Pearson Edexcel

Mark Scheme (Results)

January 2025

Pearson Edexcel International Advanced Level
In Accounting (WAC12) Paper 01
Unit 2: Corporate and Management Accounting

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Question 1

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

AO1: Fourteen marks for line items for calculating Operating cash flow before working capital changes, line items for calculating Cash generated from operations, line items for calculating Net cash from operating activities, payments to acquire tangible fixed assets, net increase in cash and cash equivalents, and cash and cash equivalents at the beginning and end of the year.

AO2: Twenty-three marks for calculation of interest paid, calculation of amortisation of goodwill, calculation of depreciation, calculation of operating cash flow before working capital changes, cash generated from operations, net cash used in operating activities, net cash from investing activities, all line items and calculation of cash flow from financing activities.

AO3: Six marks for calculation of selling price of property.

Statement of Cash Flow for y/e 31 December 2024			
Cash Flows from operating activities			
Loss after interest before tax	(316800)	(1) AO1	
Add interest paid	39375	W1 (3)	
Add Amortisation of goodwill	20000	W2 (2)	
Add Depreciation	190000	W3 (4)	
Less Profit on sale of non-current asset	(460000)	(1) AO1	
Operating cash flow before working capital changes	**(527425)**	(1o/f) AO2	
Decrease in inventories	292000	(1) AO1	
Decrease in trade receivables	125000	(1) AO1	**(21)**
Decrease in other receivables	19000	(1) AO1	
Decrease in trade payables	(141000)	(1) AO1	
Increase in other payables	3000	(1) AO1	
Cash generated from operations	**(229425)**	(1o/f) AO2	
Less Interest Paid on Bank loan	(39375)	(1o/f) AO1	
Less Tax Paid	(476000)	(1) AO1	
Net Cash used in Operating Activities	**(744800)**	(1o/f) AO2	
Cash Flow from Investing Activities			
Payments to acquire tangible non-current asset	(1240000)	(1) AO1	
Proceeds from sale of tangible non-current asset	1825000	W4 (6)	**(8)**
Net Cash from Investing Activities	**585000**	(1o/f) AO2	

Cash Flow from Financing Activities			
Issue of Ordinary shares	800000	(1) AO2	
Issue of Ordinary shares premium	200000	(1) AO2	
Repayment of bank loan	(375000)	(1) AO2	
Dividends Paid : Final 2023 (12 000 000 x 1.8p) (1) AO2	(216000)	(1) AO2	**(10)**
Interim 2024 (12 800 000 x 0.4p) (1) AO2	(51200)	(1) AO2	
Preference (800 000 x 4p x 0.5) (1) AO2	(16000)	(1) AO2	
Net Cash From Financing Activities	**341800**	(1o/f) AO2	
Net increase in cash and cash equivalents	**182000**	(1o/f) AO1	**(1)**
Cash and cash equivalents at the beginning of the year	(76000)	(1) AO1	
Cash and cash equivalents at the end of the year	106000	(1) AO1	**(2)**
Net increase in cash and cash equivalents	**182000**	(1) AO1	**(1)**
		Total	**43 marks**

W1 Calculation of interest paid		
(750 000 x 6% x 0.75) = £33 750 (1) AO2		
(375 000 x 6% x 0.25) = £5 625 (1) AO2 Total =	39375	(1o/f) AO2
W2 Calculation of Goodwill Amortisation		
(£240 000 / 12) (1) AO2=	20000	(1) AO2
W3 Depreciation calculation		
Depreciation at 31 December 2024	4240000	both
Less depreciation at 31 December 2023	4120000	(1) AO2
	120000	(1) AO2
Plus depreciation on assets sold	70000	(1) AO2
Total depreciation for year	190000	(1o/f) AO2

W4 Calculation of Selling price of property		
PPE at cost 31 December 2023	16750 000	(1) AO3
Plus Cost price of property bought	1240 000	(1) AO3
	17990 000	
Less PPE at cost 31 December 2024	16625 000	(1) AO3
=PPE at cost of property sold	1365 000	(1o/f) AO3
Profit of property sold	460 000	(1o/f) AO3
Revenue received for sale of property	1825 000	(1o/f) AO3

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

Liquidity position good/handled liquidity well

The company had cash and cash equivalents of minus £76 000 at the start of the year, but this rose to £106 000 by the end of the year.

There has been an increase of £182 000 in the year.

Acid ratio at the year start was 0.84:1 which is a little below the optimum of 1:1 However by the end of the year the ratio has risen to an acceptable 1.26 :1

Inventories have reduced by £292 000 in the year which means a reduction in liquid funds tied up in inventories.

Trade receivables have reduced by £125 000, and Other receivables by £19 000 which could mean customers are paying up quicker or credit control has improved.

Liquidity has been improved by issue of a shares for £800 000 and share premium of £200 000, making a total inflow of funds of £1.0 million.

Tax bill of £476 000 has been paid, which reduces current liabilities.

The bank loan has been reduced by £375 000 which will reduce demands on funds to pay interest.

A property was sold for £1 825 000 which will increase funds.

Liquidity position poor/handled badly

A loss after interest of £316 800 has been made which will not help liquidity.

Current Ratio at the year start was at 3.51:1 and 5.12:1 at the year end. These figures are probably too high, especially since the majority of current assets are inventories.

The company should probably try to continue to reduce inventories.

Bank loan of £375 000 has been repaid which uses liquid funds.

Trade payables have reduced during the year by £141 000. This may result in positive relations with suppliers and good terms in the future including credit availability.

Ordinary and preference shareholders were paid total dividends of £283 200 despite the company making a loss. This will represent a possible strain on funds.

A property was purchased for £1 240 000 which will use up funds.

Conclusion

Liquidity position/handling of liquidity could be said to be good as cash and cash equivalents have risen. However, this may mainly be due to asking shareholders to supply funds.

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

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

(12)

Total for Question 1 = 55 marks

Question 2

(a) AO2 (2) AO3 (1)

AO2: One mark each for hourly rate and budgeted labour cost.

AO3: One mark for number of hours.

Budgeted labour cost = (180 x $\frac{80}{60}$) (1) AO3 x £8.60 (1) AO2 = £2 064.00 (o/f) AO2

(3)

(b)(i) (AO1) 3 (AO3) 1

AO1: One mark each for cost for 5 workers doing 40 hours, overtime hours and actual labour cost.

AO3: One mark for overtime cost.

Actual labour cost

5 workers x 40 hours x £8.60 = £1 720.00 (1) AO1

1 worker x 32 hours x £8.60 = £275.20 (1) AO1

Overtime hours (1 + 4 + 7) x £12.90 = £154.80 (1) AO3

Actual cost = £2150.00 (1o/f) AO1

(4)

(ii) (AO2) 4

AO2: Four marks for calculation of labour efficiency variance.

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

= (244 (1) AO2 – 240 (1) AO2) x £8.60 (1) AO2 = £34.40 Adv (1) AO2

(4)

(iii) (AO2) 3 (AO3) 1

AO2: One mark each for budgeted rate, actual hours and labour rate variance.

AO3: One mark for actual labour rate.

Labour rate variance = (Actual rate – budgeted rate) x Actual hours

= (£2150.00) (1o/f) AO3 - £8.60 (1)) AO2 x 244 (1o/f) AO2
244

= (£8.81 - £8.60) x 244 = £51.60 Adv (1o/f) AO2

(4)

(iv) (AO1) 2

AO1: Two marks for calculation of total labour cost variance.

Total labour variance = Actual labour cost - Budgeted labour cost

= (£2 150.00 - £2 064.00) (1o/f) AO1 = £86.00 Adv (1o/f) AO1

(2)

(c) AO2 (2)

AO2: Two marks for calculation of budgeted material cost of production.

Budgeted material cost of production

= (£0.38 x 16 x 180) (1) AO2 = £1 094.40 (1) AO2

(2)

(d)(i) AO2 (4) AO3 (2)

AO2: One mark each for calculation of cost of material costing £0.36, £0.38 and £0.39 per metre and total cost.

AO3: Two marks for calculation of amount of material used costing £0.39 per metre.

Calculation of material used costing £0.39 per metre

= 1 200 - 920 (1) AO3 = 280 metres (1) AO3

Actual material cost of production

= (1 350 x £0.36) + (1400 x £0.38) + (280 x £0.39)

= £486.00 (1) AO2 + £532.00 (1) AO2 + £109.20 (1) AO2

= £1127.20 (1o/f) AO2

(6)

(ii) AO2 (5)

AO2: Five marks for calculation of material usage variance.

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

Actual usage = ((1 350 + 1400 + 280) (1) AO2

= (3 030 (1) AO2 – 2880 (1) AO2) x £0.38 (1) AO2 = £57.00 Adv (1o/f) AO2

(5)

(iii) AO2 (3) AO3 (1)

AO2: One mark each for budgeted price, actual usage and material price variance.

AO3: One mark for actual price.

Material price variance = (Actual Price - Budgeted price) x Actual usage

= (£1127.20 (1)AO3 - £0.38 (1) AO2) x 3 030 (1) AO2

3030

= (£0.372 - £0.38) x 3 030 = £24.24 Favourable (1o/f) AO2

(4)

(iv) AO1 (2)

AO1: Two marks for calculation of total material cost variance.

Total Material Cost variance = Actual material cost - Budgeted material cost

= (£1 127.20 - £1 094.40) (1o/f) AO1 = £32.80 Adverse (1o/f) AO1

(2)

(e)(i) AO1 (2)

AO1: Two marks for calculation of total budgeted cost.

Total budgeted cost = budgeted labour + budgeted material

= (£2 064.00 + £1094.40) (1o/f) AO1 = £3 158.40 (1o/f) AO1

(2)

(ii) AO1 (2)

AO1: Two marks for calculation of total actual cost.

Total actual cost = actual labour + actual material

= (£2150.00 + £1127.20) (1o/f) AO1 = £3 277.20 (1o/f) AO1

(2)

(iii) AO1 (3)

AO1: Two marks for calculation of total variance.

Total variance = Actual total cost - Budgeted total cost

= (£3 277.20 (1o/f) AO1 - £3 158.40 (1o/f) AO1) = £118.80 Adverse (1o/f) AO1

(3)

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

Performed poorly

Labour rate variance is adverse £51.60 adverse (o/f). This is due to having to pay overtime at a higher rate to meet the production target, to cover an absence.

Possible solutions may include paying overtime at the standard budgeted rate, especially if the production target has not been met. However, this would mean a decrease on the existing rate, which workers would not like.

Another solution could be to introduce a piece rate system, whereby workers get paid for each unit produced.

Labour efficiency variance is £34.40 adverse (o/f). This may be due to workers completing the job slowly during overtime. Perhaps workers were tired at the end of the day.

A possible solution could be to transfer workers who work elsewhere in the company, to the Tent production department, having previously trained them.

Another solution could include having a reserve pool of temporary labour the company can call upon to step in to make tents.

The total labour variance is £86.00 adverse (o/f).

Material usage variance is £57.00 adverse (o/f). 150 square metres more than budgeted was used. Solutions could include better training of staff, or buying better quality material to reduce wastage, or new machinery to reduce production problems.

The total material variance is £32.76 adverse (o/f). Overall variance is £118.80 adverse.

Performed well

Material price variance is £24.24 favourable (o/f). This was because there was still material in inventory that had been purchased at a price of 36 pence square metre, lower than the budgeted price of 38 pence per square metre.

However, new material has been bought at 39 pence per square metre. This may result in the budgeted price being raised for the next week. Other solutions could be to find alternative suppliers, negotiate better prices, or pay quickly to ensure discounts.

Perhaps the Tent Production department may be efficient, and it is just that the budget set is unrealistic. Maybe the department is not reviewed regularly. If this is the case, the department can be reviewed and the budget changed. However, if they are set for one week at a time, it may be they are reviewed regularly.

Conclusion

The Tent Production department has a total cost variance that is adverse (o/f). However, the figures involved are small. The labour rate variance is small and due to staff absence. The staff worked 12 hours of overtime to cover an absence of 8 hours.

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

(12)

Total for Question 2 = 55 marks
Total for Section A = 110 marks

Question 3

(a) AO1 (3) AO2 (4)

AO1: Three marks for total cost of project, share capital and government grant.

AO2: Four marks for figures for debenture, bank loan and redeemable preference shares.

Total cost of project = 24 + 21 + 36 + 26 + 42 + 19 + 32 = £200 million (1)AO1

Capital Budget

Share capital 200 x 25% = £50 million (1 o/f)AO1

9% Debenture = £56 million (1)AO2

Bank loan = £28 million (1)AO2

Redeemable preference shares = £14 million (1)AO2

Government grant = £18 million (1)AO1

Retained profit = £34 million (1 o/f)AO2

(7)

(b) AO1 (1) AO2 (2) AO3 (2)

AO1: One mark for production figures for months five and six.

AO2: Two marks for production figures for months three and four.

AO3: Two marks for production figures for months one and two.

Production budget

Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
12 400	12 400	12 400	8 200	7 200	6 600
(1)AO3	(1)AO3	(1)AO2	(1)AO2		(1)AO1 both

(5)

(c) AO1 (1) AO2 (6) AO3 (5)

AO1: One mark for all three figures for Option 2.

AO2: Three marks for all figures for Option 1 and three marks for all totals.

AO3: Two marks for figures for month 1 sales receipts for Option 3, two marks for figures for month 2 sales receipts for Option 3, one mark for figure for month 3 sales receipt for Option 3

Cash Budget extract

	Month 1 £	Month 2 £	Month 3 £
Option 1	8 160 000 (1)AO2	6 630 000 (1)AO2	4 539 000 (1)AO2
Option 2	0	0	0 (1)AO1 all three
Option 3 - Month 1 sales	1 836 000 (1)AO3	540 000	540 000 (1)AO3 both
Option 3 - Month 2 sales		1 491 750 (1)AO3	438 750 (1)AO3
Option 3 - Month 3 sales			1 021 275 (1)AO3
Total	9 996 000 (1 o/f)AO2	8 661 750 (1o/f)AO2	6 539 025 (1o/f)AO2

(12)

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

Option 1
Helps the cash flow of Sunrise plc. Avoids the possibility of irrecoverable debts.

However, sales may be restricted if customers do not have ready funds available.

Option 2
Does not help the present cash flow of Sunrise plc. However, in twelve months' time the cash flows are likely to be good.

Delaying payments for twelve months increases the possibility of irrecoverable debts.

However, sales may be boosted as customers do not need to have ready funds available at the date of sale.

Option 3
Only brings in 20% of the total revenue figure for Sunrise plc immediately as cash. This is worse than Option 1 but better than Option 3 for cash flow.

There is a possibility of irrecoverable debts, representing a partial amount of the total revenue figure.

The total figure paid by customers is £255 deposit plus 18 instalments of £75 which totals £1 605 which is £330 more for Sunrise plc, than a cash sale using Option 1 or Option 2.

However, sales may be boosted as customers do not need to have all of the total cost of the scooter available at the date of sale.

Conclusion
Candidates may argue in favour of a specific option.

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Level 2	3-4	Elements of knowledge and understanding. Some analysis is present, with developed chains of reasoning, showing causes and/or effects, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

(6)

Total for Question 3 = 30 marks

Question 4

(a)(i) AO1(1) AO2 (2) AO3 (2)

AO1: One mark for calculation of total ordinary dividend.

AO2: Two marks for insertion into formula of total dividend and number of issued shares.

AO3: Two marks for calculation of number of shares after rights issue and calculation of dividend paid per ordinary share.

Dividend paid per share = $\frac{\text{Total ordinary dividend}}{\text{Issued ordinary shares}}$

Aquarius plc

Interim dividend = £0.012 x 24 000 000

= £288 000

Final dividend = £570 000

Total dividend = £858 000 (1) AO1

Number of ordinary shares after rights issue

= 24 000 000 + 6 000 000 = 30 000 000 shares (1) AO3

= $\frac{\text{£858 000}}{\text{30 000 000}}$ (1o/f) AO2 = 2.86 pence per share (£0.0286) (1o/f) AO3

(1o/f) AO2

(5)

(ii) AO1 (1) AO2 (2) AO3 (2)
AO1: One mark for calculation of total dividend.
AO2: Two marks for insertion into formula of total dividend and number of issued shares.
AO3: One mark for calculation of number of shares after redemption and calculation of dividend paid per ordinary share.

BelleStar plc

Interim dividend = £630 000
Final dividend = 2.4 pence per share (£0.024) x 60 000 000
= £1 440 000
Total dividend = £2 070 000 (1) AO1

Number of ordinary shares after redemption = 70 000 000 - 10 000 000 = 60 000 000 (1)AO3
= £2 070 000 (1o/f) AO2 = 3.45 pence per share (£0.0345) (1o/f) AO3
60 000 000 (1o/f) AO2

(5)

(b)(i) AO1 (1) AO2 (2)
AO1: One mark for insertion of net profit after interest and tax.
AO2: Two marks for insertion of total ordinary dividend and calculation of dividend cover.

Dividend cover = Net profit after interest and tax
Total ordinary dividend

Aquarius plc
= £1 973 400 (1) AO1 = 2.3 times (1o/f) AO2
£858 000 (1o/f) AO2

(3)

(ii) AO2 (2) AO3 (3)

AO2: Two marks for calculation of bank loan interest and debenture interest.

AO3: Three marks for calculation of dividend cover.

BelleStar plc

Profit before interest and tax = £4 916 000

Less

Bank loan interest = (7% x 2 000 000) = £140 000 (1) AO2

Debenture interest = (12% x 1 000 000) = £120 000 (1) AO2

Taxation = £930 000

Net profit after interest and tax = £3 726 000

Dividend cover = £3 726 000 (1o/f) AO3 = 1.8 times (1o/f) AO3
£2 070 000 (1o/f) AO3

(5)

(c)(i) AO1 (1) AO2 (2)

AO1: One mark for insertion of market price of a share.

AO2: Two marks for insertion of dividend per share and calculation of dividend yield.

Dividend yield = Dividend per share x 100
Market price of share

Aquarius plc

= 2.86 p (1o/f) AO2 x 100 = 1.3% (1o/f) AO2
220p (1) AO1

(3)

(ii) AO1 (1) AO2 (2)

AO1: One mark for insertion of market price of a share.

AO2: Two marks for insertion of dividend per share and calculation of dividend yield.

BelleStar plc

= 3.45 p (1o/f) AO2 x 100 = 0.83% (1o/f) AO2
414p (1) AO1

(3)

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

Aquarius plc is the best investment

Aquarius plc gives a dividend yield of 1.3% (o/f) which is higher than the yield of BelleStar plc which is 0.83% (o/f). The difference is 0.47% (o/f) points. The yield is the most important of the three ratios being considered as it tells investors the return they will get for every pound invested, as it takes the market price of the share into account.

The dividend cover of Aquarius plc is 2.3 times (o/f) which means profit after interest and tax can cover the dividend paid more than twice. This indicates a safer dividend policy than BelleStar plc which has a dividend cover of 1.8 times (o/f). The difference is 0.5 times (o/f).

BelleStar plc is the best investment

BelleStar plc pays a dividend of 3.45 pence per share (o/f)which is higher than the dividend of 2.86 pence per share (o/f) paid by Aquarius plc. The difference is 0.59 pence per share(o/f).

BelleStar plc has a lower dividend cover (o/f), which means it pays as a dividend to shareholders, a greater proportion of it profits than Aquarius plc. BelleStar plc has a more generous dividend policy.

BelleStar has a greater figure for profit after tax.

Other factors

Kerena may be interested in the line of business of each company. She may favour one company on ethical or environmental factors.

Conclusion

It can be argued that Aquarius plc is the better investment for Kerena as the dividend yield is higher (o/f).

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

(6)

Total for Question 4 = 30 marks

Question 5

(a) AO1 (5) AO2 (12) AO3 (7)

AO1: Five marks for calculation of opening inventory, production and sales units for the year and labelling contribution.

AO2: Twelve marks for calculation of revenue, direct materials, direct labour, semi-variable costs (variable element and fixed element), variable cost of sales, contribution, fixed overheads, total costs and profits.

AO3: Seven marks for calculation of values of closing inventories.

Statement of Profit or Loss and Other Comprehensive Income			
	Marginal Costing	**Absorption Costing**	
Revenue	4445100	4445100	(W1)(1o/f) AO2
Opening Inventory	14560	16800	(2) AO1
Direct Materials	2524500	2524500	(1)AO2
Direct Labour	324000	324000	(1)AO2
Semi-variable costs(Var)	301500	301500	(1)AO2
Closing inventory	(22680)	(25596)	(W2)
Variable cost of sales	3141880		(1o/f)AO2
Contribution (1)AO1	1303220		(1o/f)AO2
Semi-variable costs (Fix)	135000	135000	(1)AO2
Fixed Overheads	270000	270000	(1)AO2
Total Costs	3546880	3546204	(2o/f)AO2
Profit	898220	898896	(2o/f) AO2

Production = 10 985 + 12 172 + 11 763 + 10 080 = 45 000 units (1)AO1

Sales = 8 907 + 13 789 + 12 351 + 9 853 = 44 900 units (1)AO1

W1 - Calculation of revenue = 44 900 x £99 = £4 445 100

W2 - Calculation of closing inventory:

Opening inventory of 224 + 45 000 - (44 900) = Closing inventory 324 units (1o/f)AO3

Marginal costing = (£6.70 + £56.10 + (£9.60 x 45/60)) = £70.00 (1)AO3 x 324 = £22 680 (1o/f)AO3

Absorption costing = £70 + $\frac{(£2\,700 \times 50)}{45\,000}$ + $\frac{(£5\,400 \times 50)}{45\,000}$

= £70 + £3 (1)AO3 + £6 (1)AO3 = £79 (1o/f)AO3

= £79 x 324 = £25 596 (1o/f)AO3

(24)

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

Advantages of absorption costing

Absorption costing sees costs allocated to products. This could be useful for HK Coolers plc's management when fixing prices / reviewing if a product/project has been profitable in the long term.

Absorption costing is recommended by IAS 2 so needs to be used when preparing external financial statements.

Absorption costing follows the matching concept i.e. HK Coolers plc will match costs with revenues earned for a particular product.

Disadvantages of absorption costing

All costs are not allocated to the time period in which they are incurred. It may be argued that profit for HK Coolers plc for that time period is not accurate as external accounts are drawn up on the basis of a time period.

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

May be time consuming and complex to work out. This is because when calculating the value of closing inventory, all costs must be included in the valuation.

Advantages of marginal costing

Marginal costing helps decision making in the short term. For example, HK Coolers plc may be deciding whether to accept an offer price. Also, to decide whether to make, or discontinue or buy a product or a profit centre. This would be useful for internal use.

Marginal costing sees costs allocated to a time period. Therefore, it may be argued that profit shown for HK Coolers plc in that time period using marginal costing is more accurate.

Marginal costing follows the prudence concept as it shows lower figures for closing inventory and therefore a lower figure for profit.

Disadvantages of marginal costing

Not recommended by IAS 2. If it is used to prepare financial statements for HK Coolers plc, it is argued they would not give a true and fair view or be signed off by auditors.

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

Conclusion

Both methods have their advantages and so it is worthwhile drawing up accounts using both methods. Marginal costing also has some disadvantages so should not be used alone.

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

(6)

Total for Question 5 = 30 marks

Question 6

(a)(i) AO1 (4)

AO1: One mark each for correct line item.

Copyright of a book	Intangible non-current assets	(1) AO1
Invoice for paper paid in advance	Other receivables	(1) AO1
Containers of ink used to produce books	Inventories	(1) AO1
The credit entry for an increase in the market value of the printing factory	Revaluation reserve	(1) AO1

(4)

(ii) AO1 (2)

AO1: Two marks for correct calculation of bank balance.

£373 500 - £24 700 (1) AO2 = £348 800 (1) AO2

(2)

(iii) AO1 (1)

AO1: One mark for correct identification of a use.

Examples for use of general reserve (1) AO1

Purchase of machinery
Paying unexpected bills
Paying dividends
Transfer to another reserve
Bonus issue of shares

Accept other answers

(1)

(iv) AO2 (2)

AO1: Two marks for correct calculation of interest owing.

Yearly interest = 7.8% x £800 000 = £62 400 (1) AO2

Monthly interest due = $\frac{£62\ 400}{12}$ = £5 200 (1o/f) AO2

(2)

(v) AO2 (2)

AO1: Two marks for correct calculation of one instalment.

Yearly interest = 6.25% x £4 150 000 = £259 375 (1) AO2

6 month payment = $\frac{£259\ 375}{2}$ = £129 687.50 (1) AO2

(2)

(vi) AO2 (2)

AO1: Two marks for correct calculation of loss for the year.

Profit or loss for the year = £867 000 - £329 000 (1) AO2 = £538 000 Loss (1) AO2

(2)

(vii) AO3 (2)

AO1: Two marks for correct explanation of the term "redeemable".

The shares can be redeemed (bought back) (1) AO1 by the company. (1) AO3

(2)

(viii) AO3 (2)

AO1: Two marks for correct identification of examples.

Any two from the following, one mark each (2) AO3

Damages or costs for court cases or legal claims against the company.

Payments for future redundancy costs.

Obligations for the pension fund.

Taxation

Cost of a law suit or damages to be paid.

Accept other answers

(2)

(ix) AO2 (4) AO3 (3)

AO2: Four marks for correct totals at start of year, adding purchase of equipment row, subtracting sale of property row, and revaluation row.

AO3: Three marks for correct depreciation adjustment, calculation of year end depreciation adjustment, and total depreciation for the year.

Figs in £m	Cost/Amount	Depreciation	Carrying value
Start of Year Total 1 January 2024	**24.0**	**3.4**	**20.6** (1) AO2 Whole row
Printing Equipment **Purchased**	**2.1**	**0.3**	**1.8** (1) AO2 Whole row
Property sold	**(1.9)**	**(0.5)**	**(1.4)** (1) AO2 Whole row
Revaluation	**2.0**	**----------**	**2.0** (1) AO2 Whole row
Depreciation Adjustment	**----------**	**2.0** (1) AO3	**(2.0) Accept entry in either row**
Year end Total 31 December 2024	**26.2**	**5.2**	**21.0** (1) AO3 Whole row

Total depreciation for year = £2.0 m + £0.3 m (Printing) = £2.3 m (1) AO3

(7)

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

An auditor is an independent person or business, appointed and authorized to examine accounts and accounting records, and state the result of this audit. For example, the auditor may state that the accounts give a true and fair view. Auditors are expected to pass comment on the corporate governance of a company such as Seagull plc.

Corporate governance is the framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in a company's relationship with all its stakeholders (financiers, customers, management, employees, government, and the community).

The auditor should be able to report on the corporate governance of a company such as Seagull plc, by feedback to the Board of Directors and in the Audit Report.

Case for the role of the auditor in corporate governance
The Code has 5 areas and each area may require a comment by the auditors when auditing Seagull plc.

Section A: Leadership – Seagull plc should be led by an effective board, who are responsible for the success of the company.

Section B: Effectiveness – The board should have an appropriate balance of skills, experience, independence, and knowledge to carry out duties effectively.

Section C: Accountability - The board should present a balanced and understandable assessment of Seagull's position and prospects.

Section D: Remuneration - Levels of remuneration should attract, retain and motivate directors of the required quality.

Section E: Relations with shareholders - The board is responsible for ensuring a satisfactory dialogue with shareholders takes place, based on mutual understanding of objectives.

Case Against the role of the auditor in corporate governance

Boards, including Seagull plc, should maintain an appropriate relationship with the company's auditor. This may be difficult to put into practice. The auditor may be reluctant to criticise the company's corporate governance because the company is a lucrative source of income.

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

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

Conclusion

The role of the auditor in corporate governance is / is not appropriate and beneficial.

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(6)

Total for Question 6 = 30 marks

Total Score for Section B = 90 marks

Total score for Paper = 200 marks

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