Examiners' Report
June 2022

IAL Accounting WAC12 01

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June 2022

Publications Code WAC12_01_2206_ER

Introduction

The examination saw a reasonably good performance from candidates with the mean higher than recent COVID hit exams. The mean score was back to where it is ideally meant to be.

Question 1

This question was answered reasonably well, although it was the lowest scoring question of the two questions in Section A.

Answers to (a) calculating the goodwill were usually correct.

Part (b) rarely scored more than three marks because most candidates were unable to calculate the purchase price of £35 000 000 correctly. Candidates usually knew that goodwill was found by subtracting the value of Kwale from the purchase price paid.

Candidates scored fairly well in (c) although some lost marks by entering assets at the revalued amount. Many answers left out the Purchase Consideration and the Profit on Realisation.

The Statement of Financilal Position in (d) usually scored quite well. However, many answers left out goodwill and incorrectly calculated the value of Ordinary shares and the Share Premium. Nearly all answers omitted the cash payments made to shareholders.

Answers to (e) were weak as many candidates failed to address the question, instead giving general advantages and disadvantages of a merger. Those who tried to discuss which group of shareholders benefitted the most scored more highly.

This candidate achieved a total of 30 marks, which was slightly above the mean of 26 marks for this question,

1 **(a)** Calculate the value of Kwale Trucking plc after the revaluations.

(9)

purchase price = goodwill) + NVA (net value of assets)

↳ 9,273,000 + 30,910,000 = 40,183,000

24,728,000   55,638,000

NVA

                                                      = 4,000,000
Assets   (22,000,000 - 18,000,000)

Property, Plant and Equipment ^(35,000,000 + 4,000,000) = 39,000,000

Computers (2,700,000 - 600,000)   = 2,100,000

Fixtures and Fittings   = 400,000

Motor Vehicles (15,400,000 × 80%)   = 12,320,000

Inventory   = 20,000

Trade Receivables (3,400,000 - 340,000) ✓(3,400,000 × 10%) = 3,060,000

                                                              ~~56,900,000~~

Cash and cash equivalents   810,000

                                                              ~~57,710,000~~

Liabilities

Mortgage   (18,000,000)

Bank loans   (6,000,000)

Trade Payables   (2,150,000)

Other Payables   (650,000)

                                                        30,910,000

goodwill = purchase price - NVA

↳ 30,910,000 × 1.80/~~1.30~~ = ~~40,183,000~~   1.80   55,638,000
                                                                                55,638,000

goodwill = ~~6,500,000~~ ~~40,183,000~~ - 30,910,000
                                        = 24,728,000 = ~~9,273,000~~

(b) Calculate the goodwill paid by KV Logistics plc for Kwale Trucking plc.

goodwill = purchase Price − NVA

↳ 30,910,000 × 1,30 = 40,183,000

30,910,000 × 1,80 = 55,638,000

~~Settlement of purchase price~~ ↓

goodwill = 55,638,000 − 30,910,000

= 24,728,000

$$\frac{40,183,000}{1,30} = 30,910,000$$ shares

(c) Prepare the Realisation Account in the books of Kwale Trucking plc.

Realisation Account

Assets			Liabilities		
Date	Details	£	Date	Details	£
2022					
31 March	Property, Plant &Equip	35,000,000	31 March	Mortgage	18,000,000
31 March	Computers	2,700,000	31 March	Bank loans	6,000,000
31 March	Fixtures & fittings	500,000	31 March	Trade Payables	2,150,000
31 March	Motor Vehicles	15,400,000	31 March	Other Payables	650,000
31 March	Inventory	110,000	31 March	Purchase price	55,638,000
31 March	Trade Receivables	3,400,000			
31 March	Cash and cash equi	810,000			
31 March	Profit on realis.	24,518,000			
		82,438,000			82,438,000

(working for SOFP)

Sundry Shareholders

Date	Details	£	Date	Details	£
March 31	purchase price	55,638,000	March 31	Profit on realisation	24,518,000
			March 31	ordinary shares	5,000,000
			March 31	share premium	15,000,000
			March 31	retained earnings	10,120,000
				general reserve	1,000,000
				general reserve	1,000,000
		55,638,000			55,638,000

(d) Prepare the Statement of Financial Position of KV Logistics plc at 1 April 2022.

(20)

Statement of financial Position of KV Logistics

	£	£	£
Assets			
Non-Current Assets			
Property, Plant & Equipment ↳ 39,000,000 + 28,970,000	67,970,000		
Computers (2,100,000 / 1,150,000)	3,250,000		
Fixtures & Fittings (400,000 + 700,000)	1,100,000		
Motor Vehicles (12,320,000 + 9,760,000)	22,080,000		94,400,000
Investment property			
—			
Intangible Assets			
goodwill (24,728,000 + 3,586,000)	28,314,000		
Current Assets Voi Deliv. (30,000+9,000)			
Closing Inventory (20,000 + 44,000)	64,000		
Trade Receivables & others r/bles (3,060,000 + Trade Receivables 2,160,000)	5,220,000		
Cash and cash equivalents (810,000 + 1,730,000)	2,540,000		36,138,000
Total Assets			130,538,000

Equity

Share Capital:

Ordinary shares	50,910,000		
(5,000,000 + 20,000,000)	~~25,000,000~~		
£50,			

Other Reserves

Share Premium	34,788,000		
General Reserve	1500,000		
(1,000,000 + 500,000)			

Non-current Liabilities

Long-Term Borrowings:

Mortgage (18,000,000 + 13,000,000)	31,000,000		
Bank Loans (6,000,000 + 4,000,000)	10,000,000		

Current Liabilities

Trade Payables (2,150,000 + 960,000)	3,110,000		
Other Payables (650,000 + 310,000)	960,000		
Current tax payable			
—			
Total assets & liabilities			132,208,000

Settlement of purchase price:

Kuale Trucking plc

$$\frac{55,638,000}{1.80 \, \text{£}} = 30,910,000 \text{ shares}$$

OSC → 30,910,000 × 1£ = 30,910,000

SP → 30,910,000 × 0.80£ = 24,728,000

Voi Deliveries plc

$$\frac{30,000,000}{1.50 \, \text{£}} = 20,000,000 \text{ shares}$$

OSC → 20,000,000 × 1£ = 20,000,000

SP → 20,000,000 × 0.50£ = 10,000,000

∂ OSC → 30,910,000 + 20,000,000

= 50,910,000

∂ SP → 24,728,000 + 10,000,000

= 34,728,000

(e) Evaluate which of the two groups of shareholders, Kwale Trucking plc or Voi Deliveries plc, has benefitted the most from the merger.

(12)

To begin with, the Kwale Trucking plc merged with Voi Delievries plc on 1 April 2022 in order to form a new company called KV logistics plc. ~~According to the exercise, the NVA of Kwale Trucking is greater than the goodwill (purchase price) which it means that it needs to be rejected (accepted).~~

According to the exercise, the purchase price is greater than the NVA which it means that it can be accepted. Also, if the amount of goodwill was extremely high, the company would need to pay extra goodwill.

In addition, the company Kwale Trucking plc has much more ordinary shares (30,910,000) than the Voi Deliveries plc which are (20,000,000). This means that there are more issued shares within the Kwale Trucking company and there are a lot of shareholders as well.

The merging between two companies occures in order to form a new company. Merging has economies of scale, horizontal and vertical integration, new capital as well as and new ideas because shareholders and managers colude. The shareholders of the new company " KV logistics plc" will enjoy financial benefits such as lower interest on

the bank loans. The bank though needs to put security assets on the premises of the new company in case it does not pay the loans. Also, the new company can improve in the future by introducing for example disability treatment.

However, the merge can form diseconomies of scale because its much more bigger than the previous two companies. The shareholders are more in the new company and as a result, the market value of the shares decreases.

In conclusion, we do not know the new market value of shares of the new company after the merging. The merge brings a lot of benefits.

In (a) the candidate lost 1 mark having entered 20 000 for inventory instead of 90 000. The 20 000 was the reduction in value.

For (b) the candidate did not calculate the purchase price correctly. They gained two marks for subtracting their own figure for the value of Kwale and one for an own figure answer.

The candidate produced a correct answer in (c) and scored a full 8 marks.

Section (d) scored 9 marks for PPE, computers, F + F, motor vehicles, goodwill (2 – one for Voi and one for Kwale o/f) , trade receivables, non-current liabilities and current liabilities.

No marks were given for totals as sub totals for each section were not shown and there was an alien in General Reserve. An alien is an item that should not be there.

The answer to (e) was only a Level 1 answer as it did not address the question. There were a few correct statements about eg numbers of shares but the answer focussed on mergers in general.

Entries in the Realistion account should be at the value shown on the Statement of Financial Position, not at any agreed valuation amount.

Candidates should show the totals for sections of the Statement of Financial Position ie Non-current assets, Current assets, Equity, Non-current liabilities, and Current liabilities.

Question 2

This question was answered well and was the highest scoring question in Section A.

The net cash flow for the project was answered very well in (a) with most answers correct.

Answers to (b) were usually good, with the only part found tricky the months of the payback. The land was sold on the last day of the year so the cash flow for the payback calculation should have been £72 000 rather than £122 000.

The average rate of return calculation in (c) was found to be a little trickier. Many candidates wrongly stated costs of £450 000 per year, which they had taken from (a). The costs should have been £950 000 per year, which included depreciation.

For (d) answers for the net present value were generally good as candidates are strong on this topic.

The internal rate of return in (e) was found challenging by many candidates. A large number had not learnt the formula, and many became confused when substituting into the formulas or carrying out the calculation. When one NPV is positive and one NPV is negative, the difference between the NPVs is found by "adding" the two figures together.

The evaluation in (f) was answered quite well, with most candidates being able to correctly interpret the results calculated in parts (a) to (e).

This candidate scored a total of 37 marks out of 55 which was a good score.

2 (a) Calculate the net cash flow for **each** of the five years of the project.

(9)

Details	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	1,170,000	1,170,000	1,170,000	1,170,000	1,170,000
Cash from Disposal					500,000
Total Inflow	1170000	1170000	1170000	1170000	1670000
Running costs	950000	950000	950000	950000	950000
(-)Depreciation	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)
Total outflow	(450000)	450,000)	(450,000)	(450,000)	(450,000)
Net Cash flow	720,000	720,000	720,000	720,000	1220,000

Sales = 390 × 60 × 50   Running Costs = 19000 × 50
     = 1170000   = 950000

(b) Calculate the payback period for the project in years and months.

(8)

Net Cash Flow

Year	Net Cash Flow	Cumulative Cash flow
0	–	(3,000,000)
1	720,000	(2,280,000)
2	720,000	(1,560,000)
3	720,000	(840,000)
4	720,000	(120,000)
5	1,220,000	

$$\frac{120,000 \times 12}{1,220,000} = 1.18$$

Payback Period = 4 years and 1.18 months

(c) Calculate the average rate of return (accounting rate of return) for the project.

(10)

$$ARR = \frac{Average\ Profit}{Average\ Investment} \times 100$$

$$ARR = \frac{220,000 \times 100}{1,250,000} = 17.6\%$$

Average Profit = Sales - Cost

$$= 1170\,000$$

$$- 950,000$$

$$220,000$$

Total Profit = 220000 × 5

$$= \frac{1,100,000}{5}$$

Avg. Prof.t = 220,000

Avg. Investment = $\frac{3,000,000 + 500,000}{2}$

(d) Calculate the net present value for the project.

(7)

Year	Net Cash Flow	Discount Factor	Net Present Value
0	–	1	3,000,000
1	720,000	0.893	(642960)
2	720,000	0.797	(573840)
3	720,000	0.712	(512640)
4	720,000	0.636	(457,920)
5	1,220,000	0.567	(691,740)
			120,900

Net Present Value = £120,900

(e) Calculate, correct to two decimal places, clearly stating the formula used, the internal rate of return.

(9)

$$IRR = \text{lower NPV rate} + (\text{Difference between NPV rates}) \times \left(\frac{\text{Lower NPV}}{\text{Difference between NPVs}}\right)$$

$$= 10\% + {}_{m}(10 - 12) \times \left(\frac{39300}{120900 - 39300}\right)$$

$$= 10\% + 2\% \times \left(\frac{39300}{81600}\right)$$

$$= 8\% \times \frac{39300}{81600}$$

$$= 3.85\%$$

(f) Evaluate the project for Cumbria Coal plc, using the calculations made above and any relevant non-financial factors.

(12)

The Project of the Cumbria Coal PLC is expected to last 5 years. Moreover, the projects payback period is expected to be 4 years and 1.18 months. The payback is very long which means Cumbria Coal can only make a small amount of profit from the project. Furthermore, the Accounting rate of return is 17.6% which is higher than the cost of capital of 12%. Furthermore, the company targetted a discounted cash flow return of 15% however the IRR was only 3.85%. As a result the project didn't seem successful. Moreover, the availability of coal depends on the quality of land and mining 390tons of coal is a per week is only an assumption as it may change. As a result the projects depends on many factors

The candidate attained full marks of 9 out of 9 with a correct answer to (a)

In (b), the candidate placed £1 220 000 underneath which included £500 000 paid on the last day of the year. This resulted in an incorrect month calculation and lost one mark.

When answering (c), the candidate scored 7 out of 10 marks. 3 marks were lost for an incorrect calculation of the average investment.

The candidate was awarded 4 as a fair figure, despite being confused by the use of brackets. The candidate has placed inflows in brackets and has outflows not in brackets. The candidate has made correct calculations for each year so was awarded four marks.

The internal rate of return answer started well with a correct formula. However, the candidate had trouble with the mathematical interpretation of the formula. The minus 2% shown, should have been plus 2%. The 2% should then have been used to multiply the 39 300/81 600, not taken from the 10%. Using the own figure rule and the answer from (d), the £81 600 was correct. Candidate scored 6 marks.

The answer to (f) saw many of the figures calculated in (a) to (e) repeated without much interpretation. The answer was a Level 2 answer and scored 4 marks.

If the payback is in the final year, exclude any receipts from a sale on the last day of the year from the denominator underneath when calculating the months for payback.

When calculating the average investment, the amount paid at the start and the funds received when sold must be added to find the average investment.

Question 3

This was the second highest scoring question in Section B.

Answers to (a)(i), the Distribution Costs, were usually good. Candidates were able to include the correct items and calculate depreciation. They also handled the ratios well. The most common omission was Commission on sales.

Responses in (a)(ii), the Administrative expenses, also scored well. The most common item included in error was the Allowance for Irrecoverable debts. Only the Irrecoverable debts written off needed to be included.

The evaluation in part (b) was usually only at a Level 1 or Level 2 standard. Candidates were aware of the basics of the Auditors' Report. However, they struggled to evaluate the contents and the importance of the Report.

This was answered well by the candidate and scored a total of 24 marks.

3 (a) Prepare, using the appropriate balances, ready for inclusion in the year end Statement of Profit or Loss and Other Comprehensive Income, using International Accounting Standard 1 (IAS 1) format, the:

   (i)   Distribution costs section

(16)

Discount allowed	4 040	
Electricity	7 392 ~~14 784~~	
Fuel	36 900	
Hire of vans for carpet fitter	1 699	
Shop commission	27 023	
Maintence	6 475	
Deprecation motor lorry	39 200 ~~1 960~~	
Rent on shop	10 987	
Shop building deprecation	41 250	
Deprecation for van carpet fitter	25 200	
Vehicle running cost	21 003	
Advertising	39 063	
Wage for carpet fitter	104 300	
wage for motor lorry driver	96 300	
wage shop staff	98 800	
	465 687	

(ii) Administrative expenses section.

(8)

Auditors remuneration	12 000	
Electricity	11 088	
Maintence	1 295	
Office computer depreciation	7 200	
Statsonery	3 125	
Office staff	31 5000	
	63 395	

(b) Evaluate the contents and the importance of the Auditor's Report on the financial statements included in the Annual Report.

(6)

when an auditor report is been prepared it would be useful when the directors and owners of the business are planning about the future of the business. Therefore more accurate decisions could be taken. Also when auditor's report are been provided it would be beneficial when ~~resulting~~ requesting financial help from the banks. Therefore it would easier for them to collect finance for their business. Also it would be providing a clear idea about the business ~~sho~~ to it stakeholder where as more ~~new~~ investors could be attracted

on the other it would be more time taking for the business where as this could be used elsewhere to improve business performance. So it has opprotunity cost. Also the company need to here expects as a result high cost for the business as they would request for high salary therefore labour cost would rise.

Section (a)(i) scored 15 marks out of 16. The mark not attained was the one for the incorrect total, being £93 870 short.

The candidate scored 6 out of 8 marks for the Administrative expenses. Irrecoverable debts written off was omitted, and the total, once again, was wrong.

The evaluation in (b) was a Level 2 answer and achieved 3 marks. The answer touched on some of the importance of the Report but made little reference to the contents.

Candidates must try to focus on exactly what the evaluation question is asking. In (b), this was the contents and importance of the Auditors' Report. Candidates need to try to avoid a "write all you know about..." approach.

Question 4

This was the lowest scoring question in Section B. The question tested candidates knowledge of the different types of cost, and marginal and absorption costing.

Answers to (a)(i) were reasonable, with candidates more likely to achieve a mark with an example than an explanation of the term.

The graphs for (a)(ii) were often inaccurate, with scores here being poor.

Attempts for (b) were usually quite good, with candidates showing knowledge of the two methods. Marks were often lost calculating the value of inventory, incorrectly placing the fixed costs, or omitting contribution.

The evaluation in (c) showed a wide range range of responses. Some were very good with a decent coverage of effects, others failing to make any relevant points.

This candidate scored an excellent 25 out of 30 marks, a Grade A answer.

4 **(a)** **(i)** Explain the following terms, giving **one** example of each.

(4)

Semi-variable costs

Semi variable costs are costs that vary with the level of output and have a fixed element. For example, electricity or gas.
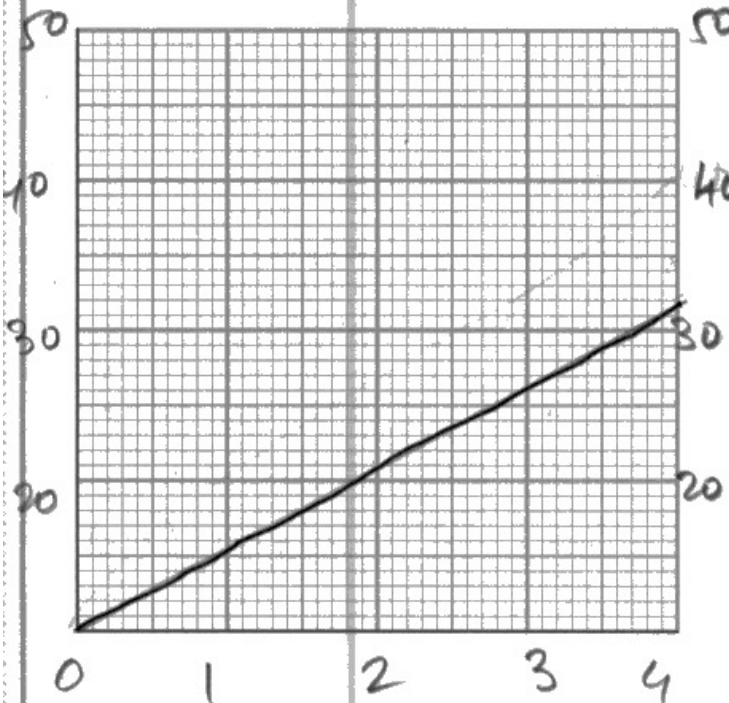
Semi-fixed costs

Semi Fixed costs are costs that do not change with the level of output but have a variable element as well. For example, Semi-fixed overheads or overtime + standard rate fixed salary.
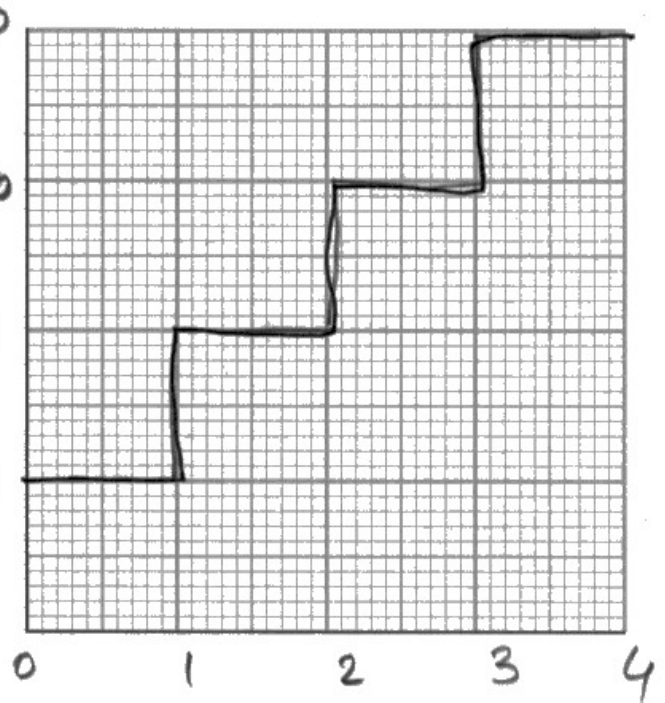
(ii) Complete the two graphs to show how **each** cost would be drawn.

(2)

Semi-variable costs

Semi-fixed costs

Statement of Comprehensive Income

	Marginal costing	Absorption costing
Sales (22800 × 300)	6,840,000	6,840,000
− Variable cosh		
Opening stock	—	—
+Direct materials (132 × 24000)	3,168,000	3,168,000
+Direct labour (14.1 × 24000)	338,400	338,400
+Semi variable (21 × 24000)	504,000	504,000
Closing stock	(200,520)	(213,600)
Cost of goods sold.	(3809,880)	(3,794,800)
Contribution	3,030,120	3,043,200
Fixed Cosh		
Semi variable (7000 × 12)	(84000)	(84000)
Fixed overheads (14800 × 12)	(177,600)	(177,600)
	(261,600)	(261,600)
PROFIT	2,768,520	2,781,600

Workings

$96 \times 5 \times 50 = 24000$ bicycles ← production

$\left(\dfrac{80}{60} \times 9.40\right) = 4.7 + 9.4 = £14.1$

~~OS~~

~~Prod = 24000~~

~~Sales = 22,800~~

~~Closing stock~~

Production − Sales = Closing stock

$24000 - 22800 = 1200$

$14.1 + 132 + 21 = £167.1$ (Marginal costing)

$167.1 \times 1200 = 200,520$

Fixed costs = $84000 + 177,600 = 264,600$ ← closing stock

$\dfrac{264,600}{24000} = 10.9$

$167.1 + 10.9 = £178$ (Absorption costing)

$178 \times 1200 = 213,600$ ← closing stock

(c) Evaluate whether Voltbike Limited should value inventory using marginal costing or absorption costing.

(6)

Marginal costing is more appropriate for short term decision making such as choosing whether or not to accept an offer. If also follows prudence concept and understates the profit. It can be said for that small period of time, marginal costing is more appropriate than absorption costing. Closing stock is valued using variable costs only £1671 and so produces a lower profit as a higher closing stock increases the cost of goods sold. If they have a low profit, they will pay receive lower taxes so its beneficial.

Absorption costing is more appropriate for long term decision making such as deciding to fix a price of the product. It is recommended by International Accounting standards and values closing stock using total costs only £178, therefore produces a higher closing stock, lower cost of sales and higher profit. It is more attractive to use Absorption costing due to this and pleases shareholders as they will receive higher dividends. It is more accurate than the former option. In conclusion, it depends on short term or long term, but it is better to use Absorption costing as it is recommended by IAS 2.

The semi-variable cost explanation came very close to scoring one mark but needed just a little more. The example scored the one mark.

The explanation of semi-fixed costs contained a number of errors and an inappropriate example and scored no marks.

The semi-variable cost graph started at zero and therefore scored no marks for (a)(ii). The semi-fixed costs graph was fine.

In (b) the statement showing profit or loss scored a very good 17 marks. The mark for the contribution figure was not awarded because a figure for contribution was shown in the absorption costing column.

The evaluation in (c) covered a wide range of advantages and consequences of using marginal or absorption costing and achieved full marks.

When answering an evaluation that requires choosing between whether to value inventory using marginal or absorption costing, candidates should remember the following:

- to what are the costs allocated eg time period or product
- when would decision making be helped eg short term or long term
- which concept does it follow eg prudence or matching
- what is the effect on profit and maybe tax

Question 5

This was the highest scoring question in Section B.

Most candidates were correctly able to calculate in (a)(i), earnings per ordinary share. Some overlooked the fact that the shares were £0.25 shares and there were 28 000 000 shares not 7 000 000.

This part, (a)(ii) the price/earnings ratio, was usually answered well, with some benefitting from the own figure rule.

Dividend per share was usually well attempted, although some made errors in the calculation of the total dividend.

The dividend cover in (v) was sometimes successfully calculated although many were not familiar with the formula required.

The return on capital employed in (vi) required knowledge of the correct formula and a good amount of calculations. However, there were a reasonable number of candidates who calculated this ratio correctly.

Answers to (b) often failed to answer the question being asked. Many answered in general terms about accounting ratios.

This candidate scored only 7 marks out of a total of 30. This would just achieve an E grade.

5 (a) Calculate the following ratios for Red Sun plc.

(i) Earnings per ordinary share

(3)

$$= \frac{\text{Profit after interest, tax and pref. share dividends}}{\text{No. of o/s issued.}}$$

$$= \frac{5\,000\,000 - 800\,000 \quad \cancel{500\,000} - 7000}{7\,000\,000}$$

$$= \frac{3\,500\,000}{7\,000\,000} \qquad = £0.5 \text{ per share}$$

(ii) Price earnings ratio

(3)

$$= \frac{\text{Market price per share (MPS)}}{\text{Earnings per share}}$$

$$= \frac{1.35}{0.5}$$

$$= 2.7 \text{ times}$$

(iii) Dividend paid per share (5)

$$= \frac{\text{Total dividends issued}^{\text{no. of}}}{\text{No. of o/s issued}}$$

$$= \frac{1120000 + 70000}{7\,000\,000}$$

$$= 0.17$$

(iv) Dividend cover $\frac{DPS}{EPS}$ (3)

$$= \frac{\text{Profit before interest, tax and pref. share dividends}}{\text{No. of total dividends issued}}$$

$$= \frac{3500\,000}{1190\,000} \qquad = 2.94 \text{ times}$$

(v) Dividend yield (3)

$$= \frac{MPS}{DPS} \times 100$$

$$= \frac{1.35}{0.17} \times 100$$

$$= 794.11\%$$

(vi) Return on capital employed.

$$= \frac{\text{Profit from operation}}{\text{Total capital employed}} \times 100$$

A member of staff comments 'I own shares in Red Sun plc, and I think that the dividend cover is the most important ratio of all the investment ratios'.

(b) Evaluate the statement made by the member of staff.

(6)

For the statement;

The member's statement can be considered correct as dividend cover is the only investment ratio which considers dividends fully, which is important for the changes in share price in which we can get a clear understanding if it affects positively or the share price positively or negatively. Dividend cover measures the interest, tax along with preferance share dividends.

Against the statement;

Market price is an important factor in business shares. However, this factor is not taken whe into account when dividend cover is calculated.

In condusion, the member of staff is correct. Dividend cover is the most important ratio of all investment ratios.

In part (a)(i) the candidate fails to score. Preference dividends of £7 000 that do not exist are brought in from somewhere. The denominator is wrong, failing to recognise the shares are £0.25 each.

The answer to (a)(ii) benefits from the o/f (own figure) rule and gets the full 3 marks.

When calculating the dividend per share in (a)(iii) the total ordinary dividend is not stated correctly. However, the candidate gets one mark for the number of issued shares applying the o/f rule to (a)(i).

The candidate scores 1 mark in (a)(iv) using the o/f rule, for the £1 190 000 for the total ordinary dividend from (a)(iii).

The dividend yield in (a)(v) has the formula and the figures upside down and scores no marks.

No marks are attained for (a)(vi) as the answer gets no further than the formula.

The evaluation in (b) is weak and only Level 1, scoring only one mark. No salient points are made.

Candidates are advised to write down the formula when calculating accounting ratios, even when the formula is not asked for. This helps candidates clearly see which figures will be required for calculations.

Units are required when giving answer. This gives an answer a meaning and a relevance. For example, (a)(v) if given at 3.7 has no real meaning. If stated as 3.7% it now has a context.

Question 6

This question tested candidates knowledge of standard costing and variances. The question was the third highest scoring question in Section B.

The answers to (a) were a little weak, with few candidates managing to attain more than 2 marks.

Responses to (b) were quite good, with calculations being generally correct.

The calculations for variances in (c) were mixed. Candidates seemed to either know the formulas and the topic well and attain full marks, or have very limited knowledge of how to calculate the variances.

The evaluation in (d) was often poorly attempted. Many answers did not address the question and omitted any reference to management by exception. These answers tended to just repeat figures calculated in (c).

This candidate scored very well on this question, achieving 28 out of 30 marks.

Cronus Clocks Limited applies a policy of 'management by exception'.

(d) Evaluate whether it is appropriate for Cronus Clocks Limited to take any action concerning the performance of the production workers in Week 23.

(6)

It is appropriate for Cronus clocks limited to take action concerning the performance of the production workers in week 23 as there was 120 hours of overtime work which is huge and extra £14.4 × 120 = £1728 £1728 is spent on the overtime wages. The business may take action like providing training to workers in order to improve efficiency. Lower overtime wage may be provided so as to encourage workers to finish tasks on time and.

rate

But this adversed actual and hours may due to the budgeted standards set too strictly. So this may not be the fault of workers and cutting overtime wage may be a wrong decision. Also, these actions taken may demotivate workers because they may blame themselves for not finishing the tasks on time. Efficiency and productivity may further decrease and

All in all, it is appropriate to take actions that may effectively change the situation of having adversed variance, for example training as it is beneficial to improve (labour) productivity.

The example for 6(d) shows an excellent answer, well thought out.

The candidate states there will be extra costs and correctly gives the overtime figure.

The answer then suggests some actions to take such as training or reduce the overtime wage rate.

Next, the other side of the argument is put forward.

The answer suggests that the standards may be too high and this may demotivate workers.

A conclusion is given at the end.

This answer scored the maximum 6 out of 6 marks

This candidate scored 18 marks on this question, which was good.

6 (a) Explain **two** purposes of standard costing.

(4)

Standard costing helps to identify how much a company had budgeted it sales and costs and how much it actually ~~to se~~ made.

✳ Helps to identify the costs incurred.

(b) Calculate, for the factory, for Week 23, the:

(i) budgeted labour hours

(2)

~~1 clock~~ = ~~Brodas~~   1 hour = 9 clo.

8 × 5 = 40 hours

40 × 23 = 1120 hours

(ii) actual labour hours

(2)

~~40~~ ~~+ 120~~   1120 + 120

5   = 1240 hours

(iii) budgeted labour cost

(1)

$$9.6 \times 1120$$

$$= 10752$$

(iv) actual labour cost.

(3)

$$120 \times 14.4 = £1728$$

$$10752 + 1728$$

$$= £12480$$

(c) Calculate the:

(i) labour efficiency variance

(4)

(Actual hours − Standard hours) × Standard rate

(1240 − 1120) × 9.6

= £1152 adverse

(ii) labour rate variance

(5)

(Actual rate − Standard rate) × Actual hours

$$\left(\frac{12480}{4000} - \frac{10752}{4480} \right) \times 1240$$

(3.12 − 2.4) × 1240

0.72 × 1240

= 892.8 adverse

(iii) total labour variance.

(3)

£ labour efficiency Variance + labour rate variance

1152 + 892.8

= £2044.8

Cronus Clocks Limited applies a policy of 'management by exception'.

(d) Evaluate whether it is appropriate for Cronus Clocks Limited to take any action concerning the performance of the production workers in Week 23.

(6)

Cronus should take action regarding the production workers' performance in week 23 because the productivity has fallen and costs have been increased.

In Week 23, Cronus had only produced 4000 clocks, meanwhile during the prior weeks, they had produced 4480 weeks in the same 8 hour 5 day shifts.

Because of this fall in production, workers have to work overtime and the company also have to. pay

The answer to (a) was basic and scored 1 mark.

The responses for (b) were all correct and scored full marks.

The variances in (c) were mixed. The labour efficiency variance was correct for (c)(i). However, in (c)(ii) the figures underneath were for production rather than hours. The answer to (c)(iii) was awarded 2 marks for correct figures, even though any reference to Adverse or Favourable was omitted.

The evaluation in (d) was rather basic, being a Level 1 response and scored 2 marks.

Variance formulas must be learnt thoroughly.

Candidates must always state whether the variance is adverse or favourable. Just relying on the use of a bracket is not acceptable.

Paper Summary

It was good to see the number of entries moving back up near to where it was at pre-COVID levels.

There was a wide spread of marks, across nearly the whole range of marks available.

Some candidates had clearly learnt the theory well and were successful in its application in this examination.

They will be rewarded with higher grade.

Grade boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

https://qualifications.pearson.com/en/support/support-topics/results-certification/grade-boundaries.html