Mark Scheme (Results)

January 2026

Pearson Edexcel in International A Level in Accounting
WAC12/01

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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.

Q1 (a) AO1 (14) AO2 (23) AO3 (6)

AO1: Fourteen marks. One each for correct inclusion in workings of direct materials, discount received, commission on sales, discount allowed, marketing, warehouse rent, auditors fees and head office expenses, and bank account interest.
One mark each for correct inclusion on face of accounts for heading, revenue, other income, distribution costs total, administrative expenses total, and financial cost total.

AO2: Twenty-three marks for correct inclusion in workings of factory electricity, factory depreciation, factory wages, opening and closing inventory, cost of sales total, delivery costs, warehouse electricity, warehouse wages, sales staff wages, transport staff wages, distribution costs total, increase in allowance for irrecoverable debts, head office electricity, irrecoverable debts written off, head office wages, administrative expenses total, debenture interest, and financial cost total.
One mark each for correct inclusion on face of accounts for cost of sales, gross profit, profit on ordinary activities before and after tax and corporation tax.

AO3: Three marks for calculation of depreciation of production machinery, two marks for calculation of depreciation of motor lorries and one mark for calculation of goodwill written off.

Q1(a)(i) Mark Scheme			**W1 Cost of Sales**			
(AO1) 14 (AO2) 23 (AO3) 6			Direct Materials	1720000	(1) AO1	
Statement of Comprehensive			Less Discount Received	-41000	(1) AO1	
Income for Homecraft plc			Electricity - factory	33750	(1) AO2	
for y/e 31st December 2025	(1) AO1	**1**	Factory Depreciation	36000	(1) AO2	
			Machinery Depreciation	18100	(3) See (W1)	
Revenue	3570000	(1) AO1	Factory wages	1433800	(1) AO2	
			Opening Inventory	247000	both	
Cost of sales	1575650	(1) AO2	Less Closing Inventory	-193000	(1) AO2	
				1575650	(1) AO2	**10**
Gross profit	1994350	(1) AO2	**W2 Distribution Costs**			
			Commission on sales	31600	(1) AO1	
Other Income	6000	(1) AO3	Delivery costs	124400	(1) AO2	
			Discount Allowed	35700	(1) AO1	
Distribution costs	1028050	(1) AO1	Electricity - warehouse	6750	(1) AO2	
			Marketing	153000	(1) AO1	
Administrative expenses	558300	(1) AO1	Depreciation on motor lorries	17200	(2) See (W2)	
			Motor lorries running expenses	41800	both	
Financial cost	33440	(1) AO1	Warehouse rent	104000	(1) AO1	
			Warehouse wages	171200	(1) AO2	
Profit on ordinary activities before tax	380560	(1) AO2	Sales staff wages	214000	(1) AO2	
			Transport wages	128400	(1) AO2	
Corporation tax	32640	(1) AO2		**1028050**	(1) AO2	**12**
Profit on ordinary activities after tax	347920	(1) AO2				
		10				

W3Administrative Expenses			**W5 Financial cost**			
Increase in allowance for			Bank account interest	440	(1) AO1	
irrecoverable debts	1700	(1) AO2	Debenture interest	33000	(1) AO2	
Auditors fees	16500	both		**33440**	(1) AO2	**3**
Head office expenses	315000	(1) AO1				
Electricity - Head office	4500	(1) AO2				
Goodwill written Off	5000	(1) AO3				
Irrecoverable debts written off	23000	(1) AO2				
Head office wages	192600	(1) AO2				
	558300	(1) AO2				
		7	**TOTAL 43 MARKS**			

Workings:

W1 : Production machinery depreciation

Production machinery cost £200 000

Carrying value = £140 000

Depreciation to date = £60 000

Output to date = 24 000

Cost per unit = $\frac{£60\,000}{24\,000}$ (1) AO3 = £2.50 per unit (1) AO3

£2.50 x 7 240 = £18 100 (1) AO3

W2 : Motor lorries depreciation

Motor lorries cost – depreciation to date

= £242 000 - £156 000 = £86 000 (1) AO3

Depreciation = £86 000 x 20% = £17 2000 (1) AO3

Q1 (b)

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

Case For the Directors' Report

- Report gives information to eg shareholders which they could use to make a decision eg invest more funds in the company.
- Shareholders / readers may be assured the company is acting in an ethical manner
- Other stakeholders eg pressure groups may use information in the Report to bring about change in company policy eg treatment of disabled staff
- Disclosures may be required under Stock Exchange regulations, which may be appropriate in the Directors' Report eg legislation pending that will affect the company.
- Information is given to shareholders which allows them to see in some detail how the company is performing. These include:
  - principal activities of the business and the markets which it supplies
  - a review of the financial position of the business
  - post balance sheet events and any relevant future developments
  - the names of the directors, and any other interests of the directors
  - employee involvement in the business eg representative parties
  - disabled employees policy of the business
  - any political or charitable donations
  - creditor payment policies, or creditor payment days

Case Against Directors' Report

- The Report costs personnel time to prepare which has financial implications
- The report costs money to print if written copies are available to those who prefer hard copies to reading off the company website.
- The Directors may use Report to "window dress" the accounts, and give an unrealistically positive view of the company, as it is in their interest to do so.

Conclusion

The conclusion should relate to points in the argument and should conclude that the Directors' Report is useful.

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)(i) AO2 (2) AO3 (2)

AO2: Two marks for calculation of cost of wheat per packet.

AO3: One mark each for correct calculation of amount of wheat required per packet and cost of wheat per kilogram.

Wheat required per packet = 15 grams x 20 = 300 grams (0.30 kgs) (1)AO3

Cost of wheat per kilogram = £200 ÷ 1000 = £0.20 (1)AO3

Cost of wheat per packet = £0.20 x 0.30 (1o/f) AO2 = £0.06 (1o/f)AO2

4 marks

(b)(i) AO1 (4)

AO1: Four marks for correct calculation of sales units per month

Sales Budget (units)	**February**	**March**	**April**	**May**
Monthly sales	120 000	115 000	110 000	105 000
	(1)AO1	(1)AO1	(1)AO1	(1)AO1

4 marks

(b)(ii) AO1 (4)

AO1: Four marks for correct calculation of sales revenue per month

(a)(ii) Revenue Budget (£s)	**February**	**March**	**April**	**May**
Monthly Sales at £0.85 each	£102,000	£97,750	£93,500	£89,250
	(1o/f)AO1	(1o/f)AO1	(1o/f)AO1	(1o/f)AO1

4 marks

(b)(iii) AO1(4) AO2(8)

AO1: Four marks for correct addition to find total production for each month.

AO2: Eight marks for correct calculation of production for sales for present month and following month.

Production Budget	**February**	**March**	**April**	**May**
Production for this month	60000	57500	55000	52500
	(1o/f)AO2	(1o/f)AO2	(1o/f)AO2	(1o/f)AO2
Production for next month	57500	55000	52500	50000
	(1o/f)AO2	(1o/f)AO2	(1o/f)AO2	(1o/f)AO2
Total production	117500	112500	107500	102500
	(1o/f)AO1	(1o/f)AO1	(1o/f)AO1	(1o/f)AO1

12 marks

(b)(iv) AO2 (8) AO3 (4)

AO2: Four marks for calculation of cash for presnt month. Four marks for calculation of total cash received each month.

AO3: Four marks for calculations of cash received in the month following the sale.

Extract from cash budget (£)	**February**	**March**	**April**	**May**
Payments received in same month	£25,500.00	£24,437.50	£23,375.00	£22,312.50
	(1o/f) AO2	(1o/f) AO2	(1o/f) AO2	(1o/f) AO2
Payments received after one month	£79,687.50	£76,500.00	£73,312.50	£70,125.00
	(1o/f) AO3	(1o/f) AO3	(1o/f) AO3	(1o/f) AO3
Total payments received for month	£105,187.50	£100,937.50	£96,687.50	£92,437.50
	(1o/f) AO2	(1o/f) AO2	(1o/f) AO2	(1o/f) AO2

12 marks

(b)(v) AO1(2) AO2(5)

AO1: Two marks for correct insertion of packets produced in the month.

AO2: One mark for correct inclusion of cost of wheat per packet.

Four marks for correct calculation of purchases for production.

Purchases Budget (kgs)

This month's production (packets)	117500	112500	107500	102500
	both	(1o/f)AO1	both	(1o/f)AO1
Amount of wheat per packet	300 grams	300 grams	300 grams	300 grams
			All four	(1)AO2
Amount of wheat required	35 250 kilograms	33 750 kilograms	32 250 kilograms	30 750 kilograms
	(1o/f)AO2	(1o/f)AO2	(1o/f)AO2	(1o/f)AO2

7 marks

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

Case for preparing only these budgets

Preparing budgets will take up staff time and this requires payments. Not producing any more budgets will save Crumble plc money.
Budgets are only predictions, they may not be accurate.
Budgets may be unrealistic and demotivate staff who cannot achieve the budgets.

Case against preparing only these budgets

Some key budgets have been omitted from the list. These are:

- Inventory
- Trade Receivables
- Trade Payables
- Capital

It is important to draw up an inventory budget as it allows Crumble plc to see how many items they will have in stock. This will allow the company to judge whether there will be enough inventory to meet demand.

The inventory budget will allow Crumble plc to see how much funding will be tied up in inventory.

A trade receivables budget will allow Crumble plc to see how much will be owed by customers. The budget will be useful when it comes to the terms upon which the biscuits are sold. For example, how long will the customers be given to pay for goods received.

A trade payables budget will allow Crumble plc to see how much they will owe to suppliers. This will be very useful when calculating the current ratio and the liquidity ratio which will tell the company of their future liquidity position.

The trade payables and trade receivables budgets could be shown to a bank if Crumble plc's reade receivables budget and trade payables budget indicate that Crumble plc are likely to need a bank loan.

The capital budget will be useful for Crumble plc as it will indicate the various sources of finance, and how much they will contribute to the company. This may inform Crumble plc that are could be too highly geared, moving forward.

The cash budget was mentioned, but only with regard to payments received from stores. A full cash budget would be required, detailing all likely future cash inflows and outflows.

Conclusion
Crumble plc should produce more budgets, and not just rely on those they intend, or have, drawn up.

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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 marks

Total for Question 2 = 55 marks

Q3 Mark scheme

(a) (i) (AO1) 1 (AO3) 1
AO1 : One mark for basic explanation of term.
AO3 : One mark for development

(i) Authorised share capital is the maximum amount of money a company is legally allowed to raise by a share issue. (1) AO1 This figure is stated in the Memorandum of Association and the Articles of Association. (1) AO3

(ii) (AO1) 1 (AO3) 1
AO1 : One mark for basic explanation of term.
AO3 : One mark for development

(ii) Called-up share capital is the amount of money that shareholders are required to pay for their shares, either immediately or at a later date. (1) AO1 This allows companies to manage their cash flow by requesting only the amount needed at a specific time rather than requiring shareholders to pay the full value of their shares upfront. (1) AO3

(b) (AO1) 3 (AO2) 5
AO1: One mark for gearing formula. Three marks for fixed cost items.
AO2: Five marks for total fixed cost capital, total capital employed, substitution in formula, and for calculation of gearing ratio.

$$\text{Gearing ratio} = \frac{\text{Fixed cost capital (Debt)}}{\text{Total capital employed (Debt + Equity)}}$$ (1) AO1

Fixed cost capital =

Redeemable preference shares	425 000 (1) AO1
Debenture	600 000
Long term bank loan	475 000 (1) AO1
Total	1 500 000 (1) AO2

Total capital employed = £2 500 00 (1) AO2

$$\text{Gearing} = \frac{1\,500\,000\ (1)\text{AO2}}{2\,500\,000\ (1)\text{AO2}} \times 100 = 60\%\ (1)\ \text{AO2}$$

(8)

(c) (AO3) 4
AO3 : Four marks for explanation of two reasons why directors would wish to lower the gearing ratio
1. Directors would like to reduce the gearing ratio as the present ratio is considered risky. (1) AO3
Failure to pay back interest payments to debenture holders or on bank loans or dividends on preference shares may result in the closure of the company. (1) AO3

2. Interest payments to debenture holders or on bank loans or dividends on redeemable preference shares are deducted from profits. (1) AO3 This may result in share prices falling / lack of future investment by financial institutions etc. (1) AO3

Accept other correct reasons.

(d) (AO2) 4
AO2: Four marks for correct calculation of required reduction of fixed cost capital.

Equity capital

	£	
Issued Ordinary shares of £1	750 000	
Retained earnings	95 000 Dr	Any three
Foreign exchange reserve	50 000	(1) AO2
General reserve	75 000	Any two
Revaluation reserve	220 000	(1) AO2
Total	1 000 000	(1) AO2

Therefore fixed cost capital must be £1 000 000
At present, fixed cost capital is £1 500 000
Therefore a reduction in fixed cost capital of £500 000 is required. (1) AO2

(4)

(e) **(AO2) 3 (AO3) 1**
AO2: Three marks for present and required figures for fixed cost capital, and amount of increase required.
AO3: One mark for fraction required to multiply by.

Fixed cost capital is to be 40% of funding and is £1 500 000

If equity and reserves are to be 60% , calculation is

$$£1\,500\,000 \text{ (1) AO2} \times \frac{60}{40} \text{ (1) AO3} = £\,2\,250\,000 \text{ (1) AO2}$$

So equity must be increased by £1 250 000 (1) AO2

OR 40% of funding = £1 500 000

So 10% of funding is = £375 000 (1) AO2

So 60% of funding is = £375 000 x 6 (1) AO3 = £ 2 250 000 (1) AO2

So equity must be increased by £1 250 000 (1) AO2

(4)

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

Option 1 - Reducing Fixed cost capital

This may be difficult to do because:

- the debenture may not mature until a future date.
- the long term loan may have terms that prevent an early payback/ involve full payment of interest.

This will require a considerable amount of funds ie £500 000 to pay back the capital.
Does the company have this amount of funds readily available?
The company made a loss this year, so it may be unlikely.

Option 2 – Increase equity capital

This looks difficult at the moment. An increase in funding of £1 250 000 will take issued share capital up to £2 000 000 This will be higher than the authorised share capital figure of
£1 200 000

The authorised share capital increase allowable at present is only £450 000 which is £800 000 short of the required figure.

It may be possible to amend the Articles of Association and Memorandum of Association to allow a greater figure for share capital, but this is likely to take time.

Conclusion
Both options appear difficult at present. Maybe Option 2 is preferable if the directors are prepared to wait for a period of time

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

(6)

Total for Question 3 = 30

Marks

Q4 Mark scheme

(a) (AO1) 2 (AO3) 2

AO1: Two marks for identifying a purpose of standard costing.
AO3: Two marks for extension of purpose identified.
Answers may include.

A numerical figure is set for the costs of materials and/or labour in the production of goods or supply of services. AO1 Actual costs can be compared against the standard costs, which allows a judgement to be made concerning the performance of the business. AO3

A knowledge of the standard costs of a business for materials and/or labour makes the preparation of estimates and quotations for potential customers more accurate. AO1
This should ensure a business can make a profit on production / avoid making a loss. AO3

Standard costing allows variance analysis to take place. AO1 Differences between standard costs and actual costs can result in actions being taken in the future, especially if the variance is adverse. AO3

Maximum of two points made.

(b)
(i) (AO1) 1 (AO2) 1
AO1: One mark for laying out calculation to be performed
AO2: One mark for calculating total budgeted labour hours

Budgeted labour hours = 46 workers x 8.75 hours a day x 5 days a week (1) AO1
= 2 012.5 hours (1) AO2

(2)

(ii) (AO1) 1 (AO2) 1
AO1: One mark for laying out calculation to be performed
AO2: One mark for calculating total actual labour hours

Actual labour hours = 2 012.5 hours (o/f) + (42 x 5) hours overtime (1) AO1

=2 222.5 hours (1o/f) AO2

(2)

(iii) (AO1) 1
AO1: One mark for calculating budgeted labour cost

Budgeted labour cost = 2 012.5 (o/f) hours x £10.80

= £21 735 (1o/f) AO1

(1)

(iv) (AO2) 3
AO2 :Three marks for calculation of actual labour cost.

Actual labour cost = 46 workers x 43.75 hours x £10.80 = £21 735 (1) AO2

Overtime hours 42 x 5 x £14.40 = £3 024 (1) AO2

Actual labour cost = £24 759 (1o/f) AO2

(3)

(c)
(i) (AO2) 2 (AO3) 2
AO2: Two marks budgeted hours and labour efficiency variance.
AO3: Two marks for actual hours and budgeted hours.

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

= (2 222.5 (1o/f) AO3 – 2 012.5(1o/f) AO3) x £10.80 (1) AO2 = £2 268 Adv (1o/f) AO2

(4)

(ii) (AO2) 2 (AO3) 3
AO2: Two marks for actual hours and calculating labour rate variance.
AO3: Three mark for calculating actual rate and budgeted rate.

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

= (£24 759) (1o/f) AO3 - £10.80 (1)) AO3 x 2 222.5 (1o/f) AO2
2 222.5 (1o/f) AO3

= (£11.14 - £10.80) x 2 222.5 = £755.65 Adv (1o/f) AO2

(5)

(iii) (AO2) 3
AO2: Three marks for calculating total labour variance.

Total labour variance = Actual labour cost - Budgeted labour cost

= (£24 759 (1o/f) AO2 - £21 735 (1o/f)) AO2 = £3 024 Adv (1o/f) AO2

(3)

OR Total labour variance = Labour efficiency variance + Labour rate variance

= £2 268 Adv (1o/f) AO2 + £755.65 Adv (1o/f) AO2 = £3 023.65 Adv (1o/f) AO1

(3)

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

For taking action

The total variance for Week 14 is £3 024 adverse (o/f). The budgeted figure for production for the Week 14 was £21 735 (o/f). The actual figure was £24 759 (o/f).

This represents a percentage difference of £3 024 x 100 = 13.91% (o/f)

£21 735

This is greater than the 5% difference for one week of production that requires action to be taken. This is referred to as "management by exception".

Therefore, management should decide to investigate the cause of the adverse variance. This would be with a view of taking corrective action.

If this was repeated for every week of the year, the total adverse variance would be around £157 000, a considerable sum.

Against taking action

The 5% variance compared to budgeted cost may be considered to be too small. Perhaps costs may vary by more than 5% a week due to "normal" occurrences eg staff illness, or new staff having to be trained.

Management may regard this level of variance (5%) actually needs to be increased.

Labour variances may be linked to material variances eg poor quality material purchased cheaply, may give a favourable material price variance, but an adverse labour efficiency variance.

Conclusion

Management should take action if they have a policy of 5% variation requires action.

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

6 marks

(Total for Question 4 = 30 marks)

Q5 Mark scheme

(a) (i) (AO1) 2 (AO2) 2

AO1 : Two marks for balance b/d and balance c/d

AO2 : Two marks for correct entries for disposals and purchase of property, plant and equipment.

Property, Plant and Equipment account

Date	Details	£	Date	Details	£
Jan 1 2025	Bal b/d	9 658 500	June 22	Disposals	1 980 000
		(1)AO1			
May 26	Bank (Plant)	326 500	July 14	Disposals	4530
		(1)AO2			both (1)AO2
			Dec 31	Bal c/d	7 552 000
					(1)AO1
		9 985 000			9 985 000
Jan 1 2026	Bal b/d	7 552 000			

4 marks

(a) (ii) (AO1) 2 (AO3) 3

AO1 : Two marks for balance b/d and balance c/d

AO2 : Three marks for correct entries for disposals and transfer to Statement of comprehensive income.

Depreciation account

Date	Details	£	Date	Details	£
June 22	Disposals	225 000	Jan 1 2025	Balance b/d	3 567 200
		(1)AO3			(1)AO1
July 14	Disposals	241 000	Sept 30	Statement of Comprehensive Income	144 800
		(1)AO3			(1)AO3
Dec 31	Balance c/d	3 246 000			
		(1)AO1			
		3 712 000			3 712 000
			Oct 1 2021	Balance c/d	3 246 000

(b) (AO1) 1 (AO2) 10 (AO3) 4

AO1: One mark for entry of profit from operations.

AO2: Ten marks for calculation of profit on sale of fixed asset, loss on sale of fixed asset, operating cash flow before working capital changes, increase or decrease in inventories, trade and other receivables, and trade and other payables, cash generated from operations, interest paid and net cash used in operating activities.

AO3: Four marks for calculation of interest paid and amortisation of intangibles.

Statement of Cash Flow for y/e 31 December 2016		
Cash Flows from operating activities		
Profit from operations (248 000 (1)AO1 + (2) see W1)	249 000	(3)
Add Depreciation	144 800	
Add amortisation of intangibles (see W2)	20 000	(2)
Less Profit on Sale of Fixed Asset	(57 000)	(1)AO2
Add Loss on Sale of Fixed Asset	19 000	(1)AO2
Operating cash flow before working capital changes	375 800	(1)AO2
Less increase in Inventories	(806 000)	(1)AO2
Add decrease in Trade receivables	19 000	
Add decrease in Other receivables	8 000	(1)AO2 both
Less decrease in Trade payables	(264 000)	
Less decrease in Other payables	(8 000)	(1)AO2 both
Cash generated from operations	675 200	(1)AO2o/f
Less Interest Paid	(1 000)	(1)AO2
Less Tax Paid	(105 000)	(1)AO2
Net Cash from Operating Activities	(781 200)	(1)AO2o/f

W1 - Calculation of interest

£12 000 x 12.5% x 8/12 (1)AO3 = £1 000 (1o/f)AO3

W2 – Working for amortisation

Figures in £000
(1 200 + 180) - 1 360 (1)AO3 = 20 (1) AO3

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

Case for Liquidity handled well

The current ratio was 1.127:1 at the end of 2024 and improved to 1.588:1 by the end of 2025
The figure of 1.588:1 for a current ratio could be considered ideal.

Profit after interest was £248 000 which should give potential for liquid funds. Property that was bought for £1.98 million, with a book value of £1.755 million was sold for £1.812 million. This represents a book profit.

Case for liquidity handled badly

The acid ratio was very poor at the end of 2024, being 0.17: 1 This is way below the ideal acid ratio of 1:1 The ratio worsened to be 0.13:1 by the end of 2025 A very large percentage of current assets is inventory.

There has been a large increase in the inventory held in the year. The increase in inventory was 37%, a very large increase.

The cash and cash equivalents figure fell from £94 000 at the start of the year, to a deficit, including an overdraft, of £13 000 at the year end. £1 000 of interest was paid on the overdraft.

Property that was bought for £1.98 million was sold for £1.812 million. This represents a loss. Would it have been possible to obtain a better price for the property?

Equipment that was bought for £453 000 and had a book value of £225 000, was sold for £193 000. This represents a loss. Would it have been possible to obtain a better price for the equipment?

Conclusion

Liquidity has ne been handled very well, as the cash and cash equivalents figure has fallen by over £100 000 in the year.

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 5 - 30 marks

Q6 Mark scheme

(a) AO1 (4)
AO1: Four marks for calculation of cost of glass for one bottle.

1 bottle uses 200 grams so 1 kilogram of glass produces 5 bottles. (1) AO1

1 tonne of glass produces 5 x 1000 = 5 000 jars (1o/f) AO1

Cost of glass for 1 bottle = $\frac{£45}{5\,000}$ (1o/f) AO1 = 0.9 pence (£0.009) per bottle (1o/f) AO1

(b) AO2 (4)
AO2 : Four marks for calculation of number of bottles made in a month.

Number of bottles produced in a minute = $\frac{60}{12}$ = 5 (1) AO2

Number of bottles produced in an hour = 5 x 60 = 300 (1o/f) AO2

Number of bottles produced in a day = 300 x 10 = 3 000 (1o/f) AO2

Number of bottles produced in 4 weeks and 2 days = 26 x 3 000 = 78 000 (1o/f) AO2

(c) (AO1) 1 (AO2) 8 (AO3) 3
AO1 : One mark for calculation of insurance cost.
AO2 : Eight marks for calculation of rent, managers salary electricity and other fixed costs, total fixed costs, electricity, total variable costs, and break-even point.
AO3: Three marks for calculation of direct labour per unit, selling price per unit and contribution per unit.

Fixed Costs	Rent (£21 000 ÷ 3) = £7 000 (1)AO2 Insurance (£ 3780 ÷ 12) = £315 (1)AO1 Managers salary (£28 800 ÷ 12) = £2 400 Electricity = £420 All three Other FC = £365 (1)AO2 Total FC = £10 500 (1o/f) AO2
Variable Costs per unit	Direct materials = £0.009 both Direct labour (£1.08 ÷ 600) = £0.0018 (1) AO3 Electricity (£51 ÷ 300) = £0.17 (1) AO2 Total VC = £0.1808 (1o/f) AO2
Selling price per unit	£380.80 ÷ 1000 = £0.3808 (1) AO3
Contribution per unit	(£0.3808 - £0.1808) = £0.20 (1o/f) AO3
Break even point in units.	= $\frac{10\,500}{0.20}$ (1o/f) AO2 (1o/f) AO2 = 52 500 units (1o/f) AO2

	12 marks

(d) AO3 (4)

AO3: Four marks for calculation of margin of safety measured in pounds.

Margin of safety in units = 78 000 - 52 500 (1) AO3 = 25 500 (1o/f) AO3

Margin of safety in pounds = (25 500 x £0.3808) (1o/f) AO3 = £9 520 (1o/f) AO3

(4)

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

For the decision to make only to fulfil orders

Ezuza Bottling plc will not have any production that is not sold ie just being held in inventory, waiting for a customer.

The company will not have any storage costs if all production can be shipped out to customers after leaving the production line. Storage costs avoided include warehouse storage space, warehouse staff and security costs.

It is quite possible that customers will want to have bottles produced from their own designs. If a new customer only has the option of choosing from bottles in inventory, they may not be totally happy with the design, size etc of the bottle.

Against the decision to make only to fulfil orders

If a new customer makes an enquiry for a possible order, Ezuza Bottling plc will probably not be able to meet the order straight away. There is likely to be a time delay before the order can be met.

An existing customer may be experiencing a sudden increase in demand, and may wish to have an immediate delivery. If no bottles are in inventory at this time, the customer will be disappointed and the new order may be lost.

Conclusion

Candidate may opt for either decision, but this should be supported by their argument.

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	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.
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6

marks

Total for Question 6 = 30 marks