



Mark Scheme (Results)

Summer 2018

Pearson Edexcel IAL Accounting
In Accounting (WAC12)
Paper 01 Corporate and Management Accounting

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General Marking Guidance

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

Question Number	Answer	Mark
1 (a)	AO1 (16), AO2 (21), AO3 (6)	(43)

Statement of Cash Flow for y/e 31 March 2018			
Cash Flows from operating activities			
Profit after interest before tax	68 000	(1) AO1	
Add interest paid	27 000	W1 (3)	
Add Amortisation of goodwill	7 000	W2 (2)	
Add Depreciation	1 102 000	W3 (5)	
Add Loss on Sale of non-current asset	110 000	W4 (2)	
Operating cash flow before working capital changes	1 314 000	(1of) AO1	
Decrease in inventories	35 000	(1) AO1	
Increase in trade receivables	(22 000)	(1) AO1	23
Decrease in other receivables	6 000	(1) AO1	
Decrease in trade payables	(58 000)	(1) AO1	
Increase in other payables	2 000	(1) AO1	
Cash generated from operations	1 277 000	(1of) AO1	
Less Interest Paid on Bank loan	(27 000)	(1of) AO1	
Less Tax Paid	(323 000)	(1) AO1	
Net Cash from Operating Activities	927 000	(1of) AO1	
Cash Flow from Investing Activities			
Payments to acquire tangible non-current assets	(2 358 000)	W5(5)	
Proceeds from sale of tangible non-current assets	970 000	(1) AO2	7
Net Cash Used in Investing Activities	(1 388 000)	(1of) AO1	
Cash Flow from Financing Activities			
Issue of Ordinary shares (400 000 + 50 000) (1) AO2	450 000	(1) AO2	
Receipt of bank loan	100 000	(1) AO2	
Dividends Paid : Final 2017 (8 000 000 x 1.9p) (1) AO2	(152 000)	(1) AO2	10
Interim 2018 (8 400 000 x 0.5p) (1) AO2	(42 000)	(1) AO2	
Preference (600 000 x 5.5p) (1) AO2	(33 000)	(1) AO2	
Net Cash From Financing Activities	323 000	(1of) AO1	
Net decrease in cash and cash equivalents	(138 000)	(1of) AO1	1
Cash and cash equivalents at the beginning of the year	121 000	(1) AO1	
Cash and cash equivalents at the end of the year	(17 000)	(1) AO1	2
Net decrease in cash and cash equivalents	(138 000)	Total	43 Marks

<u>W1 Calculation of interest paid</u>		
(400 000 x 6% x 0.5) = £12 000 (1) AO2		
(500 000 x 6% x 0.5) = £15 000 (1) AO2	Total =	£27 000 (1) AO2
<u>W2 Calculation of Goodwill Amortisation</u>		
(£133 000 - £126 000) (1) AO2 = £7 000 (1) AO2		
<u>W3 Depreciation calculation</u>		
Depreciation at 31 March 2018	3 652 000	(1) AO3
Less depreciation at 31 March 2017	-3 270 000	(1) AO3
	382 000	(1) AO2
Plus depreciation on assets sold	720 000	(1) AO3
Total depreciation for year	1 102 000	(1of) AO2
<u>W4 Calculation of Loss on non-current asset</u>		
(£1 800 000 - £720 000) - £970 000 (1) AO2 =	£110 000	(1) AO2
<u>W5 Calculation of Purchase price of property</u>		
PPE at cost 31 March 2018	11 414 000	(1) AO3
Less PPE at cost 31 March 2017	10 856 000	(1) AO3
	558 000	(1) AO2
Plus cost of asset sold	1 800 000	(1) AO3
Purchase price of property	2 358 000	(1of) AO2

Level	Mark	Descriptor
	0	A completely incorrect response.
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 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 non-financial information and makes informed recommendations and decisions.

Question Number	Answer	Mark
2 (a)	<p>AO1 (8) AO1: Eight marks for correct calculation of production cost.</p> <p>Budgeted cost of one packet of Grainbox:</p> <p>Labour = 16 workers paid £8 per hour = £128 per hour</p> <p>= $\frac{£128.00}{3\,200}$ (1) AO1 = 4 pence per packet (1) AO1</p> <p>Materials: 1 kilogram = 1 000 grams</p> <p>= $\frac{1\,000\text{ grams}}{200\text{ grams}}$ (1) AO1 = 5 packets per kilogram (1) AO1</p> <p>= $\frac{15\text{ pence}}{5}$ (1) AO1 = 3 pence per packet (1) AO1</p> <p>Total variable cost of packet = 4 p + 3 p = 7 pence per packet (1) AO1</p>	(8)

Question Number	Answer	Mark
2 (b) (i)	<p>AO1 (3), AO2 (10) AO1: Three marks for correct formula. AO2: Ten marks for correct calculations of variances.</p> <p>Labour Efficiency Variance = (Actual Hours - Standard Hours) x Standard Rate (1) AO1</p> <p>= (158 - 160) (1) AO2 x £8.00 x 16 (1) AO2</p> <p>= £256 Favourable (1of) AO2</p> <p>Labour Rate Variance = (Actual Rate - Standard Rate) x Actual Hours (1) AO1</p> <p>= $\frac{£20\ 856}{(158 \times 16)}$ (1) AO2 - £8.00 (1) AO2 x 158 x 16 (1) AO2</p> <p>= (£8.25 - £8.00) x 158 x 16</p> <p>= £632 Adverse (1of) AO2</p> <p>Total Labour Variance</p> <p>= (Actual Hours x Actual Rate) - (Standard Hours x Standard Rate) (1) AO1</p> <p>= (158x16x£8.25) (1of)AO2 - (160x16x£8.00) (1) AO2</p> <p>= £20 856 - £20 480 = £376 Adverse (1) AO2</p>	(13)

Question Number	Answer	Mark
2 (b)(ii)	<p>AO1 (3), AO2 (11) AO1: Three marks for correct formula. AO2: Eleven marks for correct calculations of variances.</p> <p>Material Usage Variance = (Actual Usage - Standard Usage) x Standard Price (1) AO1</p> <p>= (104 000 (1)AO2 - 102 400 (1)AO2) x £0.15 (1)AO2</p> <p>= £240 Adverse (1) AO2</p> <p>Materials Price Variance = (Actual Price - Standard Price) x Actual Usage (1) AO1</p> <p>= $\frac{15\ 808}{104\ 000}$ (1) AO2 - £0.15 (1) AO2) x 104 000 (1) AO2</p> <p>= (£0.15.2 – £0.15) x 104 000 = £208 Adverse (1) AO2</p> <p>Total Material Cost Variance</p> <p>= (Actual Usage x Actual Price) - (Standard Usage x Standard Price) (1) AO1</p> <p>= (104 000 x £0.15.2) (1of)AO2 - (102 400 x £0.15) (1) AO2</p> <p>= £15 808 - £15 360 = £448 Adverse (1) AO2</p>	(14)

Question Number	Answer	Mark
2 (c)	<p>AO1 (2), AO3 (6) AO1: Two marks for correct formula. AO3: Six marks for correct calculations of variances.</p>	(8)

Calculation of Profit			
Revenue (538 000 packets x £0.55)		295 900	(1) AO3
Opening inventory (127 000 packets x £0.12)	15 240		(1) AO3
Materials	15 808	(1) AO3	
Labour	20 856	(1) AO3	
Closing inventory (101 000 (1) AO3 packets x £0.12)	<u>(12 120)</u>		(1) AO3
Cost of Sales		<u>(39 784)</u>	
Gross Profit		256 116	
Fixed costs		<u>(24 775)</u>	(1) AO1
Profit		231 341	(1of) AO1

Question Number	Indicative Content	Mark
2 (d)	<p>AO1 (1), AO2 (1), AO3 (4), AO4 (6)</p> <p><u>Case for performed well</u></p> <p>Production target of 5 120 000 was met. The production line managed to hit this output figure in only 158 hours, which is 2 hours less than the budgeted hours. i.e. labour efficiency variance was favourable. Possibly the reason was good performance by the production department. Profit of £231 341 was made for the month which is very good. Contribution is high and so is profit margin.</p> <p><u>Case against performing well</u></p> <p>The actual wage rate was £0.25 (o/f) per hour higher than the budget figure i.e. labour rate variance was adverse. The labour cost per packet was actually £20 856 / 512 000, which is 0.4073 pence to packet, which is a higher cost than budgeted. Was this due to poor performance by the HR department, or a strong union etc.?</p> <p>The price paid for materials was above the budget, (15.2 (o/f) pence per kg compared to budgeted 15 pence per kg) i.e. material price variance was adverse. Was this due to a poor performance from the purchasing department? Or was this due to external factors outside the company's control e.g. world price of wheat rising?</p> <p>The quantity of materials used, 104 000 kg, was 1 600 kg above the budget figure of 102 400 kg i.e. material usage was adverse. The actual quantity used per packet was 104 000/ 512 000, which is 203.125 grams per packet. Was this due to a poor performance by the labour on the production line, or dated machinery etc.?</p> <p><u>Decision</u> Should relate to the valid arguments put forward by candidate.</p>	(12)

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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 non-financial information and makes informed recommendations and decisions.

Question Number	Answer	Mark
3 (a)(i)	<p>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.</p>	(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)	<p>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.</p>	(3)

Calculation of value of liabilities taken over		
As per statement of financial position	105 700 000	Both
Less Tax payable	(2 400 000)	(1) AO1
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: Four marks for calculation of purchase price.	(4)

Calculation of Purchase Price			
No. 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>		
<u>100 000 000</u> (o/f) = 20 000 000 (o/f)	£1.40		
5	(1) AO2	£28 000 000	(1of) 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	(1of) AO3
Value of assets	123 600 000		
Value of liabilities	(103 100 000)	(1of) 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.	(8)

Apr 1	Realisation a/c	16 000 000		(1) AO2
	Property a/c		16 000 000	(1) AO2
Apr 1	Trade Payables a/c	12 100 000		(1) AO2
	Realisation a/c		12 100 000	(1) AO2
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>AO4 (6)</p> <p><u>Case for shares</u> 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> 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> 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	<p>Isolated elements of knowledge and understanding which 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	<p>Elements of knowledge and understanding, which are applied to the scenario.</p> <p>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 non-financial information, with a decision.</p>	
Level 3	5-6	<p>Accurate and thorough knowledge and understanding.</p> <p>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 and perhaps non-financial information and an appropriate decision is made.</p>	

Question Number	Answer	Mark
4 (a)	AO1 (4)	(4)

Question Number	Answer	Mark
4 (b)	AO2 (4)	(4)

Question Number	Answer	Mark
4 (c)	AO2 (5)	(5)

Question Number	Answer	Mark
4 (d)	AO1 (1), AO2 (3), AO3 (5)	(9)

Question Number	Answer	Mark
4 (e)	AO3 (2)	(2)

Question Number	Indicative Content	Mark
4 (f)	<p>AO4 (6)</p> <p><u>Agree with concern</u></p> <p>The value of inventory is over £900 000 (o/f), which is a large amount. Would there be issues about security? The parts must be small, so may be easily stolen. A high inventory value means a higher bill for insurance of inventory. Having over £900 000 (o/f) tied up in inventory does not help cash flow, or the payment of bills. Would the parts become obsolete due to technology, if left in inventory for some time?</p> <p><u>Against concern</u></p> <p>Are there issues about storage space? Possible not, as they are parts for a hand held device.</p> <p><u>Other points</u></p> <p>We do not know the size of Brainboxxe plc. Is inventory of £900 000 (o/f) a large or small figure for this company?</p> <p><u>Decision</u></p> <p>The company probably should be concerned that the inventory level of parts has reached a value of over £900 000 (o/f) in four months.</p>	(6)
Level	Mark	Descriptor
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Level 1	1-2	Isolated elements of knowledge and understanding which 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	<p>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.</p> <p>Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.</p>
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Question Number	Answer	Mark
5 (a)	<p>AO2 (6) AO2: Six marks for correct calculation of figures in statement of changes in equity.</p> <p>A - 320 (1) AO2 B - 506 (1) AO2 C - 0 (1) AO2 D - 89 (1) AO2 E - 122 (1of) AO2 F - 572 (1of) AO2</p>	(6)

Question Number	Answer	Mark
5 (b)	<p>AO1 (3), AO2 (6)</p> <p>AO1: Three mark for correct reasons for creation of reserve.</p> <p>AO2: Five marks for correct examples of use of reserve.</p> <p>One mark for correct reason for creation of revaluation reserve.</p>	(9)

	Created	Utilised (Used)
Share premium reserve	Issue of ordinary shares above their nominal value (1) AO1	Write off preliminary expenses on formation of company or a share issue. OR Pay premium on redemption of shares or debentures OR Issue Bonus Shares (1) AO2
Retained earnings	Trading profits built up over past and present years (1) AO1	Dividends paid to ordinary shareholders OR Used for growth/expansion of company (1) AO2
General reserve	Transfer from Retained earnings/ profits (1) AO1	Any, perhaps unspecified, use. Issue bonus shares OR Transfer back to Retained earnings (1) AO2
Revaluation reserve	Upward revaluation of non-current asset. (1) AO2	When asset is sold (1) AO2 transferred to Income statement/ retained earnings. (1) AO2

Question Number	Answer	Mark
5 (c)	AO1 (1), AO3 (2) AO1: One mark for correct narrative. AO3: Two marks for correct Journal entries The Journal.	(3)

Figures shown in £ millions	Debit	Credit
Retained earnings	8 (1) AO3	
Foreign Exchange reserve		8 (1) AO3
Being transfer from Retained Earnings to Foreign Exchange reserve (1) AO1		

Question Number	Answer	Mark
5 (d)	AO1 (1), AO3 (5) AO1: One mark for correct narrative. AO3: Five marks for correct completion of Journal entries.	(6)

Figures shown in £ millions	Debit	Credit
Bank	20 (1) AO3	
Property		18 (1) AO3
Statement of Comprehensive Income		2 (1) AO3
Revaluation reserve	7 (1) AO3	
Statement of Comprehensive Income		7 (1) AO3
Being entries to record sale of previously revalued property (1) AO1		

Question Number	Indicative Content		Mark
5 (e)	<p>AO4 (6)</p> <p><u>Case for statement/ i.e. not very generous</u></p> <p>The dividend cover is 3.8. This means about 25% of the profit after tax has been paid as a dividend. Although the dividend per share is about 7 pence, it appears the £1 shares have been issued at a premium. Also, the market price of the share is unknown, so the dividend yield is not clear.</p> <p>The total funds in revenue reserves is £101m at the start of the year and £167m (o/f) at the end of the year, but only £23m is paid out in dividends.</p> <p><u>Case against statement/ i.e. generous dividend policy</u></p> <p>Profit after tax is £89m, of which £23m is paid out in dividends. This represents about 25% of the profit after tax, which could be said to be generous.</p> <p>Profit needs to be retained for expansion, possible future projects, and in case of financial problems in the future.</p> <p>The holder of a £1 share appears to be receiving about 7 pence as a dividend, which looks like a good return.</p> <p><u>Decision</u></p> <p>It is not possible to say exactly if the dividend policy is generous or not, conclusion possibly depends on argument put forward by candidate.</p>		(6)
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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.
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Question Number	Answer	Mark
6 (a)	<p>AO1 (5), AO2 (7) AO1: 5 marks for calculation of sales revenue and inclusion and calculation of fixed costs. AO2: 7 marks for calculation of direct labour and direct materials and profit or loss per mine.</p> <p>Workings: <u>Direct materials</u></p> $\frac{29\,760\,000}{32\,000} = 930 \text{ kilos (1) AO2} \times \text{£11 000 per kilo}$ $= \text{£10 230 000 (1) AO2}$ <p><u>Fixed Costs</u></p> $\frac{\text{£135 000 000}}{15} = \text{£9 000 000 per year (1) AO1}$ $+ \text{£5 880 000} = \text{£14 880 000 (1) AO1}$	(12)

	<u>Boksville</u>		<u>Igolide</u>		<u>Orange Deep</u>	
Sales Revenue	22 400 000	(1) AO1	17 600 000	(1) AO1	29 760 000	
Direct Labour	17 500 000		8 800 000	(1) AO2	17 670 000	
Direct Materials	7 000 000		3 300 000	(1) AO2	10 230 000	(2) AO2
Fixed Costs	<u>10 500 000</u>		<u>4 400 000</u>		<u>14 880 000</u>	(2) AO1
Total costs	35 000 000		16 500 000		42 780 000	(1of) AO1
Profit (Loss)	(12 600 000)	(1of) AO2	1 100 000	(1of) AO2	(13 020 000)	(1of) AO2

Question Number	Answer	Mark
6 (b)	<p>AO2 (5), AO3 (7) AO2: 5 marks for calculation of direct labour, direct materials, and profit or loss per unit. AO3: 7 marks for calculation of sales revenue, contribution and fixed costs per unit.</p>	(12)

Per kilo	<u>Boksville</u>		<u>Igolide</u>		<u>Orange Deep</u>	
Sales Revenue	32 000		32 000		32 000	(1) A03
						all three
Direct Labour	25 000	both	16 000		19 000	(1) A02
Direct Materials	10 000	(1) A02	6 000		11 000	
				all three		both
Contribution	(3 000)	(1of) A03	10 000	(1of) A03	2 000	(1of) A03
Fixed Costs	15 000	(1) A03	8 000	(1) A03	16 000	(1) A03
Profit (Loss)	(18 000)	(1of) A02	2 000	(1of) A02	(14 000)	(1of) A02

Question Number	Indicative Content	Mark
6 (c)	<p>AO4 (6)</p> <p>Boksville</p> <p>Makes a negative contribution (o/f), so should not be reopened, even in the short term. Also makes a loss (o/f)</p> <p>Igolide</p> <p>Makes a positive contribution (o/f), so should be reopened. Makes a profit (o/f), so should stay open in the long term.</p> <p>Orange Deep</p> <p>Makes a positive contribution (o/f), so could be reopened. However, makes an overall loss (o/f), so should not stay open in the long term.</p>	(6)
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