MD thinks this creates a positive and effective working environment.

The MD believes the issues the unit faces are due to ineffective teams whose members do not have the skills, competencies and personalities they claimed to possess at interview. The MD also identified individual time management, communication and effectiveness as being weak areas.

(d) Explain how the MD could apply Maslow's Theory of Human Motivation to address the current issues faced by the South East Business Unit.

(6)

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2 (a) Identify **two** components of aggregate demand.

(2)

1 .....

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2 .....

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(b) Identify **two** reasons for measuring organisational performance.

(2)

1 .....

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2 .....

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(c) Changes in interest rates impact upon economic growth.

Explain how the actions of producers may influence economic growth following an increase in interest rates.

(4)

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**Read the following information and use it to answer questions 2(d) and 2(e).**

The Government is to create a Technology Task Group that aims to support the use of information communication technology in small- and medium-sized firms. The Government is keen to promote the efficiencies in organisational practices that can be gained by these firms in areas such as procurement, sales and marketing and business planning.

The Technology Task Group will be led by the Managing Director of Eastland Technologies plc who, at last week's launch of the Technology Task Group, outlined the current challenges that businesses face:

"The economic policies implemented to address the public sector deficit are likely to influence the level of consumer demand as well as the rate of economic growth which, in turn, may impact on the level of business confidence. However, the increase in the size of the private sector which may result from these policies will provide significant opportunities for those firms who are cost effective and market orientated."

(d) Explain how the internet can promote efficiencies in organisational practices identified by the Government.

(6)

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**3** (a) Explain **two** responsibilities of governance.

(4)

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(b) Explain **two** reasons why an organisation needs a human resources strategy.

(4)

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**Read the following information and use it to answer questions 3(c) and 3(d).**

Personal Credit and Finance plc provides loans and credit facilities to consumers. The Director of Information Technology (IT) Services has overall responsibility for the company's IT systems. The Director of Human Resources is responsible for personnel practices and human resource planning.

The following is an extract from the company's most recent internal audit report of its IT systems.

**Section 1:** An IT Policy has been produced and is included in the Staff Handbook; however the Handbook has not been updated for over five years. The Staff Handbook is sent to new employees before they start their employment but there is no formal induction programme and staff training is not planned systematically across all functional departments.

**Section 2:** An arrangement exists between Personal Credit and Finance plc and an external credit-checking agency, which provides the agency with access to customer data. Although there is a written agreement with the agency for them to destroy historical customer data that they might have copied, there is no formal mechanism to confirm that the destruction of the data has taken place.

(c) Analyse how the Director of Human Resources could apply the functions of management to address the issues in **Section 1** of the audit report.

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(d) Evaluate the business risks highlighted in **Section 2** of the audit report to determine the most appropriate risk management strategies.

(12)

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

**(Total for Question 3 = 28 marks)**

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**QUESTION 4 BEGINS ON THE NEXT PAGE.**

**4** Regal Manufacturing plc is a large manufacturing company operating from its headquarters in a rural location. It has a big full-time workforce and regularly employs casual staff when demand requires.

The company has maintained many of its usual business processes and has always recruited its employees from the local community in order to support the local economy.

The company now faces increased competition from international companies, which has resulted in the loss of a number of major contracts.

Following the outcome of a SWOT analysis, the company is now looking to commit significant funds to support the future expansion of the business. Local community groups have expressed concern about this expansion and its environmental impact on the local area.

The company is also going to invest in a management information system in order to improve innovation and a comprehensive training and development programme for staff.

Many casual staff consider the training and development programme to be unfair since it will be available to full-time employees only.

(a) Explain **two** benefits for an organisation of carrying out a SWOT analysis.

(4)

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(b) Assess the impact of introducing the proposed training and development programme on the work force of Regal Manufacturing plc.

(10)

Dotted lines for writing the answer.







Mark Scheme

Sample Assessment Materials

Pearson LCCI Level 4 Certificate in  
Organisational Behaviour and  
Performance (VRQ) (ASE20103)

## General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.
- Where marks are awarded for own figure answers, these marks can only be awarded if evidence of how the candidate arrived at their values has been provided (their workings).
- If candidate's fail to provide their workings when instructed in the paper, it may not be possible to achieve all marks associated with the question, even if the final answer is correct.
- For calculation questions full marks can be awarded where correct answer is seen with no workings shown, unless question states that candidate must provide workings

| Question | Answer (AO1 2)  | Mark |
|----------|---|------|
| 1(a)     | <p>Award 1 mark for each characteristic, up to 2 marks:</p> <ul style="list-style-type: none"> <li>• Accurate</li> <li>• Complete</li> <li>• Cost effective</li> <li>• User-targeted</li> <li>• Relevant</li> <li>• Authoritative</li> <li>• Timely</li> <li>• Easy to use</li> </ul> | (2)  |

| Question | Answer (AO1 2)  | Mark |
|----------|---|------|
| 1(b)     | <p>Award 1 mark for naming each principle, up to 2 marks, e.g.:</p> <ul style="list-style-type: none"> <li>• Integrity</li> <li>• Objectivity</li> <li>• Confidentiality</li> <li>• Professional competence</li> <li>• Professional behaviour</li> </ul> <p><b>Allow any other reasonable response.</b></p> | (2)  |

| Question | Answer (AO1 2)/(AO3 2)   | Mark |
|----------|--|------|
| 1(c)     | <p>Award 1 mark for reason plus 1 mark for linked explanation, up to a maximum of 2 reasons and 2 explanations, e.g.:</p> <ul style="list-style-type: none"> <li>• Shared calendars (e.g. MS Outlook/Google calendars) (1) can improve time management between teams/departments (1)</li> <li>• Video conferencing (1) can improve personal effectiveness by allowing information to be shared between colleagues in different locations (1)</li> <li>• Mobile phones/smartphones (1) can improve personal effectiveness by giving an employee the flexibility to complete work tasks while on the move (1)</li> <li>• Electronic timesheets (1) can improve personal effectiveness by allowing an employee to review time spent on work tasks (1)</li> </ul> <p><b>Allow any other reasonable response.</b></p> | (4)  |

| <b>Question</b> | <b>Indicative content</b>  |   |
|-----------------|--|---|
| <b>1(d)</b>     | <ul style="list-style-type: none"> <li>• In terms of Maslow's Theory of Motivation, physiological and safety needs have been addressed</li> <li>• Therefore the MD needs to address the psychological needs next</li> <li>• The MD can address psychological needs by: <ul style="list-style-type: none"> <li>○ improving communication</li> <li>○ praising staff</li> <li>○ allocating all individuals to teams</li> <li>○ encouraging communication within the team</li> </ul> </li> <li>• Only after the MD satisfies the psychological needs can they address the esteem and self-actualisation needs</li> </ul> |   |
| <b>Level</b>    | <b>Mark</b>  | <b>Descriptor</b>   |
|                 | 0  | No rewardable material  |
| <b>Level 1</b>  | 1-2  | Displays limited application of organisational practice, theory or models in an appropriate business context. A largely descriptive approach with unsupported or generalised examples, which are not related to the question scenario.                  |
| <b>Level 2</b>  | 3-4  | Displays application of organisational practice, theory or models in an appropriate and relevant business context. A largely descriptive approach with examples drawn from the question scenario.   |
| <b>Level 3</b>  | 5-6  | Displays an understanding of organisational practice, theory or models, which are applied in a relevant business context. Displays ability to link knowledge and understanding using relevant examples and inferences drawn from the question scenario. |

| Question | Indicative content  |
|----------|---|
| 1(e)     | <p><b>Focus on required competencies</b></p> <ul style="list-style-type: none"> <li>• This will help Geo plc to recruit the right staff for the right job role</li> <li>• This will help Geo plc ensure that the candidate is able to perform their role effectively before they join the company</li> <li>• It can also give the company the opportunity to identify development opportunities for successful candidates</li> </ul> <p><b>Improved collaboration</b></p> <ul style="list-style-type: none"> <li>• Use of assessment centres will require increased communication and collaboration between different parts of the organisation and the South East Business Unit</li> <li>• This could have a positive effect on building relationships and greater cooperation in the work environment</li> </ul> <p><b>Improves decision making</b></p> <ul style="list-style-type: none"> <li>• Geo plc’s team of assessors in the assessment centre should be made up of relevant line managers and professionals from the HR department</li> <li>• This will provide a more balanced view of the candidate and not rely on the MD’s intuition and judgement of character</li> </ul> <p><b>Help prevent bias within current interview process</b></p> <ul style="list-style-type: none"> <li>• The MD’s previous traditional and closed approach of interviewing candidates, and basing the decision to recruit on their opinion, will have meant an unbalanced and ill-informed decision being made</li> <li>• The use of an assessment centre will increase fairness in the selection process at Geo plc. The use of a team of assessors with various skills and approaches should help to reduce the chance of error and bias and reduce discrimination</li> </ul> <p><b>Reduce staff turnover (increase retention)</b></p> <ul style="list-style-type: none"> <li>• By reducing the rate of staff turnover the company will benefit from reduced costs and less disruption to its operations</li> <li>• By using assessment centres Geo plc can ensure successful candidates are matched to the job requirements and therefore more likely to stay within the role</li> <li>• This will increase stability and reduce disruption for the workforce</li> </ul> |

| <b>Level</b>   | <b>Mark</b> | <b>Descriptor</b>   |
|----------------|-------------|---|
|                | 0           | No rewardable material  |
| <b>Level 1</b> | 1-2         | Displays limited application of organisational theory or models in an appropriate business context. A largely descriptive approach with unsupported or generalised examples, which are not related to the question scenario. Factors to support a logical chain of reasoning are not present or are not examined methodically.  |
| <b>Level 2</b> | 3-5         | Displays application of organisational theory or models in an appropriate and relevant business context. A largely descriptive approach with examples drawn from the question scenario. Some factors to support a chain of reasoning are identified but are not examined methodically.  |
| <b>Level 3</b> | 6-8         | Displays an understanding of organisational theory or models, which are applied in a relevant business context. Displays ability to link knowledge and understanding using relevant examples and inferences drawn from the question scenario. Displays an understanding of the essential themes present in the question scenario broken down into their constituent parts in order present a logical and coherent chain of reasoning. |

| Question | Answer (AO1 2)  | Mark |
|----------|---|------|
| 2(a)     | <p>Award 1 mark for each component, up to 2 marks:</p> <ul style="list-style-type: none"> <li>• Consumption</li> <li>• Investment</li> <li>• Government expenditure</li> <li>• Exports</li> </ul> | (2)  |

| Question | Answer (AO1 2)   | Mark |
|----------|--|------|
| 2(b)     | <p>Award 1 mark for each reason, up to 2 marks, e.g.:</p> <ul style="list-style-type: none"> <li>• To monitor targets</li> <li>• To address deficiencies in performance</li> <li>• To provide information to key stakeholders</li> <li>• To reward staff</li> </ul> <p><b>Allow any other reasonable response.</b></p> | (2)  |

| Question | Answer (AO1 2)/(AO3 2)   | Mark |
|----------|--|------|
| 2(c)     | <p>Award 1 mark for reason plus 1 mark for linked explanation, up to a maximum of 2 reasons and 2 explanations, e.g.:</p> <p>An increase in interest rates will impact on both consumer demand (1) and production costs (1). Producers will respond to the fall in consumer demand by reducing production (1) and, in addition, given the increase in the cost of borrowing, may reduce their demand for business loans, which may impact negatively on aggregate demand/economic growth (1).</p> <p><b>Allow any other reasonable response.</b></p> | (4)  |



| Question       | Indicative content  |   |
|----------------|---|---|
| 2(d)           | <p><b>The extract identifies three areas in which the internet can promote efficiencies in organisational practice.</b></p> <p><b>1. Procurement</b> – since procurement activities are no longer confined to the local home market, significant savings may also be made in securing cheaper supplies based in different regions of the home market, and in different countries, resulting in lower unit costs</p> <p><b>2. Sales and marketing</b> – since the internet allows access to the global market 24/7, enabling a business to establish a marketing strategy including online social media platforms, this generates international consumers who are able to purchase goods online, resulting in lower unit sales and distribution costs</p> <p><b>3. Business planning</b> – businesses need to have access to relevant and timely management information that can be used in the planning process. The internet gives a business access to current performance, market research data and competitor performance, which means that there is less risk that business decisions will impact negatively on costs and turnover</p> |   |
| Level          | Mark  | Descriptor  |
|                | 0   | No rewardable material  |
| <b>Level 1</b> | 1-2   | Displays limited application of organisational practice, theory or models in an appropriate business context. A largely descriptive approach with unsupported or generalised examples, which are not related to the question scenario.                  |
| <b>Level 2</b> | 3-4   | Displays application of organisational practice, theory or models in an appropriate and relevant business context. A largely descriptive approach with examples drawn from the question scenario.   |
| <b>Level 3</b> | 5-6   | Displays an understanding of organisational practice, theory or models, which are applied in a relevant business context. Displays ability to link knowledge and understanding using relevant examples and inferences drawn from the question scenario. |

| Question | Indicative content   |
|----------|--|
| 2(e)     | <p><b>Consequences of public sector deficits:</b></p> <ul style="list-style-type: none"> <li>• government expenditure over time exceeds Government revenue</li> <li>• has to be funded by Government borrowing</li> <li>• over time can have significant implications for Government and the economy as a whole</li> </ul> <p><b>Reduction in Government expenditure</b></p> <ul style="list-style-type: none"> <li>• direct reductions in budget allocations to public services such as health and education</li> <li>• may lead to high levels of unemployment as workers are displaced from the public sector</li> <li>• may result in a fall in consumer demand for goods and services</li> <li>• can exert a negative influence on business output, sales turnover and profits</li> </ul> <p><b>Measures to increase Government revenue</b></p> <ul style="list-style-type: none"> <li>• may focus on the tax regime</li> <li>• increase in general taxation rates can impact negatively on aggregate demand</li> <li>• may impact negatively on output and business profits</li> </ul> <p><b>Reducing the size of the public sector</b></p> <ul style="list-style-type: none"> <li>• 'rebalancing' the economy such that the total size of the public sector is reduced relative to the private sector</li> <li>• some public service will only generate profits and deliver shareholder returns if prices are increased</li> <li>• private firms may deliver the services at a lower cost by reducing the workforce</li> <li>• may lead to unemployment and a fall in consumer demand</li> <li>• gives businesses the opportunity of providing those goods and services previously supplied by the Government, resulting in higher sales turnover and profits.</li> </ul> |

| <b>Level</b>   | <b>Mark</b> | <b>Descriptor</b>  |
|----------------|-------------|--|
|                | 0           | No rewardable material   |
| <b>Level 1</b> | 1-3         | Displays limited application of theory or business models in an appropriate business context. A largely descriptive approach with unsupported or generalised examples, which are not related to the question scenario. Factors to support a logical chain of reasoning are not present or are not examined methodically. A supported judgement is not present or the judgement presented is not supported by evidence drawn from the question scenario, organisational theory or relevant business practice.   |
| <b>Level 2</b> | 4-7         | Displays application of organisational theory or business models in an appropriate and relevant business context. A largely descriptive approach with examples drawn from the question scenario. Factors to support a chain of reasoning are identified and supported by evidence drawn from the question scenario, organisational theory or relevant business practice but are not examined methodically and the chain of reasoning presented is not sufficiently well developed or balanced to make a supported judgement.                                   |
| <b>Level 3</b> | 8-10        | Displays an understanding of theory or models, which are applied in a relevant business context. Displays the ability to link knowledge and understanding using relevant examples and inferences drawn from the question scenario. Displays an understanding of the essential themes present in the question scenario broken down into their constituent parts in order to present a logical and coherent chain of reasoning. The assessment is balanced and well contextualised showing an awareness of competing arguments leading to a supported judgement. |

| Question | Answer (AO1 2)/(AO3 2)  | Mark |
|----------|---|------|
| 3(a)     | <p>Award 1 mark for stating responsibility plus 1 mark for linked explanation, up to a maximum of 2 responsibilities and 2 explanations, e.g.:</p> <ul style="list-style-type: none"> <li>• Ensuring the company is operating within the legal framework (1) by considering things such as a company's health and safety and employment policies/Companies Act (1)</li> <li>• Assist in planning (1) by determining the company's long-term strategic plan and objectives (1)</li> <li>• Organisational risk mitigation (1) by ensuring that business risks are evaluated and managed (1)</li> </ul> <p><b>Allow any other reasonable response.</b></p> | (4)  |

| Question | Answer (AO1 2)/(AO3 2)  | Mark |
|----------|---|------|
| 3(b)     | <p>Award 1 mark for reason plus 1 mark for linked explanation, up to a maximum of 2 reasons and 2 explanations, e.g.:</p> <ul style="list-style-type: none"> <li>• To comply with statutory labour legislation (1) in order to reduce the level of business risk (1)</li> <li>• To improve planning (1) by aligning strategic plans with workforce requirements (1)</li> <li>• To determine training and development priorities (1) in order to address the organisation's skill requirements (1)</li> <li>• To assess workforce performance against company standards (1) by having a performance appraisal system (1)</li> </ul> <p><b>Allow any other reasonable response.</b></p> | (4)  |

| Question       | Indicative content  |   |
|----------------|---|---|
| 3(c)           | <p><b>Planning</b></p> <ul style="list-style-type: none"> <li>• identify the priorities drawn from the internal audit report</li> <li>• may establish a plan for the implementation of company-wide induction programme</li> </ul> <p><b>Coordination</b></p> <ul style="list-style-type: none"> <li>• consider how the resources required can be organised</li> <li>• ensure that planning deadlines are met and not subject to delay</li> <li>• brief managers from the functional areas on their responsibilities in producing material for the Handbook</li> </ul> <p><b>Directing</b></p> <ul style="list-style-type: none"> <li>• ensure all those involved in delivering the plan are clear on their responsibility, accountability and the associated reporting channels</li> </ul> <p><b>Control</b></p> <ul style="list-style-type: none"> <li>• maintain overall control of the internal audit implementation plan</li> <li>• any issues which may arise resulting in planning targets and deadlines not being met are swiftly addressed and appropriate recovery plans put in place.</li> </ul> |   |
| Level          | Mark  | Descriptor  |
|                | 0   | No rewardable material  |
| <b>Level 1</b> | 1-2   | Displays limited application of organisational theory or models in an appropriate business context. A largely descriptive approach with unsupported or generalised examples, which are not related to the question scenario. Factors to support a logical chain of reasoning are not present or are not examined methodically.  |
| <b>Level 2</b> | 3-5   | Displays application of organisational theory or models in an appropriate and relevant business context. A largely descriptive approach with examples drawn from the question scenario. Some factors to support a chain of reasoning are identified but are not examined methodically.  |
| <b>Level 3</b> | 6-8   | Displays an understanding of organisational theory or models, which are applied in a relevant business context. Displays ability to link knowledge and understanding using relevant examples and inferences drawn from the question scenario. Displays an understanding of the essential themes present in the question scenario broken down into their constituent parts in order present a logical and coherent chain of reasoning. |

| Question | Indicative content  |
|----------|---|
| 3(d)     | <p><b>Evaluation of business risks</b></p> <ul style="list-style-type: none"> <li>• Evaluating business risks is undertaken by establishing a risk assessment matrix that measures the probability or likelihood of an event occurring mapped against the impact of the event.</li> <li>• A 'risk value' can then be used to evaluate both the type of risk – for example financial, reputational or legal – and the level of risk – either high, medium or low.</li> </ul> <p><b>Risk assessment</b></p> <ul style="list-style-type: none"> <li>• the existence of a written agreement significantly <b>reduces the likelihood</b> that such data will not be destroyed.</li> <li>• the <b>impact</b> on Personal Credit and Finance plc should this not be the case would be <b>significant both in terms of the company's reputation and potential financial liability.</b></li> <li>• Personal Credit and Finance plc may be able to recover financial damages from the credit checking agency, which <b>reduces the financial risks</b> it is exposed to (although there may still be long term damage to its reputation).</li> <li>• Hence this could be classified as a <b>MEDIUM/LOW RISK.</b></li> </ul> <p><b>Risk management strategies</b></p> <ul style="list-style-type: none"> <li>• Establish a system to ensure that live data has been destroyed once it is no longer required.</li> <li>• Review the current legal status of the agreement with the credit-checking agency and update as required.</li> <li>• Obtain written confirmation from the credit-checking agency confirming that customer data has been destroyed.</li> </ul> |

| <b>Level</b>   | <b>Mark</b> | <b>Descriptor</b>  |
|----------------|-------------|--|
|                | 0           | No rewardable material   |
| <b>Level 1</b> | 1-3         | Displays limited application of theory or business models in an appropriate business context. A largely descriptive approach with unsupported or generalised examples, which are not related to the question scenario. Factors to support a logical chain of reasoning are not present or are not examined methodically. A supported conclusion is not present or the conclusion presented is not supported by evidence drawn from the question scenario, organisational theory or relevant business practice.   |
| <b>Level 2</b> | 4-7         | Displays application of organisational theory or business models in an appropriate and relevant business context. A largely descriptive approach with examples drawn from the question scenario. Factors to support a chain of reasoning are identified and supported by evidence drawn from the question scenario, organisational theory or relevant business practice but are not examined methodically and the chain of reasoning presented is not sufficiently well developed or balanced to support a robust supported conclusion.  |
| <b>Level 3</b> | 8-12        | Displays an understanding of theory or models, which are applied in a relevant business context. Displays the ability to link knowledge and understanding using relevant examples and inferences drawn from the question scenario. Displays an understanding of the essential themes present in the question scenario broken down into their constituent parts in order to present a logical and coherent chain of reasoning. Careful consideration is given to all relevant factors drawn from the question scenario with additional evidence drawn from relevant organisational theory or business best practice in order to present a reasoned and logically robust conclusion. |

| Question | Answer (AO1 2)/(AO3 2)   | Mark |
|----------|--|------|
| 4(a)     | <p>Award 1 mark for stating benefit plus 1 mark for linked explanation, up to a maximum of 2 reasons and 2 explanations, e.g.:</p> <p>A SWOT analysis allows the organisation to:</p> <ul style="list-style-type: none"> <li>• Evaluate strengths of an organisation (1) this benefits the organisation by ensuring that it continues to invest/spend time on the areas it is good at (1)</li> <li>• Evaluate weaknesses of an organisation (1) this benefits the organisation because it can take corrective action to address the weakness (1)</li> <li>• Evaluate opportunities for an organisation (1) events or changes in the external environment that can be exploited, things that are likely to go well in the future (1)</li> <li>• Evaluate threats to an organisation (1) events or changes in the external environment that the organisation will need to protect itself against, things that could go wrong in the future (1)</li> </ul> <p><b>Allow any other reasonable response.</b></p> | (4)  |

| Question | Indicative content   |
|----------|--|
| 4(b)     | <p><b>Positive impacts</b></p> <ul style="list-style-type: none"> <li>• Learning new skills</li> <li>• Improved career prospects</li> <li>• Networking</li> <li>• Job security</li> <li>• Multi-skilling – more skills at your disposal</li> <li>• Potential for financial reward</li> <li>• Motivating/feel cared for</li> <li>• Increased safety</li> </ul> <p><b>Negative impacts</b></p> <ul style="list-style-type: none"> <li>• Forcing learning could demotivate them</li> <li>• Negative for casual staff – demotivating, not feeling part of the team, might have to cover full-time employees who are out training</li> <li>• Negative opportunity cost – missing out on work time</li> <li>• Lack of opportunity to apply their newly-learned skills</li> </ul> |



| <b>Level</b>   | <b>Mark</b> | <b>Descriptor</b>  |
|----------------|-------------|--|
|                | 0           | No rewardable material   |
| <b>Level 1</b> | 1-3         | Displays limited application of theory or business models in an appropriate business context. A largely descriptive approach with unsupported or generalised examples, which are not related to the question scenario. Factors to support a logical chain of reasoning are not present or are not examined methodically. A supported judgement is not present or the judgement presented is not supported by evidence drawn from the question scenario, organisational theory or relevant business practice.   |
| <b>Level 2</b> | 4-7         | Displays application of organisational theory or business models in an appropriate and relevant business context. A largely descriptive approach with examples drawn from the question scenario. Factors to support a chain of reasoning are identified and supported by evidence drawn from the question scenario, organisational theory or relevant business practice but are not examined methodically and the chain of reasoning presented is not sufficiently welldeveloped or balanced to make a supported judgement.                                    |
| <b>Level 3</b> | 8-10        | Displays an understanding of theory or models, which are applied in a relevant business context. Displays the ability to link knowledge and understanding using relevant examples and inferences drawn from the question scenario. Displays an understanding of the essential themes present in the question scenario broken down into their constituent parts in order to present a logical and coherent chain of reasoning. The assessment is balanced and well contextualised showing an awareness of competing arguments leading to a supported judgement. |

| Question | Indicative content  |
|----------|---|
| 4(c)     | <p><b>Major customers would be the 'key players'</b></p> <ul style="list-style-type: none"> <li>• Need to consider them within the strategy.</li> <li>• Product development aimed at major customers.</li> <li>• The company strategy must be acceptable to them.</li> <li>• They have significant enough interest to be considered in the organisation's strategy as demonstrated by Regal Manufacturing plc investing heavily in product development to keep them engaged with the company.</li> </ul> <p><b>Institutional shareholders should be 'kept satisfied'</b></p> <ul style="list-style-type: none"> <li>• Could move to increased role in strategic decision making.</li> <li>• They have been kept satisfied with the generous dividend payments.</li> <li>• They may, however, move to become more engaged with the strategy should they not be satisfied with the company's direction.</li> </ul> <p><b>Local community groups should be 'kept informed'</b></p> <ul style="list-style-type: none"> <li>• Expansion of Regal Manufacturing plc's factory in the rural location has upset some of the local community.</li> <li>• The company therefore needs to keep these groups informed of the progress of the development of the site.</li> </ul> <p><b>Casual labour should be maintained with 'minimal effort'</b></p> <ul style="list-style-type: none"> <li>• The casual staff have expressed disappointment that they will not be benefiting from the introduction of the training and development programme.</li> <li>• Owing to their lack of power over the organisation, the strength of their concern, or any effect they could have on the company, is minimal.</li> <li>• Therefore, considered that only minimal effort needs to be made to maintain these stakeholders.</li> </ul> |

| <b>Level</b>   | <b>Mark</b> | <b>Descriptor</b>  |
|----------------|-------------|--|
|                | 0           | No rewardable material   |
| <b>Level 1</b> | 1-3         | Displays limited application of theory or business models in an appropriate business context. A largely descriptive approach with unsupported or generalised examples, which are not related to the question scenario. Factors to support a logical chain of reasoning are not present or are not examined methodically. A supported conclusion is not present or the conclusion presented is not supported by evidence drawn from the question scenario, organisational theory or relevant business practice.   |
| <b>Level 2</b> | 4-7         | Displays application of organisational theory or business models in an appropriate and relevant business context. A largely descriptive approach with examples drawn from the question scenario. Factors to support a chain of reasoning are identified and supported by evidence drawn from the question scenario, organisational theory or relevant business practice but are not examined methodically and the chain of reasoning presented is not sufficiently welldeveloped or balanced to support a robust supported conclusion.   |
| <b>Level 3</b> | 8-12        | Displays an understanding of theory or models, which are applied in a relevant business context. Displays the ability to link knowledge and understanding using relevant examples and inferences drawn from the question scenario. Displays an understanding of the essential themes present in the question scenario broken down into their constituent parts in order to present a logical and coherent chain of reasoning. Careful consideration is given to all relevant factors drawn from the question scenario with additional evidence drawn from relevant organisational theory or business best practice in order to present a reasoned and logically robust conclusion. |

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