



Mark Scheme (Final)

January 2026

Pearson Edexcel in International A Level in Accounting
WAC12/01 A

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General Marking Guidance

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

Question Number	Answer	Mark
1 (a)(i)	<p>AO1 (10), AO2 (16), AO3 (1)</p> <p>AO1: Ten marks for Direct factory labour and Direct materials, Discount received, Opening and closing inventory, Marketing and trade fairs, Discount allowed and motor vehicle running expenses, Sales commission and delivery costs, Delivery staff and sales staff wages, Sales commission and delivery costs, Sales and delivery staff wages, Auditors fees and bad debts written off, Head office staff and expenses, and corporation tax.</p> <p>AO2: Sixteen marks for Factory depreciation, Machinery depreciation, Factory power, Warehouse rent, Depreciation on motor vans, Warehouse power, Shops power, Head office power, Bank loan interest, Debenture interest, Revenue and cost of sales, Gross profit, Other income and distribution costs, Administrative expenses and financial cost, Profit on ordinary activities before and after tax.</p> <p>AO3: One mark for increase in bad debt provision.</p>	(27)

Statement of Profit or Loss total 7 marks

Revenue	9 864 000	(1of) both
Cost of Sales (W1)	4 601 900	
Gross profit	5 262 100	(1of)
Other Income	1 000	(2of) if all 4 or (1of) if 2 or 3 of these 4
Distribution costs (W2)	2 448 330	
Administrative expenses	1 470 920	
Financial cost	102 000	
Profit on ordinary activities before tax	1 241 850	(1)
Corporation tax	218 000	(1)
Profit on ordinary activities after tax	1 023 850	(1)

Cost of sales (W1)

Direct factory labour	1 890 000	both
Direct Materials	2 150 000	(1)
Less Discount Received	-43000	(1)

Factory Depreciation	92 000	(1)
Machinery Depreciation	43 900	(1)
Opening inventory	772 000	both
Closing inventory	(779 000)	(1)
Factory Power	476 000	(1)
	4 601 900	Total 6

Distribution Costs (W2)

Marketing	324 000	both
Trade Fairs and Exhibitions	110 000	(1)
Discount Allowed	87 000	both
Motor vehicle running expenses	43 000	(1)
Rent on warehouse	257 000	(1)
Depreciation on motor vans	76 800	(1)
Sales Commission	94 530	both
Delivery costs	178 000	(1)
Sales staff wages	632 000	both
Delivery staff wages	476 000	(1)
Warehouse power	68 000	(1)
Shops power	102 000	(1)
	2 448 330	Total 8

Administrative Expenses (W3)

Auditors fees	18 500	both
Bad Debts Written Off	26 000	(1)
Increase in Bad Debt provision	1 420	(1)
Head office expenses	510 000	both
Head office staff	881 000	(1)
Head office power	34 000	(1)
	1 470 920	Total 4

Finance costs (W4)

Bank loan interest	12 000	(1)
Debenture interest	90 000	(1)
	102 000	Total 2

Question Number	Answer	Mark
1 (a)(ii)	<p>AO1 (6), AO2 (5), AO3 (5)</p> <p>AO1: Six marks for Goodwill, Bank and cash, General reserve and ordinary shares, Debenture, Trade payables and Bank loan</p> <p>AO2: Five marks for Factory, Machinery, Motor vans, Debenture interest and bank interest.</p> <p>AO3: Five marks for Net trade receivables, Other receivables, Retained earnings, Other payables and Corporation tax payable</p>	<p>(16)</p>

Statement of Financial Position of			
Brama Sun plc at 31 December			
2025	£	£	£
ASSETS			
Non-current assets			
Property, plant and equipment			
Factory	3 588 000	(1)	
Machinery	395 100	(1)	
Motor vans	131 200	(1)	
			4 114 300
Goodwill	90 000	(1)	
			90 000
			4 204 300
Current assets			
Inventories			779 000
Trade and other receivables			
Trade receivables	821 000		
Less allowance for doubtful debts	16 420		
	804 580	(1)	
Other receivables	23 000	(1)	
			827 580
Cash and cash equivalents			
Bank and cash	175 000	(1)	
			175 000
			1 781 580
Total assets			5 985 880
EQUITY AND LIABILITIES			
Equity			
Share Capital			
Ordinary shares of £0.50	3 700 000	both	
General reserve	56 000	(1)	
Retained earnings	399 380	(1of)	
			4 155 380
Non-current liabilities			
7.5% debenture	1 200 000	(1)	
			1 200 000

Current liabilities			
Trade payables	175 000	both	
Other payables	17 500	(1)	
Accrued expense (power)	24 000	(1)	
Debenture interest	45 000	(1)	
Bank interest	1 000	(1)	
Bank loan	150 000	(1)	
Corporation tax payable	218 000	(1)	
			630 500
Total equity and liabilities			5 985 880

Q1(b)

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

For Importance

Auditors are independent scrutineers of the financial statements who report that the financial statements have been prepared “correctly” in accordance with International Accounting Standards and give a true and fair view (or do not). The senior partner will sign the Auditors Report found in the Annual Report, giving the auditors opinion of the financial statements.

Auditors are reporting on how directors have used the funds invested by shareholders. The auditors duty is to the shareholders.

Auditors may report on corporate governance under the following headings:

- Leadership – e.g. is there a clear definition of roles
- Effectiveness – e.g. does the board have the appropriate skills, experience, knowledge
- Accountability – e.g. is the board clear that it is responsible for risk management
- Remuneration – e.g. is the pay to board members appropriate
- Relations with shareholders – e.g. is a satisfactory dialogue with shareholders taking place

Auditors may give tax authorities more confidence that the tax computation is correct.

Professional supervisory bodies exist to give guidelines to auditors, e.g. Auditing Practices Board.

Auditors should be professionally qualified e.g. Chartered Accountants.

Against Importance

Auditors may not be very independent, going along with the wishes of clients, in order to keep their custom, which may include non-audit work.

Auditors could be misled by the directors and provide an inaccurate report.

Auditors do not guarantee that material fraud has not occurred.

Conclusion -

Auditors role is important.

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 throughout 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 non-financial information, in an appropriate format and communicates reasoned explanations.
Level 4	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant and 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.

Total for Question 1 – 55 marks

Question Number	Answer	Mark
2 (a)(i)	<p>AO1 (4) AO1: Four marks for correct identification and calculation of costs to arrive at standard cost.</p> <p>Standard cost of one pair of trousers =</p> $(0.75 \text{ hours} \times \text{£}7.20) + (2.5 \text{ sq m} \times \text{£}3.46) + (\text{£}17\,000 / 20\,000)$ $= \text{£}5.40 \text{ (1) AO1} + \text{£}8.65 \text{ (1) AO1} + \text{£}0.85 \text{ (1) AO1} = \text{£}14.90 \text{ (1 of) AO1}$	(4)

Question Number	Answer	Mark
2 (b)(i)	<p>AO2 (3), AO3 (2) AO2: Three marks for correct application of data and calculation of labour rate variance. AO3: Two marks for correct analysis of data and use in calculation of labour rate variance.</p> <p>Labour rate variance = $(£7.20 (1) \text{ AO2} - \frac{115\,020}{15\,850} (1) \text{ AO3}) \times 15\,850 (1) \text{ AO2}$ = $(£7.20 - £7.2568) \times 15\,850 = £900 \text{ Adv (1of) AO2}$</p>	(5)

Question Number	Answer	Mark
2 (b)(ii)	<p>AO2 (4) AO2: Four marks for application of data to calculate labour efficiency variance.</p> <p>Labour efficiency variance = $(15\,000 (1) \text{ AO2} - 15\,850 (1) \text{ AO2}) \times £7.20 (1) \text{ AO2} = £6\,120$ Adverse (1) AO2</p>	(4)

Question Number	Answer	Mark
2 (b)(iii)	<p>AO2 (3) AO2: Three marks for application of data to calculate labour rate variance.</p> <p>Total labour rate variance = $(£900 \text{ Adv (1of) AO2} + £6\,120 \text{ Adv(1of) AO2}) = £7\,020$ Adverse (1of) AO2</p>	(3)

Question Number	Answer	Mark
2 (b)(iv)	<p>AO2 (2), AO3 (3) AO2: Two marks for correct application of data and calculation of material price variance. AO3: Three marks for correct analysis of data and use in calculation of material price variance.</p> <p>Material price variance = $(\text{£}3.46 \text{ (1) AO2} - \underline{\text{£}174\,250} \text{ (1) AO3} \times 50\,000 \text{ (1) AO3} \\ 50\,000) \text{ (1)}$ AO3 = £1250 Adverse (1of) AO2</p>	(5)

Question Number	Answer	Mark														
2 (c)	<p>AO2 (6) AO2: Six marks for correct identification and calculation of costs and variances to complete reconciliation</p> <p><u>Reconciliation Statement for September 2017</u></p> <table border="1"> <thead> <tr> <th></th> <th>£</th> </tr> </thead> <tbody> <tr> <td>Budgeted Cost of Output</td> <td>298 000 (1)AO2</td> </tr> <tr> <td>Labour variance</td> <td>7 020 Adv (1of)AO2</td> </tr> <tr> <td>Material variance</td> <td>1 250 Adv (1of)AO2</td> </tr> <tr> <td>Overhead Variance</td> <td>1 270 Fav (1of)AO2</td> </tr> <tr> <td>Variances Total</td> <td>7 000 Adv (1of)AO2</td> </tr> <tr> <td>Actual Cost of Output</td> <td>305 000 (1)AO2</td> </tr> </tbody> </table>		£	Budgeted Cost of Output	298 000 (1)AO2	Labour variance	7 020 Adv (1of)AO2	Material variance	1 250 Adv (1of)AO2	Overhead Variance	1 270 Fav (1of)AO2	Variances Total	7 000 Adv (1of)AO2	Actual Cost of Output	305 000 (1)AO2	(6)
	£															
Budgeted Cost of Output	298 000 (1)AO2															
Labour variance	7 020 Adv (1of)AO2															
Material variance	1 250 Adv (1of)AO2															
Overhead Variance	1 270 Fav (1of)AO2															
Variances Total	7 000 Adv (1of)AO2															
Actual Cost of Output	305 000 (1)AO2															

Question Number	Answer	Mark
2(d)	<p>AO1 (3) AO1: Three marks for correct identification of reasons.</p> <p>Reasons for fixed overheads being below budget: - reduction in rent payable (1) AO1 - reduction in managers salaries (1) AO1 - reduction in depreciation (1) AO1 - reduction in heating costs (1) AO1 - incorrect budget setting (1) AO1 - any other suitable reason</p>	(3)

Question Number	Indicative content	Mark
2 (e)	<p>A01 (1), A02 (1), A03 (4), A04 (6)</p> <p><u>For</u></p> <p><u>Keeping 50% mark up</u></p> <ul style="list-style-type: none"> • Need to maintain profit margin, cannot keep same selling price for ever. • Customers may be quite willing to pay the higher price. The market may be able to carry this level of mark-up. • New price may still be below that of rival firms. • The increase in costs is £0.35, so this would mean an increase of £0.52 pence in the sales price. The selling price would rise from £22.35 to £22.87. Would customers notice this increase? <p><u>Against</u></p> <p><u>Passing on the increase in production cost</u></p> <ul style="list-style-type: none"> • Could absorb rising costs by increasing efficiency. Some areas are becoming more efficient - there seems to have been some reduction in costs in overheads. • Customers may be unhappy and go to a rival supplier. The market may be very competitive. • New price could price make firm's price higher than rivals. • The increase in costs is £0.35, so this would mean an increase of £0.52 pence in the sales price to £22.87. Would customers find this too much? • Some of the increased costs were because of the problems with the electricity supply - is it fair that customers should carry the burden of this problem? 	

	<ul style="list-style-type: none"> The cutting department has been awarded a 5% wage rise but not the sewing department. This might cause dissent and a claim for a higher wage by sewing staff, thus leading to a rise in labour wages. 	
	<p><u>Decision</u> Candidates may argue for or against continuation of a mark-up of 50%. The decision should be supported by reference to key points of their argument.</p>	(12)

Level	Mark	Descriptor
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Level 1	1-3	Isolated elements of knowledge and understanding 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 are 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 throughout 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 and effective 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 informed recommendations and decision(s).

Total for Question 2 = 55 Marks

Question Number	Answer	Mark
3 (a)(i)	AO1 (2), AO3 (3) AO1: Two marks for asset value in SOFP and value of assets taken over. AO3: Three marks for correct figures for assets not taken over and adjustments.	(5)

Calculation of value of assets taken over		
As per statement of financial position	140 500 000	(1) AO1
Less Trade receivables	(15 700 000)	
Cash and cash equivalents	(1 100 000)	(1) AO3 both
Adjustments - Plant	(2 300 000)	
- Equipment	(400 000)	
- Inventory	(600 000)	(1) AO3 all three
- Property	3 200 000	(1) AO3
Value of assets taken over	123 600 000	(1of) AO1

Question Number	Answer	Mark
3 (a)(ii)	AO1 (2), AO3 (1) AO1: Two marks for liabilities value in SOFP and value of liabilities taken over. AO3: One mark for correct figures for liability not taken over and adjustment.	(3)

Calculation of value of liabilities taken over		
As per statement of financial position	105 700 000	(1) AO1
Less Tax payable	(2 400 000)) both
Adjustment – Trade payables	(200 000)) (1) AO3
Value of liabilities taken over	103 100 000	(1of) AO1

Question Number	Answer	Mark
3 (a)(iii)	AO2 (4) AO2: One mark for calculating Number of ordinary shares in North Point plc. Three marks for calculation of number and value of shares received and total value received/purchase price.	(4)

Calculation of Purchase Price			
Number of Ordinary shares in North Point plc	<u>25 000 000</u>	100 000 000	(1) AO2
	0.25		
Shareholders receive/ Purchase Price			
Wan Chai plc share	£0.50		
Premium	£0.42		
Cash	<u>£0.48</u>		
100 000 000/5 = 20 000 000 (1) AO2	£1.40 (1) AO2	£28 000 000	(1) AO2

Question Number	Answer	Mark
3 (a)(iv)	AO1 (1), AO3 (3) AO1: One mark for correct value of assets and liabilities taken over. AO3: Three marks for correct figures for purchase price, agreed value of North Point plc and value of goodwill.	(4)

Calculation of Goodwill			
Purchase Price		28 000 000	(1) AO3
Value of assets	123 600 000		
Value of liabilities	(103 100 000)	(1)of AO1	
Agreed Value of North Point plc		20 500 000	(1of) AO3
Value of goodwill		7 500 000	(1of) AO3

Question Number	Answer	Mark
3 (b)	AO2 (8) AO2: Eight marks for correct debit entry and credit entry and correct figure. Must be right label and right figure for each mark.	(8)

Apr 1	Realisation a/c	16 000 000	(1) AO2
	Property a/c		(1) AO2
		16 000 000	
Apr 1	Trade Payables a/c	12 100 000	(1) AO2
	Realisation a/c		(1) AO2
		12 100 000	
Apr 1	Ordinary Shares of £0.25 a/c	25 000 000	(1) AO2

	Sundry Shareholders a/c		25 000 000	(1) AO2
Apr1	Retained Earnings	9 800 000		(1) AO2
	Sundry Shareholders a/c		9 800 000	(1) AO2

Question Number	Indicative Content	Mark
3 (c)	<p>AO2 (1) AO3 (2) AO4 (3)</p> <p><u>Case for shares</u></p> <p>The larger company must feel that there are benefits from taking over another company. Therefore, there must be a possibility that the share price will rise in the future. Also, the share may pay out regular dividends in the future. If inflation is high, the value of cash may soon be reduced in real terms.</p> <p><u>Case for cash</u></p> <p>Cash may be invested, which may give good returns, or returns that are better than those of shares in the company taking over. Cash could be spent straight away to give immediate consumption. If inflation is not high, cash will hold its value in real terms.</p> <p><u>Decision</u></p> <p>The best option will depend on a number of factors, such as the performance of the larger company, the dividend policy, and inflation.</p>	(6)

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 information and an appropriate decision is made.

6 marks

Total for Question 3 – 30

marks

Q4

Question Number	Answer	Mark
4 (a)	AO2 (8) AO2: Eight marks for correct calculation of value of closing inventory.	(8)

Units in closing inventory	(962 000	- 934 000) (1) AO2 = 28 000 units (1) AO2
Direct Labour	2 693 600	
Direct Materials	1 202 500	
Semi- variable costs	1 106 300	
Fixed overheads	1 827 800	
Total costs	6 830 200 (1) AO2	
Absorption cost per unit	$\frac{6\,830\,200}{962\,000}$ (1) AO2 =	£7.10 (1) AO2

Value of closing inventory

$(28\,000 \times £7.10)$ (1) AO2

=£198 800 (1) AO2

Question Number	Answer	Mark
4 (b)	AO3 (4) AO3: Four marks for correct calculation of increase in profit.	(4)

£61 600 (1)

Increase in Inventory value $(198\,800 - 137\,200)$ (1) =

AO3 AO3

So increase (1)AO3 in profit = £61 600 (1) AO3

Question Number	Answer	Mark
4 (c)	AO1 (4) AO1: Four marks for correct calculation of units in inventory.	(4)

2017	Quarterly production	Quarterly sales
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Quarter 1 : Jan – March	270 000	255 000
Quarter 2 : April – June	285 000	276 000
Quarter 3 : July – Sept	264 000	273 000
Quarter 4 : Oct – Dec	258 000	270 000
Total	1 077 000 (1)	1 074 000 (1)
	AO1	AO1

Inventory increases by 3 000 units **(1)** AO1

Inventory at 31 December 2017 = 28 000 + 3 000 = 31 000 units **(1)**
AO1

Question Number	Answer	Mark
4 (d)	AO1 (1), AO2 (4), AO3 (3) AO1: One mark for correct inclusion of opening inventory. AO2: Four marks for correct calculation of production cost and closing inventory. AO3: Three marks for correct calculation of revenue and profit.	(8)

Revenue per unit = $\frac{8\,826\,300}{934\,000}$ = £9.45 per unit **(1)** AO3

Revenue (£9.45 x 1 074 000)		10 149 300 (1) AO3
Opening Inventory	198 800 (1of) AO1	
Plus Production cost (1 077 000 x £7.10) (1) AO2	7 646 700 (1) AO2	
Less Closing Inventory (31 000 x £7.10) (1of) AO2	220 100 (1of) AO2	
	= Cost of Sales	7 625 400
Profit		2 523 900 (1of) AO3

Question Number	Indicative Content	Mark
4 (e)	<p>A02 (1) A03 (2) A04 (3)</p> <p><u>For the statement</u></p> <p>In the first year of trading, profit will always be higher using absorption costing, as long as there is a closing inventory. This is because some of the overheads for year 1 will be carried forward into year 2.</p> <p><u>Against the statement</u></p> <p>If there is no inventory at the end of year 1, then marginal costing and absorption costing will give the same value for profit.</p> <p>For all other years, the profit may be larger or smaller using absorption costing. This will depend upon the relative size and value of the opening and closing inventories.</p> <p><u>Decision</u></p> <p>The statement is incorrect. Absorption cost may sometimes give a greater profit, but there are times when it does not.</p>	(6)

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

Level 2	3-4	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 nonfinancial 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 information and an appropriate decision is made.

6 marks

Total for Question 4 = 30 marks

Q5 Mark Scheme

Question Number	Answer	Mark
5 (a)(i)	AO1 (1) AO2 (1) AO1: 1 mark for correct calculation of book value when sold AO2: 1 mark for setting out correct sum	(2)
(£280 000 + £31 000) (1) AO2 = £311 000 (1) AO1		

Question Number	Answer	Mark
5 (a)(ii)	AO1 (2) AO2 (1) AO1: 2 marks for correct calculation of cost price of property AO2: 1 mark for setting out correct sum	(3)

$(£220\,000 - £145\,000) (1) AO2 = £75\,000 (1) AO1$

$£75\,000 + £20\,000 = £95\,000 (1) AO1$

Question Number	Answer	Mark
5 (a)(iii)	AO1 (2) AO1: 1 mark each for correct advantage and disadvantage.	(2)
<p><u>Advantage</u> Less cash paid out (1) AO1</p> <p><u>Disadvantage</u> Credit rating may reduce /less favourable credit terms (1) AO1 Loss of discount (1) Loss of supply (1)</p>		

Question Number	Answer	Mark
5 (a)(iv)	AO2 (4) AO2: 4 marks for correct calculation of dividend per share.	(4)
<p>Number of shares eligible = $336\,000 - 96\,000 = 240\,000 (1) AO2$ Interim dividend $(£36\,000 - £21\,600) = £14\,400 (1) AO2$</p> <p>Dividend per share = $\frac{£14\,400}{£240\,000} (1) AO2 = £0.06 (6 \text{ pence}) (1)$</p>		

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Question Number	Answer	Mark
5 (a)(v)	AO3 (3) AO3: 3 marks for correct calculation of interest paid on bank account.	(3)
<p>Interest paid on debenture = $(£400\,000 \times 8\%) / 2$ (1) AO2 = £16 000 (1) AO2</p> <p>Interest on bank account = $(£38\,000 - £16\,000) = £22\,000$ (1) AO2</p>		

Question Number	Answer	Mark
5 (a)(vi)	AO2 (2) AO2: 2 marks for correct calculation of bank balance at start of year	(2)
<p>$(£2\,486\,000 \text{ O/D}) - £239\,000$ (1) AO2 = $£2\,725\,000$ O/D (1) AO2</p>		

Question Number	Answer	Mark
5 (a)(vii)	AO2 (4) AO2: 4 marks for correct calculation of movement on bank balance in the year	(4)
<p>Year end bank balance = $(£273\,000) \text{ O/D} - £257\,000$ (1) AO2 = $£530\,000$ O/D (1) AO2</p> <p>Yearly movement = $(£2\,725\,000) \text{ O/D} - £530\,000 \text{ O/D}$ (1) AO2 = $£2\,195\,000$ increase (1) AO2</p>		

Question Number	Answer	Mark
5 (b)	AO3 (4) AO3: 2 marks for explaining each difference	(4)

Two differences – answers could include

A statement of cash flows is for the past 12 months. (1) AO3
A cash budget is for a future period (1) AO3

A statement of cash flows includes mostly exact figures. (1) AO3
A cash budget involves figures that are mostly estimates (1) AO3

A statement of cash flows is prepared mainly for external users. (1) AO3
A cash budget is mainly for internal use. (1) AO3

Maximum of two differences. Award mark for first statement, then award for second statement only if a difference.

Liquidity performance/position good

- Cash inflow from operating activities of £2 716 000
- Cash and cash equivalents improved from negative £2 486 000 at year start to negative £273 000 at year end. An improvement of £2 213 000.
- Debenture was repaid, which should reduce future interest payments.

Liquidity performance/position poor

- Cash and cash equivalents are negative £273 000 at year end.
- Cash flows from investing activities and financing activities are negative.

Conclusion

The performance of the company concerning liquidity over the year has been good, as the liquidity position has improved. However, the position itself is not good, and cash and cash equivalents are negative £273 000

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

6 marks

Total for Question 5 = 30 marks

Question 6 Mark Scheme

(a) AO1 (1) AO2 (5)

AO1: One mark for totalling interest and returns.

AO2: Five marks for calculating the interest or return of each item and the weighted average cost of capital.

Option B	£	Interest Rate/ Expected return	Interest/ return		
Debenture	150000	15.00%	22500		
Bank Loan	100000	12%	12000	(1)AO2	
Preference Shares	20000	7%	1400		
Ordinary Shares	50000	5%	<u>2500</u>	(1)AO2	
Total	320000		38400	o/f (1)AO1	
Weighted Average Cost of capital	=	$\frac{38400 \times 100}{320000}$	1of AO2 (1)AO2	= 12%	o/f (1)AO2 6 marks

(b) AO3 (2)

AO3: One mark for correct choice and one mark for correct reason

Megamedia plc should select the bank loan (Option A) (1) AO3 because it has a lower (o/f) WACC. (1) AO3

2 marks

(c) AO3 (4)

AO3: One mark for point made and one mark for development.

Maximum of two points

The shareholder may also expect to make a capital gain (1) AO3 as the share price increases over time. (1) AO3

The loan will be at an end and have no value when it is repaid (1) AO3 but the share will continue to have value. (1) AO3

4 marks

(d) AO1 (4) AO2 (7) AO3 (1)

AO1: Two marks for calculating labour cost savings.

Two marks for calculating maintenance and electricity costs in year 1

AO2: One marks for calculating maintenance and electricity costs in years 3 and 4

One mark for calculating maintenance and electricity costs in year 5

Five marks for calculating discounted cash flow from years 0 to 5 and the total

AO3: One mark for correct calculation of net difference column

Workings	Robots	Staff Replaced per robot	Total staff replaced			
Labour replaced	6	2	12	(1)AO1		
Labour cost savings	Staff	Pay per hour	Hours	Weeks	Total	
	12	8	40	50	192 000	
					(1)AO1	
Other costs	Per year	Robots	Total			
Maintenance	800	6	4 800			
Electricity	2 750	6	<u>16 500</u>	(1)AO1		
			21 300	o/f (1)AO1		
		Years 3 and 4	23 430	o/f (1)AO2		
		Year 5	25 773	o/f (1)AO2		

Year	Labour Cost savings	Extra costs	Net Difference	Discount Factor	Discounted Net cash flow	
0			-320 000	1	-320 000.00	(1)AO2
1	192 000	21 300	170 700	0.901	153 800.70	
2	192 000	21 300	170 700	0.812	138 608.40	o/f (1)AO2
3	192 000	23 430	168 570	0.731	123 224.67	
4	192 000	23 430	168 570	0.659	111 087.63	o/f (1)AO2
5	192 000	25 773	166 227	0.593	98 572.61	o/f (1)AO2
			(1)AO3		305 294.01	o/f (1)AO2

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

For the project

- The NPV of the project is positive, at £305 294 at the end of year 5. This is a huge saving in labour costs, even taking into account the falling value of money over time.
- Most of the figures involved are not estimates, but actual figures e.g. wages of staff to be replaced.

Against the project

- Twelve members of staff will have to be made redundant.

Other points

- The robots only have a life of five years then they must be replaced.
- What figures will be given by other methods of project appraisal e.g. payback, average rate of return.

Conclusion

Project appears to be a good investment on financial grounds.

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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 6 = 30

marks