# Mark Scheme (Results)

January 2017

Pearson Edexcel IAL in Accounting (WAC02)
Paper 01 Corporate and Management Accounting

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January 2017
Publications Code WAC02_01_1701_MS

## 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.

## Section A

| **1(a) Milk Production** | Berryfield | _ | Highlands | _ | Oaks | _ | Woodgate | |
|---|---|---|---|---|---|---|---|---|
| Cows | 155 | | 120 | | 148 | | 132 | |
| Production (litres) | 1357800 | √ | 1051200 | √ | 1296480 | √ | 1156320 | √ |
| | | | | | | | **(4)** | |
| **1(b) Fixed costs** | | | | | | | | |
| Farm Manager | 12000 | | 10000 | | 11000 | | 10000 | √all |
| Head Office | 8000 | | 6000 | √both | 8000 | | 6000 | √both |
| Depreciation | 18000 | √ | 2000 | √ | 5000 | √ | 6000 | √ |
| Total Fixed costs | 38000 | | 18000 | √both | 24000 | | 22000 | √both |
| | | | | | | | **(9)** | |
| | | | | | | | | |
| | | | | | | | | |
| **1(c) Income statement** | | | | | | | | |
| Sales Revenue | 380184 | √ | 294336 | √ | 363014 | √ | 323770 | √ |
| | | | | | | | | |
| Direct Materials | 176514 | | 168192 | | 194472 | | 173448 | √all |
| Direct Labour | 108624 | | 105120 | | 116683 | | 115632 | √all |
| Fixed Costs | 38000 | | 18000 | | 24000 | | 22000 | √of all |
| Total Costs | 323138 | √of | 291312 | √of | 335155 | √of | 311080 | √of |
| | | | | | | | | |
| Profit (Loss) | 57046 | √of | 3024 | √of | 27859 | √of | 12690 | √of |
| | | | | | | | **(15 )** | |

| **1(d) Pence per litre** | Berryfield | _ | Highlands | _ | Oaks | _ | Woodgate | |
|---|---|---|---|---|---|---|---|---|
| Sales Revenue | 25 | | 25 | | 25 | | 25 | √ all |
| | | | | | | | | |
| Direct Materials | 13 | √ | 16 | √ | 15 | √ | 15 | √ |
| Direct Labour | 8 | √ | 10 | √ | 9 | √ | 10 | √ |
| Total Direct Costs | 21 | | 26 | | 24 | | 25 | √ |
| | | | | | | | | |
| Contribution | 4 | | -1 | √of both | 1 | | 0 | √of both |
| | | | | | | | **(12 )** | |

(1e)

All comments own figure

Berryfields

Will be making a positive contribution √ of 4p per litre. Should continue in the short term and the long term. √
Still make a profit of £16 312 next year. √

Highlands

Will be making a negative contribution √ of 1p per litre. Should stop production on 1 February 2017. √
Would make a loss of £28 512 next year. √

Oaks

Will be making a positive contribution √ of 1p per litre. Should continue in the short term but probably not in the long term. √
Makes a loss of £11 035 next year. √

Woodgate

Not making a positive or negative contribution.√ Maybe continue in the short term but stop in the long term. √
Makes a loss of £22 000 next year. √

Maximum of 3 marks per farm

Other points

Is it possible to find another customer, √ who is willing to pay a higher price for milk. √ Given the large volumes of production, √ it is likely to have to be a supermarket, √ who may already have contracts in place, √ or who are likely to want to drive down prices. √

Is it possible to negotiate with the supermarket √ to achieve a higher price for the milk. √ Perhaps Westdownes Farm Limited can argue that some farms will have to close at these prices, √ so the supermarket will not achieve the required level of supply. √ Is it possible to publicly highlight the plight of farmers, √ to persuade the supermarkets to offer a higher price. √

Some of the Head Office costs will probably have to be reapportioned at a higher level √ to the farms that are remaining open. √ This could result in these farms having to close. √

Is it possible for the farms to reduce their costs, √ in order to remain in business. √

(12)

Total for Question 1 = 52 Marks

2(a) Answers may include:
For product, obtain a product specification√ giving standard quantities for materials and labour√
Look at figures for past cost of sales √
Standard prices for materials obtained √ by consulting buyers and suppliers √
Standard labour rates obtained √ by consulting human resources department and/or unions.√
Standard overheads obtained √ by consulting management / finance department. √
Standard cost calculated may be regarded as provisional √ and may be tested to see if realistic √
Standard cost may be revalued if appropriate. √

(4)

2(b)(i) Budgeted total quantity of clay = (135 000 x 2.8 kilos) √
= 378 000 kilos √

(2)

2(b)(ii) Budgeted total cost of clay = (378 000 kilos of x 2.6 p)√
= £9 828 √of

(2)

2(b)(iii) Actual total quantity of clay = $\frac{\text{£9 396 √}}{\text{£0.024 √}}$ = 391 500 kilos √

(3)

2(b)(iv) Material price variance = (2.6 p √ - 2.4 p √) x 391 500 √of
= £783 Favourable √of

(4)

2(b)(v) Material usage variance = (378 000 √of – 391 500 √of) x 2.6 p √
= £351 Adverse √of

(4)

2(b)(vi) Total material cost variance = (£9 396 √ - £9 828 √of)
= £432 Favourable √of

OR

783 Favourable √of + 351 Adverse √of = 432 Favourable √of

(3)

2(c)(i) Budgeted labour hours = (10 x 5 x 4) √ x (3 x 9) √
= 5 400 hours √

(3)

2(c)(ii) Budgeted total labour cost = (5 400 of x £4.90) √ = £26 460 √of

(2)

2(c)(iii) Actual Hours worked = $\frac{(£28\ 350)}{(£5.00)}$ √ = 5 670 hours √

(2)

2(c)(iv) Labour rate variance = (£4.90 √ - £5.00 √) x 5 670 √of
= £567 Adverse √of

(4)

2(c)(v) Labour efficiency variance = (5 400 √of – 5 670 √of) x £4.90 √
= £1 323 Adverse √of

(4)

2(c)(vi) Total labour rate variance = (£26 460 √of - £28 350 √)
= £1 890 Adverse √of

OR

567 Adverse √of + 1 323 Adverse √of = 1 890 Adverse √of

(3)

2(d)

All own figure

Purchasing Manager
For bonus: purchased clay at a price below budget. √
Against bonus: there seems to have been much wastage √ was the clay poor quality? √
Conclusion probably gets bonus √
Maximum 3 marks

Human Resources Manager
For bonus: Did the pay rise keep workers happy, √ maybe preventing a strike etc √
Against bonus: Budget was £4.90 per hour, but £5.00 per hour was paid √ Labour efficiency variance adverse so workers may not be motivated √ do the workers need training? √
But: how does this compare with the industry average? √ what is the inflation rate? √ when was the last time workers had a pay rise? √
Conclusion probably does/does not get bonus √
Maximum 3 marks

Production Manager
For bonus: met production target √
Against bonus: not efficient √ is this due to workers having to work a 10 hour shift? √ extra 270 hours worked over budget, √ extra 13 500 kilos of clay used. √
But: was the clay poor quality? √ Is the company using poor machinery? √
Conclusion probably does/does not get bonus √
Maximum 3 marks

Finance Manager
For bonus: does the Finance Manager merely act as a recorder of the figures? √
Against bonus: 3 out of 4 variances are adverse/ the overall variance is adverse √ could the Finance Manager take action to help? √ But: Are the budgets realistic? √
Conclusion probably does not get bonus √
Maximum 3 marks

(12)

Total for Question 2 = 52 marks

| 3(a) **Purchase Price** | | | |
|---|---|---|---|
| No. of Ordinary shares in Angel plc | 12 500 000√ | 15 625 000√ | |
| | 0.60√ + 0.20√ | | |
| | | | |
| Shareholders receive/ Purchase Price | £0.25 | | |
| | £0.27 | | |
| | £0.11√ | | |
| 15 625 000 √ o/f | £0.63√ | £9 843 750 | √ o/f |
| | | | |
| | | | **(8)** |

| 3(b) **Calculation of Goodwill** | | £ | |
|---|---|---|---|
| Purchase Price | | 9 843 750 | √ o/f |
| Original Book value of Angel plc | 22 600 000 | OR 12 500 000 | √ |
| | (14 800 000) | (4 700 000) | √ |
| | | 7 800 000 | |
| Adjustments - Property | | (1 650 000) | √ √ |
| - Plant | | 120 000 | √ |
| - Equipment | | 150 000 | √ |
| - Tax payable | | (40 000) | √ |
| Goodwill | | 623 750 | √ o/f |
| | | | **(9)** |

| **3(c)** | | Debit | Credit | |
|---|---|---|---|---|
| | Realisation a/c√ | 11 000 000 √√ | | |
| | Property a/c | | 11 000 000 | √ |
| | | | | |
| | Tax Payables a/c | 320 000 | | √ |
| | Realisation a/c | | 320 000 | √ |
| | | | | |
| | Ordinary Shares (of £0.60) a/c√ | 9 375 000 √ | | |
| | Sundry Shareholders a/c | | 9 375 000 | √ |
| | | | | |
| | Share Premium a/c√ | 3 125 000 √ | | |
| | Sundry Shareholders a/c | | 3 125 000 | √ |
| | | | | |
| | Sundry Shareholders a/c | 4 700 000 | | √ |
| | Retained Earnings | | 4 700 000 | √ |
| | | | | **(14)** |

3 (d) Angel plc Sundry Shareholders Account

| £ | | £ | |
|---|---|---|---|
| United Games plc | 9 843 750 √of | Share capital | 9 375 000 √ |
| (Purchase Consideration) | | Share premium | 3 125 000 √ |
| Retained Earnings | 4 700 000 √ | (Profit on) Realisation√ | 2 043 750 √of√C |
| | 14 543 750 | | 14 543 750 |
| | | | **(7)** |

3(e) Answers may include:
Because the £0.25 share in United Games plc is probably trading √ at a value of £0.52 √ OR
Because the £0.60 share in Angel plc is probably trading √ at a value below face value √

(2)

3(f) Answers may include:

Case FOR paying goodwill:
Angel plc has an existing customer base √ and brand value √
Angel plc has existing links with suppliers √ and a trained workforce √
What was Angel plc may improve in the future/ make future profits √
United Games plc may benefit from economies of scale √
United Games plc should increase its market share √
United Games plc may benefit from trading in a different segment of the computer games market √
Good chance that the value of the property will rise in the future √, as it has already had to be revalued upwards once. √
Angel plc may have best-selling games in its portfolio √ and may have patents √ which will not be shown on the statement of financial position. √
The staff of Angel plc may be skilled, creative etc √ but this value will not be found on the statement of financial position. √
Goodwill paid is not very high, √ being 6.34% of the purchase price √

Case AGAINST paying goodwill:
Angel plc has been making losses recently, buyers should question - "Why?" √ Is this because they are inefficient/ badly managed √ or the games are not very good √ or the design team are not very creative. √
United Games plc may suffer from diseconomies of scale √ and see profits reduced. √
Staff of Angel plc may have outdated skills √ and may need training. √
If professionals are hired calculating goodwill this may be expensive √
Maximum of 8 marks per side of argument.

Conclusion - 2 marks available
Should relate to points made above.
United Gaming should / should not pay goodwill to acquire Angel plc.

(12)

Total for Question 3 = 52 marks

## Section B

4a(i) Dividend paid per share = $\frac{\text{Total ordinary dividend}}{\text{Issued ordinary shares}}$

= $\frac{£2\,800\,000 \checkmark}{80\,000\,000 \checkmark}$ = 3.5p per share √

(3)

4a(ii) Dividend cover = $\frac{\text{Net profit after interest and tax}}{\text{Total ordinary dividend}}$

= $\frac{£12\,000\,000 \checkmark}{£2\,800\,000 \checkmark}$ = 4.29 times √

(3)

4a(iii) Dividend yield = $\frac{\text{Dividend per share}}{\text{Market price of share}} \times 100$

= $\frac{3.5\text{p o/f}}{140\text{p} \checkmark} \times 100 \checkmark$ = 2.5 % o/f √

(3)

4a(iv) Earnings per ordinary share = $\frac{\text{Net profit after interest and tax}}{\text{Issued ordinary shares}}$

= $\frac{£12\,000\,000 \checkmark}{80\,000\,000 \checkmark}$ = 15p per share √

(3)

4a(v) Price/earnings ratio = $\frac{\text{Market price of share at year end}}{\text{Earnings per share}}$

= $\frac{140\text{p} \checkmark}{15\text{p o/f} \checkmark}$ = 9.33 times o/f √

(3)

4a(vi) Return on Capital employed = $\frac{\text{Net profit before interest and tax}}{\text{Capital employed}} \times 100$

= $\frac{(12 + 3) \checkmark + 3.5 + 2.4}{£(126 \checkmark + 80 \checkmark)} \times 100 \checkmark$ = 10.15% √

(5)

4(b) Gearing ratio $= \dfrac{\text{Debt}}{\text{Debt + Equity}} \times 100$ √

$= \dfrac{80 \text{ √}}{80 + 126 \text{ √}} \times 100 = 38.83\%$ √

OR

Gearing ratio $= \dfrac{\text{Debt}}{\text{Equity}} \times 100 = \dfrac{80}{126} \times 100 = 63.49\%$

(4)

4(c) All own figure

For Investment

Dividend yield at 2.5% may be above what could be obtained by investing elsewhere √ eg banks, √ in times of low interest rates. √
Earnings per share at 15p per share is good √
Price/Earnings ratio is reasonably good, √ so the market has confidence in the company. √
Dividend cover may be cautious, √ which ensures company does not pay out all liquid funds/profits as dividends. √
ROCE at 10.15% is higher than could be obtained by many other businesses, √ especially if there is a recession. √ but knowing the industry averages would be worthwhile. √
Gearing is fairly safe at 38.83% √
Share price must have risen from probably £1 to £1.40 over time. √

Against Investment

Dividend yield is low at 2.5% √
Dividend cover may be cautious, √ which may mean only a small percentage of profits paid out in dividends. √

Maximum for arguing one side only – 4 marks

Conclusion – 2 marks
Muscat Technologies would /would not be a good investment. √√

(8)

Total for Question 4 = 32 marks

| | |
|---|---|
| **5(a)** | |
| Fixed Costs | £(310 x 12) + 396 + (5 x 4 x 12 )√ = £4 356√ |
| Variable Costs | £3.25 + 8.50 = £11.75 √ |
| Contribution | (£20 - £11.75) √ = £8.25 √ o/f |
| Break even point | = 4 356 √ o/f<br>8.25 √ o/f |
| | = 528 √ o/f |
| | **(8)** |
| **5a(ii)** Number of sales per week | 528 √ o/f = 11 units √<br>48 |
| | **(2)** |
| | |
| **5a(iii)** Sales | 960 x £20 = £19 200 √ |
| Less Fixed Costs | = (£4 356) √ o/f |
| Less Variable Costs | (960 x £11.75) = (£11 280) √ o/f |
| = Profit | = £3 564 √ o/f |
| | |
| **OR** | |
| Contribution x Sales | (£8.25 o/f x 960) √ = £7 920 √ o/f |
| Less fixed Costs | (£4 356) √ o/f |
| = Profit | £3 564 √ o/f |
| | **(4)** |

| **5 (b)** | £ | |
|---|---|---|
| Revenue 1 500 X £22 | 33 000 | √ |
| Less variable costs : materials 1 500 X £3.25 | (4 875) | |
| Labour 1 500 X £8.75 | (13 125) | √ both |
| = Contribution | 15 000 | √ |
| Less Profit | (8 000) | √ |
| = Maximum for fixed costs | 7 000 | √ |
| Less fixed costs : Insurance | (396) | |
| Other | (240) | √ both |
| = Annual Rent | (6 364) | √ |
| Monthly Rent | 6364<br>12 | √<br>√ |
| Monthly rent | 503.33 | √ |
| | | **(10)** |

5(c)

For proposal

Will reduce labour costs √ and increase profits. √
Increased contribution per pair of sandals √ and lower break even point √
Less supervision required √

Against proposal

Does Maria have the required skills to produce the sandals? √ If not, will poor quality products effect the level of sales? √
Possible reduction in consumer confidence in product √ which may lead to decrease in demand √
Will this reduce the effectiveness of Maria serving in the shop, √ maybe persuading customers to buy? √
Will Maria have to hire somebody to run the shop? √
Will Maria be able to produce 1500 pairs of sandals herself in a year? √
Will Maria be tired / stressed etc producing all these sandals? √

Conclusion – 2 marks

Unless Maria has the required skills, she should not make the sandals herself.

(8)

Total for Question 5 = 32 marks

6(a)(i)

Property, plant and equipment Account

| Date | Details | £ | | Date | Details | £ | |
|---|---|---|---|---|---|---|---|
| Jan 1 | Bal b/d | 8 542 | √ | March 3 | Disposals | 2 450 | |
| Nov 5 | Bank | 164 | √ | Sept 4 | Disposals | 387 | √ both |
| | | | | Dec 31 | Bal c/d | 5 869 | √ |
| | | 8 706 | | | | 8 706 | |
| Jan 1 | Bal b/d | 5 869 | | | | | |

(4)

6(a)(ii)

| Statement of Cash Flows for year ending 31 December 2016 | | |
|---|---|---|
| Cash Flows from operating activities | | |
| Profit from operations (2 038 √ + 5 √ + 450 √) | 2 493 000 | √√√ |
| Add Depreciation | 297 000 | √√√√√ |
| Add amortisation of intangible assets | 200 000 | √ |
| Less Profit on Sale of non-current Asset | (120 000) | √√ |
| Add Loss on Sale of non-current Asset | 26 000 | √ |
| Operating cash flow before working capital changes | 2 896 000 | √ o/f |
| Less increase in Inventories | (266 000) | |
| Less increase in Trade receivables | (54 000) | √ both |
| Add decrease in Other receivables | 6 000 | √ |
| Add increase in Trade payables | 225 000 | |
| Less decrease in Other payables | (6 000) | √ both |
| Cash generated from operations | 2 801 000 | √ o/f |
| Less Interest Paid (5 + 450) | (455 000) | √ |
| Less Tax Paid | (315 000) | √ |
| Net Cash from Operating Activities | 2 031 000 | √ o/f |

(20)

Working for depreciation:

Depreciation Account

| Date | Details | £ | | Date | Details | £ | |
|---|---|---|---|---|---|---|---|
| Mar 3 | Disposals | 645 | √ | Jan 1 | Balance b/d | 3 679 | √ |
| Sept 4 | Disposals | 194 | √ | Dec31 | Statement of Comprehensive Income | 297 | √ |
| Dec31 | Balance c/d | 3 137 | √ | | | | |
| | | 3 976 | | | | 3 976 | |
| | | | | Jan1 | Balance b/d | 3 137 | |

6(b)

For statement

The company may be experiencing cash flow problems. √
Company may be able to find premises to rent √ or company may be able to lease back the same building √
Property prices may be falling, √ so now is the time to sell. √
Company may not need property of this size to function/surplus asset. √
Company may be able to buy another property for a lower price. √
No alternative funding is available √
Sale may reduce interest payments on mortgage/loan √

Against statement

It is taking a short term view. √
Property prices may be rising, √ so good business would be to hold onto the asset. √
Years of rental may eventually be greater √ than the price for which the property was sold. √
There will be other costs associated with finding another location √ eg staff time, legal fees √
Alternative funding may be available eg bank loan √
Sale may reduce collateral available √ if requesting to take out a new loan. √

Maximum for arguing for one side - 4 marks

Conclusion

Company may be better not selling off the property to improve cash flow – 2 marks

(8)

Total for Question 6 = 32 marks

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **7(a)(i) Purchases** | February | | March | | April | | May | | June | | July | |
| | 72 000 | | 72 000 | | 72 000 | √ | 72 000 | | 72 000 | | 72 000 | √ |
| | | | | | | | | | | | **(2)** | |
| **7(a)(ii) Trade Payables** | February | | March | | April | | May | | June | | July | |
| One month credit | 43 200 | | 43 200 | | 43 200 | | 43 200 | | 43 200 | | 43 200 | √ |
| Two months credit | 18 000 | √ | 36 000 | √ | 36 000 | | 36 000 | | 36 000 | | 36 000 | √ |
| Three months credit | 3 600 | √ | 7 200 | √ | 10 800 | √ | 10 800 | | 10 800 | | 10 800 | √ |
| Total | 64 800 | | 86 400 | | 90 000 | √of | 90 000 | | 90 000 | | 90 000 | √of |
| | | | | | | | | | | | **(10 )** | |
| **7(b)(i) Sales** | February | | March | | April | | May | | June | | July | |
| | 144 000 | | 144 000 | | 144 000 | √ | 144 000 | | 144 000 | | 144 000 | √ |
| | | | | | | | | | | | **(2 )** | |
| **7(b)(ii) Trade Receivables** | February | | March | | April | | May | | June | | July | |
| Six months | 28 800 | √ | 52 800 | √ | 72 000 | √ | 86 400 | √ | 96 000 | √ | 100 800 | √ |
| | | | | | | | | | | | **(6 )** | |

7(c)(i) Two advantages of adding interest:
- income earned from interest √
- helps cash flow as more customers may pay by cash √
- makes customers pay more quickly √

7(c)(ii) Two disadvantages of adding interest:
- credit customers may buy from other suppliers who do not charge interest√
- administration costs √
- item is now more expensive so sales may reduce √
- may increase bad debts √

(4)

7 (d)

<u>For accuracy</u>

Simba have other stores around the country.√ They can look at the figures of similar sized stores. √
If they have many stores and are opening another store, they are probably a successful company, √ so are probably good at predicting figures. √

Against accuracy

They have not had a store in Naniuke before, so do not know what to expect. √
They may not have accurately factored in local competition √ and the reaction of local competition to a new store. √
They may not have predicted accurately changes in the economic cycle √, having sales the same in each month. √
Simba may not have taken into account customer loyalty to existing stores, √ and it may take some months to build up their own customer loyalty. √
This may have to be done by offering discounts, special offers etc which will alter sales figures. √
Estimates ignore the falling value of money over time √
Sales may be affected by seasonal factors √
There may be changes in technology that result in a different sales level √

Maximum for arguing one side 4 marks

Conclusion – 2 marks
Should relate to points made above

Simba have predicted /not predicted figures accurately.

(8)

Total for Question 7 = 32 marks