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.

Mark scheme

Q1(a) AO1 (12) AO2 (17) AO3 (5)

AO1: One mark each for direct materials, discount received, opening inventory, closing inventory, marketing, discount allowed, motor lorries running expenses, warehouse rent, auditors fees, irrecoverable debts written off, bank current account interest, and revenue.

AO2: One mark each for factory depreciation, factory wages, delivery costs, transport wages, warehouse wages, office expenses, office staff, depreciation of computer equipment, debenture interest, cost of sales, gross profit, distribution costs, administrative expenses, financial cost, profit on ordinary activities before tax, corporation tax, and profit on ordinary activities after tax.

AO3: Two marks for depreciation calculation, one mark each for motor lorries depreciation, decrease in irrecoverable debt provision, and amortisation of goodwill.

Calculation of machinery depreciation:

Cost of machinery over life = £370 000 - £10 000 = £360 000

Cost per unit $= \frac{£360\ 000}{80\ 000}$ = £4.50 per unit[1] AO3

Cost of producing this years' output = £4.50 x 13 560 = £61 020 [1] AO3

Q1(a) Mark Scheme			**W1 Cost of Sales**		
AO1(12) AO2(17) AO3(5)			Direct materials	670000	(1)AO1
Statement of Comprehensive Income			Less Discount received	(19000)	(1)AO1
for Sparkle plc			Factory depreciation	72000	(1)AO2
for y/e 30th September 2025			Production machinery depreciation	61020	(2)AO3
Revenue	3784000	(1)AO1	Opening inventory	321000	(1)AO1
			Less Closing inventory	(335000)	(1)AO1
Cost of sales	1664020	(1o/f)AO2	Factory wages	894000	(1)AO2
				1664020	**8**
Gross profit	2119980	(1o/f)AO2	**W2 Distribution Costs**		
			Marketing	54000	(1)AO1
Distribution costs	1185300	(1o/f)AO2	Discount Allowed	47000	(1)AO1
			Motor lorries running expenses	19400	(1)AO1
Administrative expenses	713235	(1o/f)AO2	Rent on warehouse	44000	(1)AO1
			Depreciation on motor lorries	44800	(1)AO3
Finance costs	28850	(1o/f)AO2	Delivery costs	82100	(1)AO2
			Transport wages	335250	(1)AO2
Profit before tax	192595	(1o/f)AO2	Warehouse wages	558750	(1)AO2
				1185300	**8**
Corporation tax	38519	(1o/f)AO2	**W3Administrative Expenses**		
			Auditors fees	8700	(1)AO1
Profit after tax	154076	(1o/f)AO2	Irrecoverable Debts Written Off	7500	(1)AO3
		9	Decrease in Irrecoverable Debt provision	(265)	(1)AO1
W4 Finance costs			Office expenses	213300	(1)AO2
Debenture interest	27000	(1)AO2	Office wages	447000	(1)AO2

Bank current account interest	1850	(1)AO1	Depreciation of computer equipment	29000	(1)AO2
	28850	**2**	Amortisation of goodwill	8000	(1)AO3
Total 34 marks				**713235**	**7**

Question 1 (b)
(b)AO1(2) AO2(6) AO3(1)

AO1: One mark for listing two debt items. One mark for listing any first three equity items.

AO2: One mark for debt total. One mark for listing next three equity items. One mark for equity total. Three marks for calculating gearing ratio.

AO3: One mark for gearing formula.

$$\text{Gearing ratio} = \frac{\text{Fixed cost capital (debt)}}{\text{Total capital employed (debt + equity)}} \times 100 \text{ (1)AO3}$$

Debt

9% Debenture	300 000	
Total Debt	300 000	(1)AO2

Equity

Foreign Exchange reserve	45 000	
General reserve	100	Any first three
Ordinary shares	1 900 000	(1)AO1
Retained earnings	6I8 660	Next two
+ Profit after tax for year	154 076	(1)AO1
Revaluation reserve	360 000	Next two
Share premium	475 000	(1)AO2
Total Equity	3 552 836	(1of)AO2

$$\text{Gearing ratio} = \frac{300\ 000}{(300\ 000 + 3\ 552\ 036)} \times 100 \quad \text{(1of)AO2} \quad \text{(1of)AO2}$$

$$= 7.78\% \text{ (1of)AO2}$$

(9)

(c) **AO1(1) AO2 (1) AO3 (4) AO4 (6)**
Own figure rule applies.

<u>Case for Good performance</u>

Gearing is very low at 8.292% which means very little is paid out in interest to capital providers. The financial cost is only £28 850

Gross profit as a percentage of revenue is $\frac{£2\ 119\ 980}{£3\ 784\ 000}$ x 100 which is 56.02% which is healthy.

<u>Case for poor performance</u>
Gearing is very low which means capital is provided internally and no interest is paid. No interest being paid on internal funding means a higher tax bill than if funding was external.

Net profit before tax as a percentage of revenue is $\frac{£192\ 595}{£3\ 784\ 000}$ x 100 which is

5.09% which is quite a small percentage. This indicates that the distribution, administrative and financial expenses of the company are high.

Net profit after tax as a percentage of revenue is $\frac{£154\,076}{£3\,784\,000} \times 100$ which is 4,07% which is low.

Return on capital employed is $\frac{£154\,076}{£3\,852\,836} \times 100$ = 4% which is quite low.

Arkle, as a shareholder, has seen no return on his investment in the form of dividends. This should be worrying to Arkle. This could be explained by the relatively small profit of £154 076 being made.

No dividends have been paid to shareholders.

The lack of cash and the bank overdraft also explain the non-payment of dividends.

Other points
It is not known what the share price is at the start and end of the year. Is the share price high or low?
Has the share price risen or fallen over the year?

Conclusion
Sparkle plc has made a small profit for the year ended 30 September 2025.
Perhaps the company should try to reduce factory wages and warehouse wages moving forward, as these are two of the highest expenses.

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

Mark scheme

Q2.

(a) **(AO1)5**

AO1: Five marks for calculating the quantity of copper required to fulfil total demand for a week.

	Pipe	Drinks cooler	Coal bucket	Tap	Total
Weekly demand	800	250	350	300	--------
Copper per item (kgs)	1.8	2.0	2.6	3.0	--------
Total copper required (kgs)	1440	500	910	900	3750
	(1)AO1	(1)AO1	(1)AO1	(1)AO1	(1o/f)AO1

(5)

(b) **(AO1)2**

AO1: Two marks for explaining the term limiting factor

A limiting factor is a factor of production (1)AO1 which restricts the level of activity /quantityof output. (1)AO1

(2)

(c) **(AO1)3 (AO2) 9**

AO1: Three marks correct selling price and for calculating contribution per unit for each product.

AO2: Nine marks for calculating the cost of copper material and cost of labour time for each product, and the total costs for each product.

Product	Pipe (£)	Drinks cooler(£)	Coal bucket(£)	Tap(£)
Selling price	14.00	25.00	20.00	36.00 (1)AO1 – all 4
Less direct costs				
Copper	9.72 (1)AO2	10.80 (1)AO2	14.04 (1)AO2	16.20 (1)AO2
Labour time	2.10 (1)AO2	4.20 (1)AO2	3.15 (1)AO2	6.30 (1)AO2
Total direct costs	11.82	15.00	17.19	22.50 (1o/f) AO2 – all 4
Contribution	2.18	10.00 (1o/f) AO1 Both	2.81	13.50 (1o/f) AO1Both

(12)

(d) **(AO2) 2(AO3) 6**
AO2: Two marks for including rows for contribution and quantity of copper.
AO3: Six marks for calculating contribution per kilogram of copper and order of priority for production

Product	Pipe	Drinks cooler	Coal bucket	Tap
Contribution	£2.18	£10.00	£2.81	£13.50 (1o/f)AO2 – all four
Quantity of copper	1.8	2.0	2.6	3.0 (1)AO2 – all four
Contribution per kg of copper	£1.21 (1o/f)AO3	£5.00 (1o/f)AO3	£1.08 (1o/f)AO3	£4.50 (1o/f)AO3
Order of production	3	1 (1o/f)AO3 Both	4	2 (1o/f)AO3 Both

(8)

(e) **(AO2) 6**
AO2: Six marks for calculating the production schedule:

Order of Production	Product	Output	Total Copper Required
1	Drinks cooler	250 (1o/f) AO2	500
2	Tap	300 (1o/f) AO2	900 (1o/f) AO2 Both
3	Pipe	800(1o/f) AO2	1440
4	Coal bucket	253 (1o/f) AO2	657.8 (1o/f) AO2 Both

(6)

(f) **(AO1)4 (AO2) 6**
AO1: Four marks for calculating total contribution, rent, utility bills, and including other fixed costs.
AO2: Six marks for calculating total contribution for each product, depreciation and profit.

Product	Contribution per unit (£)	Output (units)	Total contribution(£)	
Drinks cooler	10.00	250	2 500.00	Both
Tap	13.50	300	4 050.00	(1o/f)AO2
Pipe	2.18	800	1 744.00	Both
Coal bucket	2.81	253	710.93	(1o/f)AO2
		Total Contribution	9 004.93	(1o/f)AO1
	Less Fixed Costs	Rent	(500.00)	(1)AO1
		Utility Bills	(1600.00)	(1)AO1
		Depreciation	(150.00)	(3)AO2
		Other fixed costs	(2 450.00)	(1)AO1
		Profit	4 304.93	(1o/f)AO2

Depreciation working: £38 000 - £ 2 000 = £36 000 (1)AO2
£36 000 / 5 years = £7 200 per year (1)AO2
£7 200 / 48 weeks = £150 per week (1)AO2

(10)

(g)**(AO1)1 (AO2)1 (AO3)4 (AO4)6**
Answers may include:
Financial Aspects

<u>Case For</u>
Copper Castings Limited may be able ensure records are kept accurately.

This may reduce labour costs if accurate records are kept and updated swiftly by computer.

May reduce the need or the numbers, to hire or employ accounting staff who may be costly.

<u>Case Against</u>
Copper Castings Limited may find hardware expensive if it has to buy the equipment.

Company may find software expensive if it has to buy outright or subscribe monthly,

Company may have to employ someone with specialist computer skills which may be costly.

Company may have to pay specialist when computer system is serviced, upgraded etc.

Technical aspects

<u>Case For</u>
A bookkeeping program may ensure Copper Castings Limited keeps financial records in an orderly fashion.

<u>Case Against</u>
Copper Castings Limited may not require an ICT program if they only have a small number of customers and suppliers. It is not stated if they have a large or small number of customers.

The bank statement, available at any time online, will provide the business with a running bank balance.

A petty cash box will provide Copper Castings Limited with a running cash balance.

Human aspects

<u>Case For</u>
Copper Castings Limitedmay find the ICT programs reduce the workload of staff in finance.

<u>Case Against</u>
Existing office staff may find understandingan ICT programme difficult to comprehend and trying to implement an ICT programme frustrating.

Staff may find working at a computer terminal in front of a screen all day affects their health e.g., eye strain staring at screen, repetitive strain injury effecting joints and muscles by sitting at computer all day.

<u>Conclusion</u>
Copper Castings Limited should find that the efficiency benefits of introducing ICT to bookkeeping and finance outweigh the disadvantages.

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

(12)

Total marks for Question 2 = 55 marks

<u>Question 3 Mark Scheme</u>
(a) AO3 (4)
AO3: Four marks for explaining two sources of information that would be used to establish a standard cost for a product.
Maximum of four marks. Answers may include:

For the product, look at the product specification (1)AO3 this should give the standard quantities for materials and labour. (1)AO3

Standard prices for materials can be obtained by consulting buyers and suppliers (1)AO3
Suppliers may have prices of materials listed in online website or a catalogue (1)AO3

Standard labour rates can be obtained by consulting production department /human resources department and/or unions(1)AO3 and this depends upon the level of skill required /amount of labour required / output per hour. (1)AO3

Standard overhead costs obtained by consulting management / finance department. (1)AO3
and this depends upon overhead costs in the past and projecting to the future. (1)AO3

Question 3 Mark scheme

(b) (i) (AO1) 2					
AO1: Two marks for calculating budgeted production.					
			Daily	Monthly	
	Days	Weeks	Output	Production	
Budgeted production	(6 x	4 x	8)	192	(1)AO1
		all three	(1)AO1		**2 marks**
(ii) (AO1)2					
AO1: Two marks for calculating actual monthly production.					
Actual production	192	less	11	= 181	(1o/f)AO1
		both	(1o/f)AO1		**2 marks**
			Only 192 is o/f		
(c) (AO2)1 (AO3)1					
AO2: One mark for correct calculation of standard quantity of material required.					
AO3: One mark for correct number of tracks, length and kilograms.					
	No of tracks	Length	Kgs		
Standard quantity of material required	= 181 x	35 metres	x 48	= 304 080 kgs	(1o/f)AO2
to meet actual production level achieved		all three	(1o/f)AO3		**2 marks**
			Only 181 is o/f		

(d)(i) AO2 (4) AO3 (1)									
AO2: Four marks for correct calculation of material usage variance.									
AO3 : One mark for correct statement of formula									
Material usage variance	= (Standard usage - Actual usage) x Standard price (1)AO3								
	= (304 080 -	326 420)	x £0.72 =	£16 084.80	Adverse				
	(1o/f)AO2	(1)AO2	(1)AO2		(1o/f)AO2				
					5 marks				
(d)(ii)									
AO2 (4) AO3(1)									
AO2: Four marks for correct calculation of material price variance.									
AO3 : One mark for correct statement of formula									
Material Price variance =	(Standard price - Actual price) x Actual usage (1)AO3								
	(£0.72 -	£0.68) x	326 420	= £13 056.80	Favourable				
	(1)AO2	(1)AO2	(1)AO2		(1)AO2				
					5 marks				
(d)(iii) AO1 (1) AO2(3)									
AO1 : One mark for correct statement of formula									
AO2: Three marks for correct calculation of total material variance.									
Total material variance = material usage variance + material price variance (1)AO1									
Total material variance =	£16 084.80 Adv	+	£13 056.80 Fav	= £3 028.00	Adv				
	(1o/f)AO2		(1o/f)AO2		(1o/f)AO2				
					4 marks				

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

Case for good performance

.

Direct material price variance is favourable by £13 056 (o/f) Material has been bought at a lower price than expected.

This may be due to a good performance by the purchasing department, not the production department.

Or perhaps the price of steel has fallen on the world market.

Case for poor performance

Direct material usage variance is adverse by £16 084.80 (o/f). More material has been used than expected.

This may be due to a poor performance by labour. Have they received appropriate training? Is supervision good enough? Have they encountered technical problems? Is this the fault of the production department? e.g., due to insufficient maintenance.

The purchasing department were unable to obtain the required amount of steel for production. Was this the fault of the purchasing department or external factors such as a shortage of supply, or delivery problems?

Output has not met the expected level.

Other points

Have the standards and budgets been set accurately?

Conclusion

Overall, the total material variance is adverse, so performance may not have been good.

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

(6)

Total for Question 3 = 30 marks

4. Mark scheme

(a)

(i)AO1 (3) AO2 (1)

AO1: Three marks for correct insertion of total ordinary dividend, issued ordinary shares and the total ordinary dividend.

AO2: One mark for correct calculation of interim dividend paid per ordinary share.

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

$$\text{Interim dividend} = \frac{\text{£30 000(1) AO1}}{\text{6 000 000 (1) AO1}} = \text{£0.005 (0.5 pence per share) (1) AO2}$$

$$\text{Total ordinary dividend} = \text{£0.02} + \text{£0.005}$$

$$= \text{£0.025 (2.5 pence per share) (1o/f) AO1}$$

(4)

(ii)AO1 (2) AO2 (1)

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

AO2 : One mark for correct calculation of dividend yield.

$$\text{Dividend yield} = \frac{\text{Dividend per share}}{\text{Market price of share}} \times 100$$

$$= \frac{\text{2.5 p o/f}}{\text{125p (1) AO1}} \times 100 \text{ (1o/f) AO1} = 2\% \text{ (1o/f) AO2}$$

(3)

(iii) AO2 (4)

AO2 : Four marks for correct calculation and insertion of net profit after tax, redeemable preference dividends, total ordinary dividend and calculation of dividend cover.

$$\text{Dividend cover} = \frac{\text{Net profit after tax – redeemable preference dividend}}{\text{Total ordinary dividend}}$$

Net profit after tax = £486 000 - £96 000 = £390 000

Redeemable preference dividend = £3 000 000 x 8% = £240 000

Total ordinary dividend = £0.025 (o/f) x 6 000 000 = £150 000 (o/f)

$$\text{Dividend cover} = \frac{\text{£390 000 (1) AO2 - £240 000 (1) AO2}}{\text{£150 000 (1o/f) AO2}} = \text{1 time (1o/f) AO2}$$

(4)

<u>Also acceptable</u>

$$\text{Dividend cover} = \frac{\text{£390 000 (2) AO2}}{\text{£150 000 (1o/f) AO2}} = \text{2.6 times (1o/f) AO2}$$

(4)

(iv) AO1(2) AO2(1)
AO2: Three marks for correct for correct insertion of net profit after tax less redeemable preference dividend, the number of issued ordinary shares.
and for the correct calculation of earnings per share.

Earnings per ordinary share $= \frac{\text{Net profit after tax – redeemable preference dividend}}{\text{Issued ordinary shares}}$

$= \frac{\text{£150 000 (1o/f) AO2}}{\text{6 000 000 (1) AO2}} = \text{2.5 pence per share (1o/f) AO2}$

(3)

Also acceptable

$= \frac{\text{£390 000 (1o/f) AO2}}{\text{6 000 000 (1) AO2}} = \text{6.5 pence per share (1o/f) AO2}$ **(3)**

(v) AO2(3)
AO2: Three marks for correct calculation of price/earnings ratio.

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

$= \frac{\text{125 p (1)AO2}}{\text{2.5 p (1o/f)AO2}} = \text{50 times (1o/f) AO2}$

(3)

(vi) AO3 (7)
AO3 : Seven marks for correct calculation of net profit before interest and tax, capital employed and return on capital employed.

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

Interest on debenture = £1 300 000 x 12% = £156 000
Interest on bank loan = £1 100 000 x 14% = £154 000

$= \frac{\text{£486 000 (1) AO3 + £156 000(1) AO3 + £154 000 (1) AO3}}{\text{(£4 800 000 (1)AO3+ £3 000 000 + £1 300 000 + £1 100 000 (1)AO3 (all 3)+ £1 600 000 (1)AO3}}$

$= \frac{\text{£796 000}}{\text{£11 800 000}} \times 100 = \text{6.75\% (1)AO3}$

(7)

Also acceptable

$= \frac{\text{£1 036 000}}{\text{£11 800 000}} \times 100 = \text{8.78\% (1)AO3}$ **(7)**

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

Own figure rule applies
Shareholders satisfied
Shareholders have received a dividend of 2.5 pence per share, the same as earnings per share which is also 2.5 pence. All of the year's earnings are paid out as dividends, which should please shareholders.

The shares would have had a market price of £0.80 on issue, which includes the premium. The shares are now trading at £1.25 in the market. This represents an increase of over 50%. However, we do not know how long ago the shares were issued.

The earnings per share could be looked upon favourably. If this figure is high, then dividend per share is likely to be high.

The return on capital employed could be considered to be good. The figure for ROCE is higher than what could be earnt by just placing in a bank account.

The price/earnings ratio could be considered as quite high. This shows that the market has confidence in the shares and the company.

Shareholders not satisfied
Shareholders may not be pleased that the dividend yield is only 2%. However, it is not known what is the inflation rate, the interest rates, returns on investment in other companies or the returns on offer by bank deposit accounts.

Other points
What was the value of the shares at the start of the year? Have the shares gone up or down since the start of the year? Is the trend of the shares upwards or downwards?

Would it have been possible to pay higher dividends? To answer this, we need to know if there were more funds in the profit and loss reserve. We know there were £1 600 000 in other reserves. Was it possible to transfer these to the profit and loss reserve?

Decision
All of this year's earnings were paid out as dividends which should satisfy shareholders, but we may need other information to fully answer the question.

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

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

(6)

Total for Question 4 = 30 marks

Q5. Mark scheme

(a)(i) AO1 (3) AO2 (2) AO3 (1)

AO1 : Three marks for asset value in SOFP, correct inclusion of assets not taken over and total for value of assets taken over
AO2 : Two marks for correct adjustment to equipment, and plant and inventory.
AO3 : One mark for correct adjustment to property.

(i) Calculation of value of assets taken over	**£**	
Assets as per statement of financial position	44 800 000	(1) AO1
Less Goodwill	(185 000)	
Less Trade receivables	(2 430 000)	
Less Cash	(23 000)	(1) AO1 all three
Adjustments - Equipment	(1 425 000)	(1) AO2
- Plant	(227 000)	
- Inventory	207 000	(1) AO2 both
- Property	180 000	(1) AO3
Total value of assets taken over	40 897 000	(1o/f) AO1
		6 marks

(a)(ii) AO1 (2) AO2 (2)

AO1 : Two marks for liabilities value in SOFP and value of liabilities not taken over
AO2 : Two marks for adjustment to trade payables and correct figure for value of liabilities taken over.

(ii) Calculation of value of liabilities taken over	**£**	
As per statement of financial position	32 200 000	
Less Bank loan	(3 000 000)	(1) AO1
Less Overdraft	(141 000)	All three
Less Tax payable	(1 080 000)	(1) AO1
Adjustment – Trade payables	43 000	(1) AO2
Value of liabilities taken over	28 022 000	(1o/f) AO2
		4 marks

(a)(iii) AO2 (4)
AO2 : Four marks for calculation of purchase price.

(iii) Calculation of Purchase Price			
No. of Ordinary shares in JKL plc	15 000 000	20 000 000	(1) AO2
	0.75		
Shareholders receive/ Purchase Price			
Solea Construction plc share	£1.00		
Premium	£0.63		
Cash	£0.25		
	£1.88		(1) AO2
20 000 000 shares / 2 =	10 000 000		(1o/f) AO2
Purchase price paid =	10 000 000 x £1.88	= £18 800 000	(1o/f) AO2
			4 marks

(a)(iv) AO2 (4)
AO2 : Four marks for the calculation of goodwill.

(iv) Calculation of Goodwill	£	£	
Purchase Price		18 800 000	(1of) AO2
Value of assets	40 897 000		
Value of liabilities	(28 022 000)	(1of) AO2	
Agreed Value of JKL plc		12 875 000	(1of) AO2
Value of goodwill		5 925 000	(1of) AO2
			4 marks

(b) AO3 (6)
AO2 : Six marks for correct debit entry and credit entry and correct figure.

(b)		£	£	
Oct 1	Realisation a/c	2 430 000		(1) AO3
	Trade Receivables a/c		2 430 000	(1) AO3
Oct 1	Trade Payables a/c	1 867000		(1) AO3
	Realisation a/c		1 867 000	(1) AO3
Oct 1	Sundry Shareholders a/c	2 400 000		(1) AO3
	Retained Earnings		2 400 000	(1) AO3
				6 marks

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

Case for takeover

Margarita holds 2 500 shares in JKL plc and will receive

Shares : 2500/2 x £1.63 which is £2 037.50
Cash : 2 500/2 x £0.25 cash which is £312.50
Making a total of £ 2350 (o/f)

If she bought shares in JKL plc at time of issue for £0.75 each, she paid 2 500 x £0.75 = £1 875
She therefore makes a profit of £2 350 - £1 875 = £475

However, it is not known at what price the shares in Solea Construction plc are trading. The shares may be trading above the value they were issued at, as the company is probably doing well if it is able to take over another company. If so, this would benefit Margarita.

Nor is it known at what price the shares of JKL plc are trading at. If they have a debit balance of retained earnings, the company is probably not doing very well and is possibly ripe to be taken over. Shares may be trading below issue price. This would mean Margarita should sell the shares.

Possible case against takeover

Margarita's power (in terms of voting) in Solea Construction plc may further diminish as the number of shareholders in Solea Construction plc will be larger.

There may be problem of a culture clash between Solea and JKL. For example, there may be different working cultures. This means the productivity of Solea may fall. This will affect profitability and future dividend payments.

It is not known what the value of shares in Solea Construction plc and JKL plc are worth in the market.

Conclusion

It is probably a good idea for Margarita to be in favour of the takeover. She makes a profit on her purchase price of the shares. She probably makes a profit when compared to the present market price as well.

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

(6)

Total for question 5 = 30 marks

Q6 Mark Scheme									
(a) AO1 (5) AO2 (12)				600000					

AO1: Five marks for correct calculation of annual income per stall, total annual income and total outflow per month before depreciation.

AO2: Two marks for correct calculation of number of stalls rented per month, three marks for correct calculation of depreciation per month, one mark for deduction of monthly depreciation, two marks for monthly outflow, two marks for annual outflow and two marks for annual net cash flow.

	Percentage	Number		Monthly	Annual		Total		
	of stalls	of stalls		Income	Income		Annual		
Inflows	rented	rented		per stall £	per stall £		Income £		
Year 1	75%	30	first two	400	4800	first two	144000	first two	
Year 2	80%	32	(1)AO2	400	4800	(1)AO1	153600	(1o/f)AO1	
Year 3	85%	34		440	5280		179520		
Year 4	90%	36	all three	440	5280	all three	190080	all three	
Year 5	95%	38	(1)AO2	440	5280	(1)AO1	200640	(1o/f)AO1	
Depreciation	£600,000	cost	(1)AO2	=	£10 000	(1)AO2			
	60	months	(1)AO2		per month				
	Total		Less		Monthly			Annual	
Outflows	Per month		Deprect'n		Outflow		Months	Total	
Year 1	14000		10000		4000		12	48000	
Year 2	14000		10000		4000	All three	12	48000	All three
Year 3	14000		10000		4000	(1o/f)AO2	12	48000	(1o/f)AO2
Year 4	14700	All five	10000	All five	4700	Both	12	56400	Both
Year 5	14700	(1)AO1	10000	(1o/f)AO2	4700	(1o/f)AO2	12	56400	(1o/f)AO2

Net Cash Flow	Inflow		Outflows		NCF			
Year 1	144000		48000		96000			
Year 2	153600		48000		105600	All three		
Year 3	179520		48000		131520	(1o/f)AO2		
Year 4	190080		56400		133680	Both		
Year 5	200640		56400		144240	(1o/f)AO2		
							17 marks	
(b) Payback Calculation								
AO3 (7)								
AO3: Seven marks for correct calculation of payback period in years and months.								
	NCF	Cumulative						
Year 1	96000	96000	both		Calculation			
Year 2	105600	201600	(1o/f)AO3		600000	less	466800	= 133200
Year 3	131520	333120						(1o/f)AO3
Year 4	133680	466800	All three		= 133200	x 12	(1o/f)AO3	
Year 5	144240	611040	(1o/f)AO3		144240	(1o/f)AO3		
						Payback	= 4 years	11.08 months
							(1o/f)AO3	(1o/f)AO3
								7 marks

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

In favour of using only the payback period method

Using only one method will save time and therefore money.

Staff may not have the skills to use any other method.

Some information needed to carry out calculations for other methods of project appraisal may not be available eg interest rates for borrowing or inflation in the next five years.

Against using only the payback period method

Other methods may be used and these are able to give reliable results, which may conflict with the payback period method.

Other methods such as the net present value method and the internal rate of return method take account of the falling value of money over time.

Other discounted calculations that may be used when assessing a project such as the profitability index and the weighted average cost of capital take account of the falling value of money over time.

A non-discounted method that may be used is the average rate of return (accounting rate of return).

Conclusion

Using only the payback method to appraise a project is not a good idea, as other worthwhile methods can also be used.

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6 marks

Total marks for Question 6 - 30 marks