



# Mark Scheme (Results)

## October 2025

Pearson Edexcel International Advanced Level in Accounting  
WAC12/01A

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 Number | Answer                             | Mark        |
|-----------------|------------------------------------|-------------|
| <b>1 (a)</b>    | <b>A01 (14), A02 (23), A03 (6)</b> | <b>(43)</b> |

| <b>Statement of Cash Flows for Kullna Stores plc for y/e 30 September 2025</b> |                    |                  |           |
|--------------------------------------------------------------------------------|--------------------|------------------|-----------|
| <b>Cash Flows from operating activities</b>                                    |                    |                  |           |
| Profit from Operations (68 000 + 27 000 Interest <b>W1(3)</b> )                | 95 000             | <b>(1) A02</b>   |           |
| Add Amortisation of goodwill                                                   | 7 000              | <b>W2 (2)</b>    |           |
| Add Depreciation                                                               | 1 102 000          | <b>W3 (5)</b>    |           |
| Add Loss on Sale of Non-current Asset                                          | 110 000            | <b>W4 (2)</b>    |           |
| <b>Operating cash flow before working capital changes</b>                      | <b>1 314 000</b>   | <b>(1of) A01</b> |           |
| Decrease in inventories                                                        | 35 000             | <b>(1) A01</b>   |           |
| Increase in trade receivables                                                  | (22 000)           | <b>(1) A01</b>   | <b>23</b> |
| Decrease in other receivables                                                  | 6 000              | <b>(1) A01</b>   |           |
| Decrease in trade payables                                                     | (58 000)           | <b>(1) A01</b>   |           |
| Increase in other payables                                                     | 2 000              | <b>(1) A01</b>   |           |
| <b>Cash generated from operations</b>                                          | <b>1 277 000</b>   | <b>(1of) A01</b> |           |
| Less Interest Paid on Bank loan                                                | (27 000)           | <b>(1of) A01</b> |           |
| Less Tax Paid                                                                  | (323 000)          | <b>(1) A01</b>   |           |
| <b>Net Cash from Operating Activities</b>                                      | <b>927 000</b>     | <b>(1of) A02</b> |           |
|                                                                                |                    |                  |           |
| <b>Cash Flow from Investing Activities</b>                                     |                    |                  |           |
| Payments to acquire tangible non-current assets                                | (2 358 000)        | <b>W5(5)</b>     |           |
| Proceeds from sale of tangible non-current assets                              | 970 000            | <b>(1) A02</b>   | <b>7</b>  |
| <b>Net Cash Used in Investing Activities</b>                                   | <b>(1 388 000)</b> | <b>(1) A01</b>   |           |

|                                                               |                  |                |                 |
|---------------------------------------------------------------|------------------|----------------|-----------------|
|                                                               |                  |                |                 |
| <b>Cash Flow from Financing Activities</b>                    |                  |                |                 |
| Issue of Ordinary shares (400 000 + 50 000) <b>(1) AO2</b>    | 450 000          | <b>(1) AO2</b> |                 |
| Receipt of bank loan                                          | 100 000          | <b>(1) AO2</b> |                 |
| Dividends Paid : Final 2024 (8 000 000 x 1.9p) <b>(1) AO2</b> | (152 000)        | <b>(1) AO2</b> | <b>10</b>       |
| Interim 2025 (8 400 000 x 0.5p) <b>(1) AO2</b>                | (42 000)         | <b>(1) AO2</b> |                 |
| Preference (600 000 x 5.5p) <b>(1) AO2</b>                    | (33 000)         | <b>(1) AO2</b> |                 |
| <b>Net Cash From Financing Activities</b>                     | <b>323 000</b>   | <b>(1) AO1</b> |                 |
|                                                               |                  |                |                 |
| <b>Net decrease in cash and cash equivalents</b>              | <b>(138 000)</b> | <b>(1) AO1</b> | <b>1</b>        |
|                                                               |                  |                |                 |
| Cash and cash equivalents at the beginning of the year        | 121 000          | <b>(1) AO1</b> |                 |
|                                                               |                  |                |                 |
| Cash and cash equivalents at the end of the year              | (17 000)         | <b>(1) AO1</b> | <b>2</b>        |
|                                                               |                  |                |                 |
| <b>Net decrease in cash and cash equivalents</b>              | <b>(138 000)</b> |                |                 |
|                                                               |                  | <b>Total</b>   | <b>43 Marks</b> |
| <b>W1 Calculation of interest paid</b>                        |                  |                |                 |
| (400 000 x 6% x 0.5) = £12 000 <b>(1) AO2</b>                 |                  |                |                 |
| (500 000 x 6% x 0.5) = £15 000 <b>(1) AO2</b> Total =         | £27 000          | <b>(1) AO2</b> |                 |
|                                                               |                  |                |                 |
| <b>W2 Calculation of Goodwill Amortisation</b>                |                  |                |                 |
| (£133 000 - £126 000) <b>(1) AO2</b> = £7 000 <b>(1) AO2</b>  |                  |                |                 |
|                                                               |                  |                |                 |

|                                                            |             |                  |
|------------------------------------------------------------|-------------|------------------|
| <b><u>W3 Depreciation calculation</u></b>                  |             |                  |
| Depreciation at 30 September 2025                          | 3 652 000   | <b>(1) A03</b>   |
| Less depreciation at 30 September 2024                     | (3 270 000) | <b>(1) A03</b>   |
|                                                            | 382 000     | <b>(1) A02</b>   |
| Plus depreciation on assets sold                           | 720 000     | <b>(1) A03</b>   |
| Total depreciation for year                                | 1 102 000   | <b>(1of) A02</b> |
|                                                            |             |                  |
| <b><u>W4 Calculation of Loss on Non-current Asset</u></b>  |             |                  |
| (£1 800 000 - £720 000) - £970 000 <b>(1) A02</b> =        | £110 000    | <b>(1) A02</b>   |
|                                                            |             |                  |
| <b><u>W5 Calculation of Purchase price of property</u></b> |             |                  |
| PPE at cost 30 September 2025                              | 11 414 000  | <b>(1) A03</b>   |
| Less PPE at cost 30 September 2017                         | 10 856 000  | <b>(1) A03</b>   |
|                                                            | 558 000     | <b>(1) A02</b>   |
| Plus cost of asset sold                                    | 1 800 000   | <b>(1) A03</b>   |
| Purchase price of property                                 | 2 358 000   | <b>(1of) A02</b> |

| Question Number | Indicative Content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Mark |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 1 (b)           | <p><b>A01 (1), A02 (1), A03 (4), A04 (6)</b></p> <p>Answers may include:</p> <p><b>Profitability</b></p> <p>Profit after interest is very low at only £68 000.</p> <p>The return on capital employed is only 0.67% which is poor.</p> <p>However, over £1.2 (o/f) million of cash has been generated from operations.</p> <p><b>Liquidity</b></p> <p>Liquidity has worsened by £138 000 in the year, which is worrying.</p> <p>The overdraft / cash and cash equivalents is £17 000. This is worrying, given that there was a £0.97 million inflow from the sale of a retail property.</p> <p>Also, the bank loan increased by £100 000, and there was a share issue that raise £0.45 million.</p> | (12) |

However, £2.358 million was spent on purchasing another retail property – this sees a large outflow, but should be used to generate future profits.

The dividend policy looks generous, given the profit after interest of only £68 000 – ordinary shareholders received £194 000 in the financial year.

**Decision**

The company should probably concentrate on both profitability and liquidity.

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



| Question Number                   | Answer  |         |  |          |     |       | Mark  |     |     |
|-----------------------------------|---------|---------|--|----------|-----|-------|-------|-----|-----|
| 2 (b)(ii)                         | A01 (3) |         |  |          |     |       | (3)   |     |     |
| Inventory Budget (number of cars) |         | January |  | February |     | March |       |     |     |
| From production                   |         | 500     |  | 500      |     | 500   | (1)   | AO1 |     |
| Total                             |         | 500     |  | 1 000    | (1) | AO1   | 1 500 | (1) | AO1 |

| Question Number             | Answer          |                     |                 |                     |                |                     |                 |                     |              | Mark                |
|-----------------------------|-----------------|---------------------|-----------------|---------------------|----------------|---------------------|-----------------|---------------------|--------------|---------------------|
| 2 (c)                       | A02 (5)         |                     |                 |                     |                |                     |                 |                     |              | (5)                 |
| <b>Reworking budget (£)</b> | <u>November</u> |                     | <u>December</u> |                     | <u>January</u> |                     | <u>February</u> |                     | <u>March</u> |                     |
| Production                  | 100             |                     | 610             |                     | 1 061          |                     | 1047            |                     | 1042         |                     |
| Cost per car                | £19.00          |                     | £19.00          |                     | £19.00         |                     | £19.00          |                     | £19.00       |                     |
| <b>Total cost</b>           | £1,900          | <b>(1of)</b><br>AO2 | £11,590         | <b>(1of)</b><br>AO2 | £20,159        | <b>(1of)</b><br>AO2 | £19,890         | <b>(1of)</b><br>AO2 | £19,798      | <b>(1of)</b><br>AO2 |

| Question Number             | Answer                 |                       |                     |                        |                     |                        |                     |                        | Mark                |
|-----------------------------|------------------------|-----------------------|---------------------|------------------------|---------------------|------------------------|---------------------|------------------------|---------------------|
| <b>2 (d)</b>                | <b>A01(3), A02 (7)</b> |                       |                     |                        |                     |                        |                     |                        | <b>(10)</b>         |
| <b>Purchases Budget (£)</b> | <u>October</u>         | <u>November</u>       |                     | <u>December</u>        |                     | <u>January</u>         |                     | <u>February</u>        |                     |
| Cost                        | £2,150                 | £2,150                |                     | £2,150                 |                     | £2,150                 |                     | £2,150                 | <b>(1)</b> AO1      |
| Advance Purchases           | 200                    | 1 220                 |                     | 2 122                  |                     | 2 094                  |                     | 2 085                  | <b>(1of)</b><br>AO2 |
| Amount                      | £430,00<br>0           | £2,623,00<br>0        |                     | £4,562,300             | <b>(1of)</b><br>AO2 | £4,502,100             |                     | £4,482,750             | <b>(1of)</b><br>AO2 |
| Same month purchases        |                        | <u>£3,870,00</u><br>0 | <b>(1of)</b><br>AO2 | <u>£23,607,00</u><br>0 | <b>(1of)</b><br>AO2 | <u>£41,060,70</u><br>0 | <b>(1of)</b><br>AO2 | <u>£40,513,09</u><br>5 | <b>(1of)</b><br>AO2 |
| <b>Total purchases</b>      | £430,00<br>0           | £6,493,00<br>0        |                     | £28,169,30<br>0        | <b>(1of)</b><br>AO1 | £45,562,80<br>0        |                     | £44,995,84<br>5        | <b>(1of)</b><br>AO1 |

| Question Number             | Answer                          |              |                 |              |              |           |  | Mark        |
|-----------------------------|---------------------------------|--------------|-----------------|--------------|--------------|-----------|--|-------------|
| <b>2 (e)</b>                | <b>A01(4), A02 (3), A03 (6)</b> |              |                 |              |              |           |  | <b>(13)</b> |
| <b>Cash Received Budget</b> | <u>January</u>                  |              | <u>February</u> |              | <u>March</u> |           |  |             |
| Sales                       | 4000                            |              | 1200            |              | 1440         |           |  |             |
| Option 1                    | £15,840,000                     | (1of)<br>AO3 | £4,752,00<br>0  | (1of)<br>AO3 | £5,702,400   | (1of) AO3 |  |             |
| Option 2                    | £140,000                        |              | £42,000         |              | £50,400      | (1of) AO2 |  |             |
| Option 3 deposits           | £990,000                        | (1of)<br>AO3 | £297,000        | (1of)<br>AO3 | £356,400     | (1of) AO3 |  |             |
| Option 3 monthly            | £0                              |              | £300,000        | (1of)<br>AO2 | £390,000     | (1of) AO2 |  |             |
| Total Option 3              | £990,000                        |              | £597,000        |              | £746,400     | (1of) AO1 |  |             |
| <b>Total Cash Received</b>  | £16,970,000                     | (1of)<br>AO1 | £5,391,00<br>0  | (1of)<br>AO1 | £6,499,200   | (1of) AO1 |  |             |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Mark |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 2 (f)           | <p><b>A01(1) , A02(1), A03(4), A04 (6)</b></p> <p>Option 1</p> <p><b>Advantages</b></p> <p>Brings in a large amount of cash on the day of the sale.<br/>No need to wait for any payment.</p> <p><b>Disadvantages</b></p> <p>May not be helpful in generating sales volume, as many customers cannot afford the £9 900.</p> <p>The total amount of cash from a sale is less than option 3.</p> <p>Option 2</p> <p><b>Advantages</b></p> <p>May be helpful in generating sales volume, as many customers can afford the £100 to put down.</p> <p><b>Disadvantages</b></p> <p>Does not bring in a large amount of cash on the day of the sale. Company has to wait 18 months for nearly all of the payment, which only totals £9 900. No interest is charged.</p> <p>It is possible that some of the debts will turn bad before payment is made. If the car has to be repossessed in 18 months time, it will have depreciated in value by then, and the amount owing may not be fully recovered.</p> <p>The total amount of cash from a sale is less than option 3.</p> <p>Option 3</p> <p><b>Advantages</b></p> | (12) |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |  |
|--|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
|  | <p>May be helpful in generating sales volume, as many customers can afford the deposit of £990.</p> <p>Brings in some cash on the day of the sale.</p> <p>The total amount received from each customer is the most using this option ie £11 790. This is £1890 more than the other two options. This is equal to about 6% interest.</p> <p><b>Disadvantages</b></p> <p>Does not bring in a large amount of cash on the day of the sale. Company has to wait for payment over 36 months.</p> <p><b>Conclusion</b></p> <p>Option 3 brings in the most cash per sale, although company must wait 3 years to collect all of it.</p> <p>It may be argued that option 1 is the best, as 40% of customers use it.</p> |  |
|--|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|

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

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

### **Question 3 Mark scheme**

#### **(a)AO1 (2) AO2 (2)**

**AO1: Two marks for calculating number of shares in the original holding of each.**

**AO2: Two marks for calculating the number of shares issued to each**

|            |     |         |          |             |       |              |         |
|------------|-----|---------|----------|-------------|-------|--------------|---------|
| <b>(a)</b> |     |         | Total    |             |       |              |         |
|            |     | Holding | Shares   | Shares      | Terms | Total        |         |
|            | Ali | 26%     | x 80 000 | = 20<br>800 | 5     | = 104<br>000 |         |
|            |     |         |          | (1) AO1     |       | (1of)<br>AO2 |         |
|            | Dev | 8%      | x 80 000 | = 6 400     | 5     | = 32 000     |         |
|            |     |         |          | (1) AO1     |       | (1of) AO2    | 4 marks |

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

**AO1: One mark for calculating number of shares in the original holding.**

**AO2: Two marks for calculating the number of shares issued and the new total held**

**AO3: One mark for calculating percentage of shares held by people outside the family.**

|            |        |         |             |          |       |          |           |         |
|------------|--------|---------|-------------|----------|-------|----------|-----------|---------|
| <b>(b)</b> | Family | Others  | Total       |          |       |          |           |         |
|            | Hold   | Holding | Shares      | Shares   | Terms | Issued   | Total     |         |
|            | 76%    | 24%     | x 80<br>000 | = 19 200 | x 5   | = 96 000 | 115 200   |         |
|            |        | (1) AO3 |             | (1of)AO1 |       | (1of)AO2 | (1of) AO2 | 4 marks |

#### **(c)AO1 (2) AO3 (2)**

**AO1: One mark each for stating a reason up to a maximum of two.**

**AO3: One mark for each development of answer up to a maximum of two.**

The bonus shares may be issued to make the statement of financial position look like that of a larger company. (1) AO1 This could be useful when trying to attract investors / raise finance. (1) AO3

The company may not be in a position to pay cash dividends (1) AO1 so shareholders may be kept happy by an issue of bonus (free) shares. (1) AO3

**(d) A03 (4)**

**A03 - One mark each for : date and narrative, account to be debited, account to be credited, correct figure for value of shares**

| Date           | Details                                                                                   | Debit   | Credit  |
|----------------|-------------------------------------------------------------------------------------------|---------|---------|
| 1 October 2024 | Retained earnings (1) AO3                                                                 | 400 000 | (1) AO3 |
|                | Ordinary shares of £1 (1) AO3                                                             |         | 400 000 |
|                | Being a bonus issue of £1 ordinary shares on terms of 5 issued for every one held (1) AO3 |         |         |

**(e) A02 (4)**

**A02 One mark each for total shares, interim dividend, final dividend and total dividend.**

|                  |                          |              |                |              |  |         |
|------------------|--------------------------|--------------|----------------|--------------|--|---------|
| <b>(e)</b>       |                          |              |                |              |  |         |
| Original shares  | 80<br>000                |              |                |              |  |         |
| New Issue        | <u>400</u><br><u>000</u> |              |                |              |  |         |
| Total shares     | 480<br>000               | (1of)<br>AO2 |                |              |  |         |
|                  |                          |              |                |              |  |         |
| Interim dividend | 480<br>000               | x 0.006      | = 2 880        | (1of)<br>AO2 |  |         |
| Final dividend   | 480<br>000               | x 0.018      | = <u>8 640</u> | (1of)<br>AO2 |  |         |
| Total dividend   |                          |              | 11 520         | (1of)<br>AO2 |  | 4 marks |

**(f) A02 (4)**

**A02 One mark each for opening balance and transfer, profit after tax, dividends, and closing balance.**

|                                 |          |              |  |            |
|---------------------------------|----------|--------------|--|------------|
| <b>(f)</b>                      |          |              |  |            |
| <b><u>Retained earnings</u></b> |          |              |  |            |
| Opening balance                 | 653 000  |              |  |            |
| Bonus issue                     | -400 000 | (1of)<br>AO2 |  |            |
| Transfer                        | 9 000    | (1of)<br>AO2 |  |            |
| Profit after tax                | 219 000  | (1of)<br>AO2 |  |            |
| Dividends                       | -11 520  | both         |  |            |
| Closing balance                 | 469 480  | (1of)<br>AO2 |  | 4<br>marks |

**(g)**

For redeemable preference shares

- The company has more flexibility, being able to buy back the shares when it wishes and is in a position to do so. Buying back the shares will mean less dividends paid out in the future.
- The company may be in a position to pay less tax.
- Irredeemable preference shares cannot be redeemed except on liquidation of the company.
- Irredeemable preference shares might be more attractive to potential investors, who would eventually be able to get their cash back i.e. the new shares might be easier to place.

For irredeemable preference shares

- The equity section of the company appears bigger and stronger. This may have benefits when trying to attract investors or raise finance etc.

Other comments

Both types of share will:

- Be included as fixed interest debt, so the gearing ratio will be the same.
- Involve paying a fixed dividend (that is actually cumulative).

Decision

Redeemable preference shares appear to offer flexibility and the possibility of a future redemption when finances allow.

| Level   | Mark | Descriptor                                                                                                                                                                                                                                                                                                                                                            |
|---------|------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0    | A completely incorrect response.                                                                                                                                                                                                                                                                                                                                      |
| Level 1 | 1-2  | Isolated elements of knowledge and understanding that are recall based.<br>Generic assertions may be present.<br>Weak or no relevant application to the scenario set.                                                                                                                                                                                                 |
| Level 2 | 3-4  | Elements of knowledge and understanding, which are applied to the scenario.<br>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.<br>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.<br>Application to the scenario is relevant and effective.<br>A coherent and logical chain of reasoning, showing causes and effects is present.<br>Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.                              |

**(6 marks)**

**Total for Question 3 = 30 marks**



| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                               | Mark       |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>4 (b)(i)</b> | <p><b>AO1(1), AO3 (2)</b><br/> <b>AO1: One mark for correct calculation of margin of safety.</b><br/> <b>AO3: Two marks for analysis of data to help calculation of margin of safety.</b></p> <p>Margin of safety = (35 000 x 14.99) (1) AO3 - 192 591.52 (1of) AO3</p> <p style="text-align: right;">= £524 650 - £192 591.52 (of)<br/> = £332 058.48 (1of) AO1</p> | <b>(3)</b> |

| Question Number  | Answer                                                                                                                                                                                                                                                                                                                                                                                                         | Mark       |
|------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>4 (b)(ii)</b> | <p><b>AO2 (2), AO3 (2)</b><br/> <b>AO2: Two marks for correct calculation of contribution and profit.</b><br/> <b>AO3: Two marks for analysis of data to help calculation of contribution and fixed costs.</b></p> <p>Profit</p> <p>Contribution (£5.76(of) x 35 000) (1) AO3</p> <p style="text-align: right;">= £201 600 (1of) AO2</p> <p>Less FC = £74 000 (1of) AO3</p> <p>Profit = £127 600 (1of) AO2</p> | <b>(4)</b> |

| Question Number | Answer                                                                        | Mark |
|-----------------|-------------------------------------------------------------------------------|------|
| 4 (c)           | <p><b>A02 (7)</b></p> <p>Question 3 (c)</p> <p>ALL A02 (7)</p> <p>7 marks</p> | (7)  |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Mark       |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>4 (d)</b>    | <p><b>AO4 (6)</b></p> <p><u>Case for ICT</u></p> <ul style="list-style-type: none"> <li>• Saves time and therefore money, compared to preparing accounts by hand.</li> <li>• Spreadsheets can be used for calculations for break-even analysis.</li> <li>• Spreadsheets can also be used to generate graphical information.</li> </ul> <p><u>Case against ICT</u></p> <ul style="list-style-type: none"> <li>• Financial cost of hardware, software, staff training, running costs, maintenance etc.</li> <li>• If staff are not trained or are unskilled, they can make errors, which may lead to generation of incorrect information.</li> <li>• Security risks if management or company wish to keep the information confidential.</li> <li>• Computer crashes, freezes etc which may result in a loss of information and waste of staff time.</li> </ul> <p><u>Decision</u></p> <p>ICT is very advantageous for break-even analysis. The decision should be supported by reference to key points of their argument.</p> | <b>(6)</b> |

| Level   | Mark | Descriptor                                                                                                                                                                                                                                                                                                                                                                           |
|---------|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0    | A completely incorrect response.                                                                                                                                                                                                                                                                                                                                                     |
| Level 1 | 1-2  | <p>Isolated elements of knowledge and understanding that are recall based.</p> <p>Generic assertions may be present.</p> <p>Weak or no relevant application to the scenario set.</p>                                                                                                                                                                                                 |
| Level 2 | 3-4  | <p>Elements of knowledge and understanding, which are applied to the scenario.</p> <p>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.</p> <p>An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.</p> |
| Level 3 | 5-6  | <p>Accurate and thorough knowledge and understanding.</p> <p>Application to the scenario is relevant and effective.</p> <p>A coherent and logical chain of reasoning, showing causes and effects is present.</p>                                                                                                                                                                     |

|  |  |                                                                                                                                     |
|--|--|-------------------------------------------------------------------------------------------------------------------------------------|
|  |  | Evaluation is balanced and wide-ranging, using financial and perhaps non-financial information and an appropriate decision is made. |
|--|--|-------------------------------------------------------------------------------------------------------------------------------------|

**Total for Question 4 = 30 marks**

| Question Number | Answer                                                                                                                                                                                                                                                                       | Mark |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 5 (a)(i)        | <b>A02 (2), A03 (4)</b><br><b>A02: Two marks for correct insertion of debenture and reserves and correct calculation of return on capital employed.</b><br><b>A03: Four marks for correct calculation of net profit before interest and tax, and value of share capital.</b> | (6)  |

Return on Capital employed =  $\frac{\text{Net profit before interest and tax}}{\text{Capital employed}} \times 100$

$$\begin{aligned}
 &= \frac{\pounds 412\,000 \text{ (1) AO3} + \pounds 96\,000 \text{ (1) AO3}}{\pounds 6\,000\,000 \text{ (1) AO3} + \pounds 2\,000\,000 \text{ (1) AO3} + \pounds 1\,200\,000 + \pounds 800\,000 \text{ (1) AO2 both)}} \\
 &= \frac{\pounds 508\,000}{\pounds 10\,000\,000} \times 100 = 5.08\% \text{ (1) AO2}
 \end{aligned}$$

| Question Number  | Answer                                                                                                                                                                                                                                   | Mark       |
|------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>5 (a)(ii)</b> | <b>A02 (2), A03 (3)</b><br><b>A02: Two marks for correct calculation of ordinary shares issued and earnings per ordinary share.</b><br><b>A03: Three marks for correct calculation of net profit after tax and preference dividends.</b> | <b>(5)</b> |

Earnings per ordinary share =  $\frac{\text{Net profit after tax} - \text{preference dividend}}{\text{Issued ordinary shares}}$  (1)

$$= \frac{\pounds 412\,000 \text{ (1) AO3} - \pounds 92\,000 \text{ (1) AO3} - \pounds 120\,000 \text{ (1) AO3}}{8\,000\,000 \text{ (1) AO3}} = 2.5 \text{ pence per share}$$

AO2

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                              | Mark |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 5 (a)(iii)      | <p><b>A02 (4)</b><br/> <b>A02: Four marks for correct for correct calculation of dividend paid per ordinary share.</b></p> <p>Dividend paid per share = <math>\frac{\text{Total ordinary dividend}}{\text{Issued ordinary shares}}</math></p> <p>= <math>\frac{\pounds 40\,000 \text{ (1) AO2} + \pounds 140\,000 \text{ (1) AO2}}{8\,000\,000 \text{ o/f (1) AO2}}</math></p> <p>= 2.25p o/f per share (1) AO2</p> | (4)  |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Mark |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 5 (a)(iv)       | <p><b>A01 (1), A02 (2)</b><br/> <b>A01: One mark for correct insertion of total ordinary dividend.</b><br/> <b>A02: Two marks for correct for correct insertion of net profit after tax and preference dividends and calculation of dividend cover.</b></p> <p>Dividend cover = <math>\frac{\text{Net profit after tax} - \text{preference dividend}}{\text{Total ordinary dividend}}</math></p> <p>= <math>\frac{\pounds 200\,000 \text{ o/f (1) AO2}}{\pounds 180\,000 \text{ o/f (1) AO1}} = 1.11 \text{ times (1) AO2}</math></p> | (3)  |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                      | Mark       |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| 5 (a)(v)        | <p><b>A01 (2), A02 (1)</b></p> <p><b>A01: Two marks for correct insertion of market price of share and earnings per share.</b></p> <p><b>A02: One mark for correct calculation of price/earnings ratio.</b></p> <p>Price/earnings ratio = <math>\frac{\text{Market price of share}}{\text{Earnings per share}}</math></p> <p>= <math>\frac{90\text{p}}{2.5\text{p}}</math> <b>(1)</b> AO1 = 36 times o/f <b>(1)</b> AO2</p> | <b>(3)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                            | Mark       |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| 5 (a)(vi)       | <p><b>A01 (2), A02 (1)</b></p> <p><b>A01: Two marks for correct insertion of market price of share and dividend per share.</b></p> <p><b>A02: One mark for correct calculation of dividend yield.</b></p> <p>Dividend yield = <math>\frac{\text{Dividend per share}}{\text{Market price of share}} \times 100</math></p> <p>= <math>\frac{2.25\text{p}}{90\text{p}}</math> o/f <b>(1)</b> AO1 x 100 = 2.5% o/f <b>(1)</b> AO2</p> | <b>(3)</b> |

| Question Number | Indicative Content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Mark       |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>5 (b)</b>    | <p><b>A04 (6)</b></p> <p>Agree with statement</p> <p>Ideally directors would like to reward the shareholders with an ever-increasing dividend per share each year. This would keep shareholders happy. This would probably keep directors in their posts, including when they come up for re-election by shareholders.</p> <p>This may also signify that the company is continually performing increasingly well.</p> <p>Against the statement</p> <p>Directors should only pay what they feel is the appropriate amount in dividends. This may be less than they paid in the previous year. This may be because profits are down in a year, and directors wish to be cautious. It may be that if dividends are to increase in a year, they are greater than the amount in revenue reserves.</p> <p>Or, it may be that dividends are getting too large, and the shareholders returns are starting to be unrealistically high, given the financial position of the company.</p> <p>Or, it may be that the directors wish to keep some funds in reserve in case of a future downturn, or for an investment opportunity, or to replace non-current assets etc.</p> <p>Decision</p> <p>The statement is unrealistic.</p> | <b>(6)</b> |

| Level   | Mark | Descriptor                                                                                                                                                                                                                                                                                                                                                            |
|---------|------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0    | A completely incorrect response.                                                                                                                                                                                                                                                                                                                                      |
| Level 1 | 1-2  | Isolated elements of knowledge and understanding which are recall based.<br>Generic assertions may be present.<br>Weak or no relevant application to the scenario set.                                                                                                                                                                                                |
| Level 2 | 3-4  | Elements of knowledge and understanding, which are applied to the scenario.<br>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.<br>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.<br>A coherent and logical chain of reasoning, showing causes and effects is present.<br>Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.                                 |

|                                                                                                                                               |                |           |              |       |              |          |                  |
|-----------------------------------------------------------------------------------------------------------------------------------------------|----------------|-----------|--------------|-------|--------------|----------|------------------|
| <b>6(a)</b>                                                                                                                                   |                |           |              |       |              |          |                  |
| <b>A01 (5), A02 (12),</b>                                                                                                                     | <b>A03 (1)</b> |           |              |       |              |          |                  |
| <b>A01: Five marks for totals of customers, revenue, costs, annual net cash flow and discounted cash flow.</b>                                |                |           |              |       |              |          |                  |
| <b>A02: Twelve marks for customers for seating areas, revenue sources, itemised costs, depreciation, overheads and discounted cash flows.</b> |                |           |              |       |              |          |                  |
| <b>A03: One mark for deducting monthly depreciation.</b>                                                                                      |                |           |              |       |              |          |                  |
| <b><u>Workings</u></b>                                                                                                                        |                | Occupancy |              |       | Ticket       |          |                  |
| Customers                                                                                                                                     | Seats          | Rate      | Occupancy    |       | Price        | Total    |                  |
| Stalls                                                                                                                                        | 300            | 80%       | 240          |       | £15          | £3 600   | <b>both</b>      |
| Balcony                                                                                                                                       | 100            | 55%       | 55           |       | £20          | £1 100   | <b>(1) A02</b>   |
| Upper Circle                                                                                                                                  | 150            | 30%       | 45           |       | £12          | £540     | <b>(1) A02</b>   |
| Total                                                                                                                                         |                |           | 340          |       |              | £5 240   | <b>(1of) A01</b> |
|                                                                                                                                               |                |           |              |       |              |          |                  |
| <b><u>Revenues per year</u></b>                                                                                                               |                | Rate      | Price        |       | Performances |          |                  |
| Tickets                                                                                                                                       | £5 240         |           |              |       | 72           | £377 280 | <b>(1of) A02</b> |
| Programmes                                                                                                                                    | 340            | 30%       | £2           |       | 72           | £14 688  | <b>(1of) A02</b> |
| Refreshments                                                                                                                                  | 340            | 75%       | £4           |       | 72           | £73 440  | <b>(1of) A02</b> |
| Total Revenue                                                                                                                                 |                |           |              |       |              | £465 408 | <b>(1of) A01</b> |
|                                                                                                                                               |                |           |              |       |              |          |                  |
| <b><u>Costs per year</u></b>                                                                                                                  |                | Months    | Performances | Staff |              |          |                  |
| Production                                                                                                                                    | £1 750         |           | 72           |       |              | £126 000 | <b>(1) A02</b>   |
| Wages                                                                                                                                         | £16 000        |           |              | 12    |              | £192 000 | <b>(1) A02</b>   |
| Overheads                                                                                                                                     | £3 600         | 12        |              |       |              | £43 200  | <b>(1) A02</b>   |
| Total Costs                                                                                                                                   |                |           |              |       |              | £361 200 | <b>(1of) A01</b> |
|                                                                                                                                               |                |           |              |       |              |          |                  |
|                                                                                                                                               |                |           |              |       |              |          |                  |
|                                                                                                                                               |                |           |              |       |              |          |                  |



| Question Number | Answer                                                                               | Mark       |
|-----------------|--------------------------------------------------------------------------------------|------------|
| <b>6 (b)</b>    | <b>A03 (6)</b><br><b>A03: Six marks for calculating the internal rate of return.</b> | <b>(6)</b> |

Internal rate of Return

= Lower rate + (% difference between rates) x  $\frac{\text{NPV using lower \% rate}}{\text{Difference between NPVs}}$

= 8% **(1) A03** + ((12 – 8)**(1) A03** x  $\frac{176\ 103}{(176\ 103 \text{ **(1of) A03** - 135\ 670)(1of) A03}$

= 8% + (4 x 4.355)

= 25.42% **(1of)A03**

| Question Number | Indicative Content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Mark       |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6 (c)</b>    | <p><b>A04 (6)</b></p> <p>Answers may include:</p> <p><u>Case For Investment</u><br/> The internal rate of return is 25.42% (o/f), which is greater than the 8% that is the benchmark figure for investment by the company.<br/> The net present value of the project is positive, at £176 103 (o/f)<br/> The project would look good in the Corporate Social Responsibility report – they have kept the theatre in the town alive and refurbished the theatre.</p> <p><u>Case Against Investment</u><br/> The local government were unable to make a profit from the theatre, why should Two Masks plc be any different?</p> <p><u>Other points</u><br/> The figures are only estimates - they could be better or worse for the company.<br/> Are there any other projects that may be invested in?<br/> Do these give a better (or worse) return?<br/> Does this investment fit the objectives and strategy of the company?</p> <p><u>Decision</u><br/> The project should go ahead.</p> | <b>(6)</b> |

| Level   | Mark | Descriptor                                                                                                                                                             |
|---------|------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0    | A completely incorrect response.                                                                                                                                       |
| Level 1 | 1-2  | Isolated elements of knowledge and understanding which are recall based.<br>Generic assertions may be present.<br>Weak or no relevant application to the scenario set. |

|         |     |                                                                                                                                                                                                                                                                                                                                                                                      |
|---------|-----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level 2 | 3-4 | <p>Elements of knowledge and understanding, which are applied to the scenario.</p> <p>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.</p> <p>An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.</p> |
| Level 3 | 5-6 | <p>Accurate and thorough knowledge and understanding.</p> <p>Application to the scenario is relevant and effective.</p> <p>A coherent and logical chain of reasoning, showing causes and effects is present.</p> <p>Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.</p>                          |