



Mark Scheme (Results)

Summer 2026

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 1(a) Mark Scheme

(i) AO1(6) AO2(11) AO3(6)

AO1: Six marks for heading, profit, change in inventories, trade receivables and trade payables, and taxation paid.

AO2: Eleven marks for calculation of bank and debenture interest, loss on sale of fixed asset, sub totals and total cash from operating activities.

AO3: Six marks for calculation of depreciation and amortisation.

Statement of Cash Flow for year ended 30 April 2026			(1)AO1
Cash Flows from operating activities	£		
Profit from operations after interest	184 900	(1)AO1	
Add bank loan interest (56000 x 5/12) (1)AO2	23 333	(1)AO2	
Add debenture interest (35000 x 7/12) (1)AO2	20 417	(1)AO2	
Add Depreciation	782 000	(4)	below (W1)
Add Amortisation (1 285 000 - 42 000) - 1 180 000 (1)AO3	63 000	(1)AO3	
Add Loss on Sale of non-current Asset			
(1 250 000 - 460 000) - 670 000 (1)AO2	120 000	(1)AO2	
Operating cash flow before working capital changes	1 193 650	(1of)AO2	
Decrease in inventories	29 000	(1)AO1	
Increase in trade and other receivables	(5 000)	(1)AO1	
Decrease in trade and other payables	(15 000)	(1)AO1	
Cash generated from operations	1 202 650	(1of)AO2	
Less Interest Paid: Bank loan	(23 333)	(1of)AO2	
: Debenture	(20 417)	(1of)AO2	
Less Tax Paid	(217 000)	(1)AO1	
Net Cash from Operating Activities	941 900	(1of)AO2	

<u>Depreciation calculation</u>			
Depreciation at 30 September 2026	2 882 000	(1)AO3	
Less depreciation at 31 March 2025	2 560 000	(1)AO3	
	322 000		
Plus depreciation on assets sold	460 000	(1)AO3	
Total depreciation for year	782000	(1of)AO3	23 marks

(ii) AO1(4) AO2(1)

AO1: Four marks for payments to acquire tangible and intangible non-current assets and shares in other companies, and proceeds from sale of non-current assets.

AO2: One mark for calculation of total cash used in investing activities.

<u>Cash Flow from Investing Activities</u>	£		
Payments to acquire tangible non-current assets	(1 864 000)	(1)AO1	
Proceeds from sale of tangible non-current assets	670 000	(1)AO1	
Proceeds from sale of intangible assets	42 000	(1)AO1	
Proceeds from sale of shares in other companies	546 000	(1)AO1	
Net Cash Used in Investing Activities	(606 000)	(1of)AO2	5 marks

(iii) AO1(2) AO2(9)

AO1: Two marks for redemption of bank loan and receipt of debenture.

AO2: Nine marks for calculation of issue of ordinary shares, dividends paid and total cash used in financing activities.

Cash Flow from Financing Activities	£		
Redemption of Ordinary shares (400 000 x £1.37) (1)AO2	(548 000)	(1)AO2	
Repayment of bank loan	(700 000)	(1)AO1	
Issue of debenture	500 000	(1)AO1	
Dividends Paid: Final 2025 (4 400 000 x 0.023) (1)AO2	(101 200)	(1)AO2	125 200 gets (4) 143 950 (6)
Interim 2025 (4 000 000 x 0.006) (1)AO2	(24 000)	(1)AO2	
Preference (750 000 x 0.05 x 0.5) (1)AO2	(18 750)	(1)AO2	
Net Cash Used in Financing Activities	(891 950)	(1of)AO2	11 marks

(iv) AO1(2) AO2(2)

AO1: Two marks for inclusion of cash and cash equivalents at start and end of year.

AO2: Two marks for calculation of decrease in cash and cash equivalents.

Net decrease in cash and cash equivalents	(156 000)	(1)AO2	
Cash and cash equivalents at the beginning of the year	423 000	(1)AO1	
Cash and cash equivalents at the end of the year	267 000	(1)AO1	
Net decrease in cash and cash equivalents	(156 000)	(1)AO2	4 marks

Q1 Mark scheme

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

Liquidity position good/handled liquidity well

Firm has healthy level of cash and cash equivalents of £267 000 at the year end.

Current Ratio at year end stands at 2.74:1 which is good, even improving on the year start figure of 2.65:1

Acid ratio at year end stands at 1.46 :1 which is good, and so was the year start figure of 1.50:1

Liquidity has been improved by taking out a debenture for £500 000.

Tax bill of £217 000 has been paid, which reduces current liabilities.

Healthy operating profit of £184 900 is being made which will help liquidity.

An 8% bank loan of £700 000 has been settled/paid off which will reduce demands on funds to pay interest.

A 7% debenture has been taken out for £700 000 which will help liquidity.

The company bought property for £1 864 000 without having to take out a mortgage.

Liquidity position poor/ handled badly

Bank loan of £700 000 has been settled which uses liquid funds.

Ordinary shares have been redeemed at a premium, at a total cost of £548 000

Interest will have to be paid on the debenture taken out.

It may be argued that the current ratio and the acid ratio show the company has too many liquid funds. Maybe the company should be putting these funds to better use, earning interest or profits for the company.

Conclusion

Liquidity position/handling of liquidity is good.

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 marks

Total for Question 1 = 55 marks

Q2 Mark scheme

(a)

(AO1) 4

AO1 : Four marks for calculating the total factory production for one week.

$$\text{Budgeted production} = 8 \text{ hours} \times 5 \text{ days} = 40 \text{ hours (1) AO1}$$

$$40 \text{ hours} \times 60 \text{ minutes} = 2\,400 \text{ minutes (1) AO1}$$

$$1 \text{ produced every 45 seconds} = 2\,400 \times \frac{4}{3} = 3\,200 \text{ per production line per week (1) AO1}$$

$$3 \text{ production lines} = 3\,200 \text{ (o/f)} \times 3 = 9\,600 \text{ glasses / units per week (1o/f) AO1}$$

(4)

(b)

(i)

(AO2) 2

Two marks for correct calculation of budgeted material cost of production.

$$\begin{aligned} \text{Budgeted material cost of production} \\ = (\pounds 0.018 \times 9\,600) \text{ (1o/f) AO2} = \pounds 172.80 \text{ (1o/f) AO2} \end{aligned}$$

(2)

(ii)

(AO2) 4 (AO3) 1

AO2: Three marks for arriving at weekly totals for each purchase of material and one mark for overall total for week.

AO3: One mark for workings for materials.

$$\begin{aligned} \text{Actual material cost of production} \\ = (0.61 \times \pounds 43) + (1.8 \times \pounds 45) + (1.80 \times \pounds 46) \text{ (1)} - (0.32 \times \pounds 46) \text{ (1) AO3} \\ = \pounds 26.23 \text{ (1) AO2} + \pounds 81.00 \text{ (1) AO2} + \pounds 82.80 - \pounds 14.72 \text{ (1) AO2} \\ = \pounds 175.31 \text{ (1o/f) AO2} \end{aligned}$$

(5)

(iii)

(AO1) 1 (AO2) 4 (AO3) 1

AO1: One mark for showing correct formula

AO2: Three marks for budgeted usage, budgeted price and material usage variance.

AO3: One mark for correct actual usage.

$$\begin{aligned} \text{Material usage variance} &= (\text{Actual usage} - \text{Budgeted usage}) \times \text{Budgeted price (1) AO1} \\ &= ((0.61 + 1.8 + 1.8 - 0.32) - 3.92727) \times \pounds 44.00 = \\ &= (3.89 \text{ (1) AO3} - 3.92727 \text{ (1o/f) AO2}) \times \pounds 44.00 \text{ (1) AO2} = \pounds 1.64 \text{ Favourable (1o/f) AO2} \end{aligned}$$

$$\text{Budgeted usage} = \frac{0.018}{44.00} \times 9\,600 = 3.92727 \text{ tonnes}$$

(5)

(iv) (AO1) 1 (AO2) 3 (AO3) 1

AO1: One mark for showing correct formula

AO2: Three marks for budgeted price, actual usage and material price variance.

AO3: One mark for correct actual price workings.

Material price variance = (Actual Price - Budgeted price) x Actual usage (1) AO1

$$= \frac{£175.31}{3.89} (1\text{o/f}) \text{AO3} - £44.00 (1) \text{AO2} \times 3.89 (1\text{o/f}) \text{AO2}$$

$$= (45.067 - £44.00) \times 3.89 = £4.15 \text{ Adverse } (1\text{o/f}) \text{AO2} \quad (5)$$

(v)(AO1) 3

AO1: Three marks for correct calculation of total material cost variance.

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

$$= (£175.31 (1\text{o/f}) \text{AO1} - £172.80 (1\text{o/f}) \text{AO1}) = £2.51 \text{ Adverse } (1\text{o/f}) \text{AO1} (3)$$

$$\text{Or } 4.15 \text{ Adverse } (1\text{o/f}) - 1.64 \text{ favourable } (1\text{o/f}) = £2.51 \text{ adverse } (1\text{o/f})$$

(c) (i) (AO2) 2

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

Budgeted labour cost

$$\text{Normal time} = 6 \text{ workers} \times 40 \text{ hours} \times £10.50 \text{ per hour } (1) \text{AO2} = £2\,520 (1) \text{AO2} (2)$$

(ii) (AO2) 3 (AO3) 1

AO2: Three marks for calculating cost of overtime, adding normal time and actual labour cost.

AO3: One mark for correct workings to calculate overtime.

Actual labour cost

Overtime

$$2 \text{ workers} \times 4 \text{ hours} \times \left(\frac{£10.50 \times 4}{3} \right) (1) \text{AO3} = £112.00 (1\text{o/f}) \text{AO2}$$

$$\text{Plus normal time} = £2\,520 (1\text{o/f}) \text{AO2}$$

$$\text{Actual labour cost} = £2\,632 (1\text{o/f}) \text{AO2} \quad (4)$$

(iii)(AO1) 1 (AO2) 3 (AO3) 1

AO1: One mark for showing correct formula

AO2: Three marks for budgeted hours, budgeted rate and labour efficiency variance.

AO3: One mark for correct actual hours.

Labour efficiency variance = (Actual hours - Budgeted hours) x Budgeted rate (1) AO1

$$= (248 (1) \text{AO3} - 240 (1) \text{AO2}) \times £10.50 (1) \text{AO2} = £84 \text{ Adv } (1\text{o/f}) \text{AO2}$$

(5)

(iv)

(AO1) 1 (AO2) 3 (AO3) 1

AO1: One mark for showing correct formula

AO2: Three marks for budgeted rate, actual hours and labour rate variance.

AO3: One mark for correct actual rate workings.

Labour rate variance = (Actual rate – budgeted rate) x Actual hours (1) AO1

$$= \frac{(\pounds 2\,632)(1\text{of}) \text{AO3} - \pounds 10.50 (1)) \text{AO2} \times 248 (1) \text{AO2}}{248}$$

$$= (\pounds 10.613 - \pounds 10.50) \times 248 = \pounds 28 \text{ Adv } (1\text{of}) \text{AO2}$$

(5)

(v)

(AO1) 3

AO1: Three marks for correct calculation of total material cost variance.

Total labour variance = Actual labour cost - Budgeted labour cost

$$= (\pounds 2632 (1\text{of}) \text{AO1} - \pounds 2\,520 (1\text{of}) \text{AO1}) = \pounds 112 \text{ Adv } (1\text{of}) \text{AO1} \quad (3)$$

Or $\pounds 84 \text{ Adverse } (1\text{of}) + \pounds 28 \text{ Adverse } (1\text{of}) = \pounds 112 \text{ Adverse } (1\text{of})$

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

Performed poorly

Labour rate variance is adverse. This is due to having to pay overtime at a higher rate to meet the production target, to ensure it is met. Possible solutions may include paying overtime at the normal rate, especially if the target has not been met. However, this may well meet resistance from the workers.

Labour efficiency variance is adverse. Another possible solution could be to introduce piece rates, whereby workers are paid according to output produced. Using this payment method would mean the company may not be negatively impacted by machine breakdowns. At the moment, if a machine breaks down, workers get paid for not producing and can work overtime at a higher rate. However, payment by piece rate may see the quality of output reduced, as workers try to produce as quickly as possible.

Material usage variance is adverse. Solutions could include better training of staff, or buying better quality material to reduce wastage, or new machinery to reduce production problems.

Although the total adverse variances are only about $\pounds 115$, this is only for one week. If this continued for a year, the total adverse variances could be around $\pounds 5\,750$.

Argument Against Performed Badly

The company may be efficient, but perhaps the budgets set are unrealistic. Maybe they are not reviewed regularly in which case review and change the

budget. However, if they are set for one week at a time, it appears they could be reviewed regularly.

Perhaps the rate of inflation has been greater than predicted and material costs have risen more quickly than expected.

Suggestions

Some solutions could be to find alternative suppliers, negotiate better prices, or pay quickly to ensure discounts are received.

Maybe machinery needs more regular servicing to avoid breakdowns. Or perhaps machinery is dated and needs replacing.

Conclusion

The Production Department has a total cost variance that is adverse. Most of this figure consists of the labour efficiency variance and this is probably due to the machinery breakdown. Action may need to be taken to avoid future breakdowns eg servicing or replacing machinery.

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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 information and makes an informed decision.

(12)

Total for Question 2 - 55 marks

Q3 Mark scheme

(a) (i) (AO2) 4 (AO3) 1

AO2 : Four marks for correct insertion of net profit before tax, tax figure and of ordinary shares issued, and correct calculation of earnings per ordinary share.

AO3 : One mark for correct insertion of irredeemable preference dividend.

Earnings per ordinary share =
$$\frac{\text{Net profit after tax} - \text{Irredeemable preference dividends}}{\text{Issued ordinary shares}}$$

$$= \frac{(\pounds 6\,750\,000 \text{ (1)AO2} - \pounds 630\,000) \text{ (1)AO2} - \pounds 720\,000 \text{ (1)AO3}}{40\,000\,000 \text{ (1)AO2}} = \pounds 0.135 = 13.5 \text{ pence per share (1)AO2}$$

(5)

Alternative answer:

Earnings per ordinary share =
$$\frac{\text{Net profit after tax} - \text{All preference dividends}}{\text{Issued ordinary shares}}$$

$$= \frac{(\pounds 6\,750\,000 \text{ (1)AO2} - \pounds 630\,000) \text{ (1)AO2} - \pounds 720\,000 - \pounds 2\,000\,000 \text{ (1)AO3}}{40\,000\,000 \text{ (1)AO2}} = \pounds 0.085 = 8.5 \text{ pence per share}$$

(1)AO2 (5)

(ii) (AO1) 3

AO1 : Three marks for correct insertion of market price of share and earnings per share and for correct calculation of price/earnings ratio.

Price/earnings ratio =
$$\frac{\text{Market price of share}}{\text{Earnings per share}}$$

$$= \frac{\pounds 1.05 \text{ (1)AO1}}{13.5\text{p (1o/f)AO1}} = 7.78 \text{ times (1of)AO1}$$

(3)

Alternative answer

$$= \frac{\pounds 1.05 \text{ (1)AO1}}{8.5\text{p (1o/f)AO1}} = 12.35 \text{ times (1of)AO1}$$

(3)

(iii) (AO2) 4

AO2 : Four marks for correct for correct calculation of dividend paid per ordinary share.

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

$$= \frac{\pounds 1\,760\,000 \text{ (1)AO2}}{40\,000\,000 \text{ (1)AO2}} + \pounds 0.008 \text{ (1)AO2}$$
$$= 4.4\text{p} + 0.8\text{p} = 5.2\text{p (1)AO2}$$

(4)

Alternative answer

$$= \frac{\pounds 1\,760\,000 \text{ (1)AO2}}{40\,000\,000 \text{ (1)AO2}} + \pounds 0.008 \text{ (1)AO2}$$

$$40\,000\,000 \text{ (1)AO2}$$

$$= 4.4p + 0.8p = 5.2p \text{ (1)AO2} \quad (4)$$

(iv) (AO2) 3

AO2 : Three marks for correct for correct insertion of net profit after tax less irredeemable preference dividends and calculation of dividend cover.

$$\begin{aligned} \text{Dividend cover} &= \frac{\text{Net profit after tax} - \text{Irredeemable preference dividend}}{\text{Total ordinary dividend}} \\ &= \frac{\pounds 6\,120\,000 - \pounds 720\,000 \text{ (1o/f) AO2}}{\pounds 40\,000\,000 \times 5.2p \text{ (1o/f) AO2}} \\ &= \frac{\pounds 5\,400\,000}{\pounds 2\,080\,000} = 2.596 \text{ times (1o/f) AO2} \end{aligned} \quad (3)$$

$$\begin{aligned} \text{Dividend cover} &= \frac{\text{Net profit after tax} - \text{all preference dividend}}{\text{Total ordinary dividend}} \\ &= \frac{3\,400 \text{ (1o/f) AO2}}{40\,000\,000 \times 5.2p \text{ (1o/f) AO2}} \\ &= \frac{\pounds 3\,400\,000}{\pounds 2\,080\,000} = 1.635 \text{ times (1o/f) AO2} \end{aligned} \quad (3)$$

(v) (AO1) 2 (AO2) 1

AO1 : Two marks for correct insertion of market price of share and dividend per share.

AO2: One mark for correct calculation of dividend yield.

$$\begin{aligned} \text{Dividend yield} &= \frac{\text{Dividend per ordinary share}}{\text{Market price of share}} \times 100 \\ &= \frac{5.2p \text{ (1o/f)AO1}}{105p \text{ (1)AO1}} \times 100 = 4.952\% \text{ (1o/f) AO2} \end{aligned} \quad (3)$$

Alternative answer

$$\begin{aligned} \text{Dividend yield} &= \frac{\text{Dividend per ordinary share}}{\text{Market price of share}} \times 100 \\ &= \frac{5.2p \text{ (1o/f) AO1}}{105p \text{ (1)AO1}} \times 100 = 4.952\% \text{ (1o/f) AO2} \end{aligned} \quad (3)$$

(vi) (AO3) 6

AO3: Six marks for correct calculation of gearing ratio.

$$\text{Gearing ratio} = \frac{\text{Fixed Cost Capital}}{\text{Capital employed}}$$

$$\text{Fixed cost capital} = \pounds 25\,000\,000 + \pounds 8\,000\,000 + \pounds 6\,000\,000 = \pounds 39\,000\,000 \text{ (1)AO3}$$

Capital employed

$$= \text{£}39\,000\,000 + \text{£}30\,000\,000 + \text{£}8\,000\,000 \text{ (1)AO3} + \text{£}12\,000\,000 + \text{£}3\,000\,000 + \text{£}13\,400\,000 \text{ (1)AO3}$$

$$= \text{£}105\,400\,000$$

If 3 correct (1), all 6 gets (2)

$$\text{Gearing ratio} = \frac{39\,000\,000}{105\,400\,000} \times 100 \text{ (1o/f)AO3} = 37\% \text{ (1o/f)AO3}$$

Alternative answer

$$\text{Gearing ratio} = \frac{\text{Fixed Cost Capital}}{\text{Capital employed}}$$

$$\text{Fixed cost capital} = \text{£}25\,000\,000 + \text{£}8\,000\,000 + \text{£}6\,000\,000 + \text{£}12\,000\,000 = \text{£}51\,000\,000 \text{ (1)AO3}$$

$$\begin{aligned} \text{Capital employed} \\ = \text{£}51\,000\,000 + \text{£}30\,000\,000 + \text{£}8\,000\,000 \text{ (1)AO3} + \text{£}12\,000\,000 + \text{£}3\,000\,000 + \text{£}13\,400\,000 \text{ (1)AO3} \\ = \text{£}105\,400\,000 \end{aligned}$$

$$\text{Gearing ratio} = \frac{51\,000\,000}{105\,400\,000} \times 100 \text{ (1o/f)AO3} = 48.39\% \text{ (1o/f)AO3}$$

(6)

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

Own figure rule applies throughout answer.

Answers may include :

Positive performance

Earnings per share were 13.5 pence per share which were issued at £0.95 each. This is about 14% which could be considered as quite good.

The dividend per share was 5.2p per share, on shares that had a face value of £0.95 and a market value of £1.05. This gave a dividend yield of 4.952% which is reasonably good. It is higher than returns from a savings account.

The gearing ratio is 37% which is healthy. It is not too high and risky, being below 50%. It also means that the tax to be paid is reduced due to interest payments being tax deductible.

Dividend cover was about 2.5 times, which means dividends can be covered 2.5 times by net profit.

This is a fairly safe figure.

Negative performance

Price/earnings ratio was 7.78 times. This is quite low. It shows the market does not have confidence in the company. Some investors consider this to be the most important ratio.

Conclusion

Overall, the ratios look good, with the exception of the price/earnings ratio.

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 marks)

Total for Question 3 - 30 marks

Question 4
Mark
scheme

<u>(a)(i) Purchases Budget</u>	July	August	September	October	November	December	
	£	£	£	£	£	£	
Purchases	16200	16200	16200	16200	16200	16200	
					All six	(1)AO1	1 mark

(a)(ii) (AO2) 10 Ten marks for completion of trades payable budget							
	July	August	September	October	November	December	
Purchases	16 200	16 200	16 200	16 200	16 200	16 200	All 6 (1)AO2
Cash payment	3 240	3 240	3 240	3 240	3 240	3 240	All 6 (1)AO2
1 month credit		8 910	8 910	8 910	8 910	8 910	All 5 (1)AO2
2 months credit			2 430	2 430	2 430	2 430	All 4 (1)AO2
3 months credit				1 620	1 620	1 620	All 3 (1)AO2
Total paid	3 240	12 150	14 580	16 200	16 200	16 200	
	All three (1of) AO2			All three (1of) AO2			
Increase in TP	12 960	4 050	1 620	0	0	0	
Closing balance	12 960	17 010	18 630	18 630	18 630	18 630	
	(1of) AO2	(1of) AO2	All four (1of) AO2				10 marks

If 'totals paid' are correct, give the 4 marks for the previous 4 rows.

(b)(i) (AO2) 1 (AO3) 2										
AO2: One mark for calculating revenue received for total monthly revenue received.										
AO3: Two marks for calculating sales price of one item.										
Sales price of one item										
	£90	x 180%	= £162							
		(1)AO3	(1)AO3							
Cash budget extract	July	August	September	October	November	December				
	£	£	£	£	£	£				
Revenue received for new sale	21870	21870	21870	21870	21870	21870			21870	(1)AO2 row 3 marks

(b)(ii) (AO2) 10 Six marks for completion of trades receivables budget											
	July		August		September		October		November		December
Sales (total)	29 160		29 160		29 160		29 160		29 160		29 160
Credit sales (25%)	7 290		7 290		7 290		7 290		7 290		7 290
Amount paid	0		1 215		2 430		3 645		4 860		6 075
Increase in TR	7 290		6 075		4 860		3 645		2 430		1 215
Closing balance (TR)	7 290		13 365		18 225		21 870		24 300		25 515
	(1of) AO2		(1of) AO2		(1of) AO2		(1of) AO2		(1of) AO2		(1of) AO2
											6 marks

(c)(i) AO1 (2) Two marks for stating advantages of adding interest to payments.

(i) Two advantages of adding interest to payments:

- customers are likely to pay more quickly
- income/ profits may increase
- improves cash flow

(ii) AO1 (2) Two marks for stating disadvantages of adding interest to payments.

(ii) Two disadvantages of adding interest to payments:

- may discourage customers from buying
- extra staff costs involved in calculating interest etc

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

Case For flexible budgets

Allows good decision making as “like is compared to like” eg costs can be compared to revenues at the same sales or output levels.

Flexible budgets may save SmoothPlay Limited time and money by allowing “management by exception” ie management need to take action only if there is a variance at the same level of output or sales.

The targets are realistic if the budget is flexible and this may improve the motivation of SmoothPlay Limited employees.

Any variances are more meaningful if the volume element is eliminated.

Case Against flexible budgets

Drawing up a series of budgets at different output levels will take time which may cost SmoothPlay Limited money.

Figures are only estimates so may be misleading or the action taken in response is inappropriate.

Conclusion

Should relate to points made above ie flexible budgets are a very useful tool.

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 marks

Total for Question 4 = 30 marks

Q5 Mark scheme

(a) (i) (AO1) 5

AO1: Five marks for correct allocation of each item.

Item	Found under
i. Gas bill paid in advance	Other receivables (1)AO1
ii. Copyright on books	Intangibles (1)AO1
iii. Paper for printing books	Inventory (1)AO1
iv. Amount set aside to cover damages in court case.	Provisions (1)AO1
v. Money borrowed from the bank that needs to be repaid on 2 December 2026	Bank loan (1)AO1

(b) (AO3) 2

AO3: Two marks for correct explanation of term “other payables”

Other payables are monies owed by the company, other than monies owed to trading suppliers. (1)AO3
eg rent, utility bills, wages. (1)AO3

(2)

(c) (AO2) 2

AO2: Two marks for correct calculation of bank balance

$£154\,000 - £22\,000$ (1)AO2 = $£132\,000$ (1)AO2

(2)

(d) (AO2) 3

AO2: Three marks for correct calculation of interest owing.

$£4\,900\,000 \times 6.25\%$ (1)AO2 $\times 0.5$ (1)AO2 = $£153\,125$ (1of)AO2

(3)

(e) (AO3) 2

AO3: Two marks for correct identification of uses of share premium.

Uses could be:

- Writing off expenses of a share issue
- Allotting bonus shares to shareholders
- Returning capital to shareholders

(1)AO3 per reason to a maximum of two.

(2)

(f) (AO2) 2

AO2: Two marks for correct calculation of profit for year for the year.

$(£3\,365\,000 - £1\,988\,000)$ (1)AO2 = $£1\,377\,000$ profit for the year (1)AO2

(2)

(g)

(i) (AO2) 3 (AO3) 1

AO2: Three marks for correct completion of entries of PPE, Bank, and SoCI

AO3: One mark for correct completion of entry of Depreciation

Disposal of Property, plant and equipment account

		£			£
May 1 2025	Property, plant and equipment	2 100 000 (1)AO2	May 3 2025	Bank	2 270 000 (1)AO2
April 30 2026	Statement of Comprehensive Income / profit on disposal	422 000 (1)AO2	May 3 2025	Depreciation of property, plant and equipment	252 000 (1)AO3
		<u>2 522 000</u>			<u>2 522 000</u>

(4)

(ii) (AO2) 3 (AO3) 1

AO2: Three marks for correct completion of entries of Disposal, balance c/d, and SoCI

AO2: One mark for correct completion of entry of balance b/d at start of year.

Property, plant and equipment Depreciation account

		£			£
May 3 2025	Disposals of Property, plant and equipment	252 000 (1)AO2	May 1 2025	Balance b/d	1 100 000 (1)AO3
April 30 2026	Balance c/d	1 698 000 (1o/f)AO2	April 30 2026	Statement of Comprehensive Income	850 000 (1)AO2
		<u>1 950 000</u>			<u>1 950 000</u>
			May 1 2026	Balance b/d	1 698 000

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

For importance

This will benefit users of accounts because they can see that profits or losses from the Discontinued Operations will not be expected to be realised in the future. This allows the reader to predict more accurately future expected performance.

The extra detail may help future potential investors / shareholders /creditors etc with decision making.

Eg buy more shares /allow credit.

Should be beneficial if required to be shown by FRS3 / IFRS 5

Against importance

Adds more figures and details to the accounts so makes them more difficult to understand, especially for those with little accounting knowledge.

Takes time to add extra detail to the accounts and therefore this means extra expense.

Evaluation

Should conclude that it is important to show Discontinued Activities.

(6)

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Total for Question 5 - 30 marks

Q6 Mark scheme

(a)(AO1) 3, (AO2) 3

AO1 : Three marks for calculating annual interest for each funding method and the total.

AO2 : Three marks for calculating the weighted average cost of capital.

	£ million	Interest Rate %	Annual Interest/Return £	
Ordinary Shares	2.5	3.0	£75 000	
Preference Share	0.5	4.5	£22 500	(1) both AO1
Debenture	2	9.0	£180 000	
Bank Loan	3	8.75	£262 500	All three
Government grant	1	Nil	Nil	(1) AO1
Total	9		£540 000	(1o/f) AO1

$$\text{WACC} = \frac{£540\,000}{£9\,000\,000} \times 100 \text{ (1 o/f) AO2} = 6\% \text{ (1o/f) AO2}$$

(6)

(b) AO1 (2)								
AO1: Two marks for calculation of total number of customers								
Per hour	Weeks	Days	Hours	Cust 1 station	Stations	Total		
2	52	7	18	13 104	40	524160		
				(1)AO1		(1)AO1		
(c) (AO2) 9 (AO3) 7								
Calculation of Accounting rate of return								
AO2 Three marks for calculations of customer spend. Three marks for calculation of total costs and three marks for calculation of total income, costs and profits for the year.								
AO3: Seven marks for calculation of operating costs, depreciation, interest, total profit, the average annual return and the accounting rate of return								
Income	No of	Spend per						
	<u>Customers</u>	<u>Customer</u>	<u>Total</u>					
Year 1	524160	£10	5241600	both				
Year 2	524160	£10	5241600	(1of)AO2				
Year 3	524160	£11	5765760	both				
Year 4	524160	£11	5765760	(1of)AO2				
Year 5	524160	£12	6289920	(1of)AO2				

Costs	<u>Operating</u>	<u>-</u>	<u>Deprctn</u>	<u>-</u>	<u>Interest</u>	<u>-</u>	<u>Total</u>	
Year 1	208000		1800000		540000		2548000	both
Year 2	208000		1800000		540000		2548000	(1of)AO2
Year 3	218400		1800000		540000		2558400	both
Year 4	218400		1800000		540000		2558400	(1of)AO2
Year 5	228800	(1)AO3	1800000	(1)AO3	540000	(1of)AO3	2568800	(1of)AO2
							12781600	
	£000		£000		£000			
Profit	<u>Income</u>	<u>-</u>	<u>Costs</u>	<u>-</u>	<u>Profit</u>			
Year 1	5241600		2548000		2693600	both		
Year 2	5241600		2548000		2693600	(1of)AO2		
Year 3	5765760		2558400		3207360	both		
Year 4	5765760		2558400		3207360	(1of)AO2		
Year 5	6289920		2568800		3721120	(1of)AO2		
Total	28304640		12781600		15523040			
				both				

Average Rate of Return

Average Annual return = $\frac{£15\,523\,040}{5 \text{ years}}$ (1of) AO3 = £3 104 608 per year (1of) AO3

Accounting rate of return = $\frac{£3\,104\,608}{£9\,000\,000} \times 100$ = 34.50% (1of) AO3

Other formulas are accepted £4 500 000 as the investment is fine and this will give an ARR of 69.00%.

(18)

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

A04: Six marks for evaluation of proposal.

Answers may include :

For Investment

ARR states invest as project meets expected company percentage return figure of 15%

Project is profitable overall having total profit over 5 years of £15.5 million.

Against Investment

ARR may be a limited method of appraisal as it does not take account of the falling value of money over time unlike net present value.

Other Relevant Points :

How realistic is the 15% return target of the company? It is higher than the returns given to the company's weighted average cost of capital.

How accurate are the predictions?

There may be better investment projects available

What are the objectives and what is the strategy of the company?

Will the car wash facilities result in any reduction of fuel pumps, due to restricted space.

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Total for Question 6 - 30