

Mark Scheme Summer 2009

GCE

GCE Accounting (8011-9011)

Section A

Question Number	Answer	Mark																																																																																																																																																																																																																							
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I : Provisions for liabilities and charges				
Taxation Provision			71000	✓
J : Accruals and deferred income				
			1706100	✓ O/F
K :Capital and reserves ✓				
<i>I Ordinary share capital called up</i>	598800			✓
<i>II Share premium account</i>	240000			✓
<i>III Revaluation reserve ✓</i>	50000			✓
<i>IV Other Reserves - Foreign Exchange Reserve</i>	87000			✓
<i>V Profit and loss account</i>	730300			✓
			1706100	✓ O/F
9 x ✓				31 x ✓
		Total	40 x ✓ =	40 marks

Notes to Mark Scheme

Called up share capital not paid 1200 may appear under C II Current assets (Debtors).
 Prepayments 3300 may appear under D Prepayments and Accrued Income.
 Taxation Provision 71000 may appear under E Creditors due within one year.
 Headings should appear on the face of the balance sheet to get the tick.

(40)

Question Number	Answer	Mark
1(b)	<p>FOR Importance of Balance Sheet:</p> <ul style="list-style-type: none"> • shows items of value firm possesses and may use for running firm over long term ✓ (fixed assets), ie shows financial strength of firm. ✓ • shows liquidity position of firm ✓ by Net Current Assets (Current Assets - Current Liabilities) ✓ • shows financial weaknesses of firm ✓ (long term liabilities - debt that must be serviced) ✓ • shows a book value of the firm, ie Capital and Reserves ✓ • Shareholders can see the book value of their investment ✓ • some figures in the Profit & Loss account may be estimates ✓ for example depreciation and stock values. ✓ <p>FOR importance of Profit & Loss Account:</p> <ul style="list-style-type: none"> • shows how well the firm has performed over the last trading period. ✓ This is very important as for example balance sheet may look healthy, but trading at a loss ✓ • enables firm to see the relationship between sales and purchasing/production ✓ ie Gross Profit ✓ • enables the firm to see the relationship between Gross Profit and Expenses ✓ ie Net profit ✓ • some figures in the Balance Sheet may be estimates ✓ for example depreciation and stock values. ✓ <p>Maximum of 8 x ✓'s for argument on one side.</p> <p>CONCLUSION Should relate to points made above. For example balance Sheet is more important. ✓✓2 ✓'s for conclusion.</p>	(12)

(Total 52 Marks)

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2(a)	<table border="1"> <thead> <tr> <th></th> <th>Budget £</th> <th>Actual £</th> <th>Variance £</th> <th></th> <th></th> </tr> </thead> <tbody> <tr> <td>Sales</td> <td>168 000</td> <td>159 750</td> <td>8250</td> <td>ADV</td> <td>✓</td> </tr> <tr> <td>Less</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td> Material Costs</td> <td>27 000</td> <td>30 160</td> <td>3160</td> <td>ADV</td> <td>✓</td> </tr> <tr> <td> Labour Costs</td> <td>29 440</td> <td>29 016</td> <td>424</td> <td>FAV</td> <td>✓</td> </tr> <tr> <td> Variable Overheads</td> <td>12 310</td> <td>13 358</td> <td>1048</td> <td>ADV</td> <td>✓</td> </tr> <tr> <td>= Cost of Goods Sold</td> <td>68 750</td> <td>72 534</td> <td>3784</td> <td>ADV</td> <td>✓</td> </tr> <tr> <td>Gross Profit</td> <td>99 250</td> <td>87 216</td> <td>12034</td> <td>ADV</td> <td>✓</td> </tr> <tr> <td> Fixed Overheads</td> <td>58 500</td> <td>58 500</td> <td>0</td> <td></td> <td>✓</td> </tr> <tr> <td>Net Profit</td> <td>40 750</td> <td>28 716</td> <td>12034</td> <td>ADV</td> <td>✓</td> </tr> </tbody> </table>		Budget £	Actual £	Variance £			Sales	168 000	159 750	8250	ADV	✓	Less						Material Costs	27 000	30 160	3160	ADV	✓	Labour Costs	29 440	29 016	424	FAV	✓	Variable Overheads	12 310	13 358	1048	ADV	✓	= Cost of Goods Sold	68 750	72 534	3784	ADV	✓	Gross Profit	99 250	87 216	12034	ADV	✓	Fixed Overheads	58 500	58 500	0		✓	Net Profit	40 750	28 716	12034	ADV	✓	(8)
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2(b)(i)	$\frac{£30\ 160 \text{ } \pounds}{400\ 000 \text{ } \pounds} \times 0.145 \text{ } \pounds = 0.52 \text{ kg } \pounds$	(4)

Question Number	Answer	Mark
2(b)(ii)	<p>Material Usage Variance = (Actual Usage - Standard Usage) x Standard Price \pounds</p> $= (0.52 \text{ o/f} - 0.50) \text{ } \pounds \times £0.135 \text{ } \pounds \times 400\ 000 \text{ } \pounds$ $= £1080 \text{ } \pounds \text{ Adverse } \pounds$	(6)

Question Number	Answer	Mark
2(b)(iii)	<p>Material Price Variance = (Actual Price - Standard Price) x Actual Usage \pounds</p> $= (£0.145 - £0.135) \text{ } \pounds \times 0.52 \text{ o/f kg } \pounds \times 400\ 000 \text{ } \pounds$ $= £2080 \text{ } \pounds \text{ Adverse } \pounds$	(6)

Question Number	Answer	Mark
2(c)(i)	$\frac{\pounds 29\,016 \text{ } \checkmark}{\pounds 5.85 \text{ } \checkmark \times 32 \text{ } \checkmark} = 155 \text{ hours } \checkmark$	(4)

Question Number	Answer	Mark
2(c)(ii)	<p>Labour Efficiency Variance = (Actual Hours - Standard hours) x Standard Rate \checkmark</p> $= (155 \text{ o/f} - 160) \checkmark \times 32 \checkmark \times \pounds 5.75 \checkmark$ $= \pounds 920 \checkmark \text{ Favourable } \checkmark$	(6)

Question Number	Answer	Mark
2(c)(iii)	<p>Labour Rate Variance = (Actual Rate - Standard Rate) x Actual Hours \checkmark</p> $= (\pounds 5.85 - \pounds 5.75) \checkmark \times 32 \checkmark \times 155 \text{ o/f } \checkmark$ $= \pounds 496 \checkmark \text{ Adverse } \checkmark$	(6)

Question Number	Answer	Mark
2(d)	<p>Evaluation of best course of action to take.</p> <p>Answers may include:</p> <ul style="list-style-type: none"> • selling price below budget \checkmark competitive market? \checkmark Difficult to raise price \checkmark promotions? \checkmark • Investigate why 0.52 kg of material used per loaf. Wastage? \checkmark Could reduce this figure. \checkmark • World price of wheat rising. \checkmark Difficult to reduce purchase price. \checkmark • However, firm could try to find cheaper suppliers \checkmark or receive discounts for buying in greater bulk. \checkmark • Labour just had a pay rise. \checkmark Difficult to now reduce pay rate. \checkmark • Hours used less than budget. \checkmark Any scope possible for further reduction? \checkmark • Variable overheads difficult to reduce rate, \checkmark but could reduce usage. \checkmark • Fixed overheads unlikely to reduce rent, or managers salaries. \checkmark Lay off staff? \checkmark <p>Conclusion Probably best to try to control quantity of material used in production. $\checkmark\checkmark$ (This could be included in evaluation of action points above.)</p>	(12)

(Total 52 marks)

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3(a)(i)	<p>Calculation of Purchase price for Wessex Quarries Limited</p> <table border="1"> <thead> <tr> <th></th> <th>Wessex Quarries Ltd</th> </tr> </thead> <tbody> <tr> <td>Buildings</td> <td>160</td> </tr> <tr> <td>Machinery</td> <td>380 <i>✓</i> Any two FA</td> </tr> <tr> <td>Furniture</td> <td>37</td> </tr> <tr> <td>Vehicles</td> <td>145 <i>✓</i> Any two FA</td> </tr> <tr> <td>Stock</td> <td>25</td> </tr> <tr> <td>Debtors</td> <td>22 <i>✓</i> Any two CA</td> </tr> <tr> <td>Bank</td> <td>12</td> </tr> <tr> <td>Cash</td> <td>2 <i>✓</i> Any two CA</td> </tr> <tr> <td>Goodwill</td> <td>30 <i>✓</i></td> </tr> <tr> <td></td> <td></td> </tr> <tr> <td>Creditors</td> <td>(72) <i>✓</i></td> </tr> <tr> <td></td> <td></td> </tr> <tr> <td>Purchase Price</td> <td>741 <i>✓</i> o/f <i>✓</i> C</td> </tr> </tbody> </table>		Wessex Quarries Ltd	Buildings	160	Machinery	380 <i>✓</i> Any two FA	Furniture	37	Vehicles	145 <i>✓</i> Any two FA	Stock	25	Debtors	22 <i>✓</i> Any two CA	Bank	12	Cash	2 <i>✓</i> Any two CA	Goodwill	30 <i>✓</i>			Creditors	(72) <i>✓</i>			Purchase Price	741 <i>✓</i> o/f <i>✓</i> C	(8)
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3(a)(ii)	Purchase Price $\frac{\pounds 741\ 000}{\pounds 1.50} \checkmark$ o/f = 494 000 shares <i>✓</i> o/f <i>✓</i> C $\pounds 1.50 \checkmark$	(4)

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Question Number	Answer	Mark																																										
3(c)	<p>Balance sheet of Roadworks Limited as at April 1st 2007</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">Roadworks Limited</th> </tr> </thead> <tbody> <tr> <td>Buildings</td> <td style="text-align: right;">440 £</td> </tr> <tr> <td>Machinery</td> <td style="text-align: right;">1330 £</td> </tr> <tr> <td>Furniture</td> <td style="text-align: right;">97 £</td> </tr> <tr> <td>Vehicles</td> <td style="text-align: right;">695 £</td> </tr> <tr> <td>Goodwill</td> <td style="text-align: right;">304 £</td> </tr> <tr> <td>Fixed Assets Total</td> <td style="text-align: right;">2866</td> </tr> <tr> <td>Stock</td> <td style="text-align: right;">80 £</td> </tr> <tr> <td>Debtors</td> <td style="text-align: right;">44 £</td> </tr> <tr> <td>Bank</td> <td style="text-align: right;">48 £</td> </tr> <tr> <td>Cash</td> <td style="text-align: right;">23 £</td> </tr> <tr> <td>Current Assets Total</td> <td style="text-align: right;">195</td> </tr> <tr> <td>Creditors</td> <td style="text-align: right;">118 £</td> </tr> <tr> <td>Working capital</td> <td style="text-align: right;">77</td> </tr> <tr> <td></td> <td></td> </tr> <tr> <td>Net Assets</td> <td style="text-align: right;">2943 £ C</td> </tr> <tr> <td></td> <td></td> </tr> <tr> <td>Ordinary Shares of £1 each</td> <td style="text-align: right;">1962 £</td> </tr> <tr> <td>Share Premium @ 50p share</td> <td style="text-align: right;">981 £</td> </tr> <tr> <td>Capital Employed</td> <td style="text-align: right;">2943 £ C</td> </tr> <tr> <td></td> <td></td> </tr> </tbody> </table>	Roadworks Limited		Buildings	440 £	Machinery	1330 £	Furniture	97 £	Vehicles	695 £	Goodwill	304 £	Fixed Assets Total	2866	Stock	80 £	Debtors	44 £	Bank	48 £	Cash	23 £	Current Assets Total	195	Creditors	118 £	Working capital	77			Net Assets	2943 £ C			Ordinary Shares of £1 each	1962 £	Share Premium @ 50p share	981 £	Capital Employed	2943 £ C			(14)
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Question Number	Answer	Mark
3(d)	<p>Evaluation of merger</p> <p>Possible answers could include:</p> <p>For Merger Shareholders in Highway Connections “receive a profit” on realisation of £341 000 o/f ✓ also Goodwill valuation of £274 000. ✓ New company should enjoy benefits of vertical integration as in same line of business. ✓ New company could enjoy economies of scale ✓ for example bulk buying of machinery ✓ Or enjoy managerial economies of scale ✓ or marketing economies of scale ✓ Larger company could enjoy financial benefits for example easier to get bank loans ✓ at a lower interest rate. ✓</p> <p>Against Merger Dilution of ownership ✓ and voting power. ✓ Wessex Quarries do not appear to be in a healthy financial state ✓ for example negative profit & loss reserve. ✓ Original Wessex balance sheet appears to have many assets overvalued ✓ for example machinery overvalued by £100 000. Also liquidity position of Wessex is worrying ✓ as they appear to have low working capital ratio/negative working capital ✓ . Wessex may be a drain on the liquid resources of the new company, ✓ especially with the large amount of creditors to pay. ✓ We do not know the market price of the Highway Connections shares. ✓ We do not know what the market price of Roadworks shares are likely to be. ✓</p> <p>(Maximum of 8 marks for argument if candidate argues only one side of argument)</p> <p>Evaluation Should conclude and relate to points made above. ✓✓</p>	(12)

(Total 52 marks)

Section B

Question Number	Answer	Mark						
4(a)(i)	Purchases Budget (£)	(3)						
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%;">MONTH 1</td> <td style="width: 33%;">MONTH 2</td> <td style="width: 33%;">MONTH 3</td> </tr> <tr> <td style="text-align: center;">£9 600 <i>✓</i></td> <td style="text-align: center;">£9 600 <i>✓</i></td> <td style="text-align: center;">£9 600 <i>✓</i></td> </tr> </table>		MONTH 1	MONTH 2	MONTH 3	£9 600 <i>✓</i>	£9 600 <i>✓</i>	£9 600 <i>✓</i>
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£9 600 <i>✓</i>	£9 600 <i>✓</i>	£9 600 <i>✓</i>						

Question Number	Answer	Mark						
4(a)(ii)	Purchases Budget - Units	(3)						
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%;">MONTH 1</td> <td style="width: 33%;">MONTH 2</td> <td style="width: 33%;">MONTH 3</td> </tr> <tr> <td style="text-align: center;">240 <i>✓</i></td> <td style="text-align: center;">240 <i>✓</i></td> <td style="text-align: center;">240 <i>✓</i></td> </tr> </table>		MONTH 1	MONTH 2	MONTH 3	240 <i>✓</i>	240 <i>✓</i>	240 <i>✓</i>
	MONTH 1		MONTH 2	MONTH 3				
240 <i>✓</i>	240 <i>✓</i>	240 <i>✓</i>						

Question Number	Answer	Mark						
4(a)(iii)	Production Budget - Units	(3)						
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%;">MONTH 1</td> <td style="width: 33%;">MONTH 2</td> <td style="width: 33%;">MONTH 3</td> </tr> <tr> <td style="text-align: center;">180 <i>✓</i></td> <td style="text-align: center;">240 <i>✓</i></td> <td style="text-align: center;">240 <i>✓</i></td> </tr> </table>		MONTH 1	MONTH 2	MONTH 3	180 <i>✓</i>	240 <i>✓</i>	240 <i>✓</i>
	MONTH 1		MONTH 2	MONTH 3				
180 <i>✓</i>	240 <i>✓</i>	240 <i>✓</i>						

Question Number	Answer	Mark						
4(a)(iv)	Sales Budget - Units	(3)						
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%;">MONTH 1</td> <td style="width: 33%;">MONTH 2</td> <td style="width: 33%;">MONTH 3</td> </tr> <tr> <td style="text-align: center;">110 <i>✓</i></td> <td style="text-align: center;">220 <i>✓</i></td> <td style="text-align: center;">220 <i>✓</i></td> </tr> </table>		MONTH 1	MONTH 2	MONTH 3	110 <i>✓</i>	220 <i>✓</i>	220 <i>✓</i>
	MONTH 1		MONTH 2	MONTH 3				
110 <i>✓</i>	220 <i>✓</i>	220 <i>✓</i>						

Question Number	Answer	Mark												
4(a)(v)	Stock Budget - Units	(6)												
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 16.6%;">MONTH 1</td> <td style="width: 16.6%;">MONTH 2</td> <td style="width: 16.6%;">MONTH 3</td> </tr> <tr> <td>To Stock each month</td> <td style="text-align: center;">70 <i>✓</i></td> <td style="text-align: center;">20 <i>✓</i></td> <td style="text-align: center;">20 <i>✓</i></td> </tr> <tr> <td>Total in Stock</td> <td style="text-align: center;">70 <i>✓</i></td> <td style="text-align: center;">90 <i>✓</i></td> <td style="text-align: center;">110 <i>✓</i></td> </tr> </table>			MONTH 1	MONTH 2	MONTH 3	To Stock each month	70 <i>✓</i>	20 <i>✓</i>	20 <i>✓</i>	Total in Stock	70 <i>✓</i>	90 <i>✓</i>	110 <i>✓</i>
			MONTH 1	MONTH 2	MONTH 3									
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Question Number	Answer	Mark						
4(a)(vi)	Creditors Budget (£)	(3)						
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%;">MONTH 1</td> <td style="width: 33%;">MONTH 2</td> <td style="width: 33%;">MONTH 3</td> </tr> <tr> <td style="text-align: center;">£7 200 <i>✓</i></td> <td style="text-align: center;">£7 200 <i>✓</i></td> <td style="text-align: center;">£7 200 <i>✓</i></td> </tr> </table>		MONTH 1	MONTH 2	MONTH 3	£7 200 <i>✓</i>	£7 200 <i>✓</i>	£7 200 <i>✓</i>
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Question Number	Answer	Mark						
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MONTH 1	MONTH 2	MONTH 3						
£33 000 ✓	£66 000 ✓	£66 000 ✓						

Question Number	Answer	Mark
4(b)	<p>For Decision</p> <ul style="list-style-type: none"> • Makes full use of factory ✓ ie capacity utilisation is 100%, ✓ no wastage ✓ • Sales may be more than 55 a week. ✓ Able to meet this demand from production ✓ or stock. ✓ • In the event of production breakdown ✓ customers orders can be met ✓ this will maintain customer loyalty. ✓ • Beds kept in stock do not deteriorate / perish ✓ so money is not lost. ✓ <p>Against Decision</p> <ul style="list-style-type: none"> • Stock is building up continually, ✓ and this involves a number of costs for example rent ✓ insurance ✓ and ties up working capital. ✓✓ • Eventually will run out of storage space, ✓ so must find alternative premises ✓ or reduce production. ✓ • It is possible that beds could deteriorate in stock ✓ for example due to dampness. ✓ • Possible that tastes change ✓ and firm left with stock that they cannot sell. ✓ <p>Maximum of 4 marks for arguing one side only.</p> <p>Evaluation 2 marks available for overall conclusion, should relate to points made above.</p>	(8)

(Total 32 marks)

Question Number	Answer	Mark
5(a)(i)	Earnings per ordinary share = $\frac{\pounds 400\,000 \text{ } \cancel{J}}{2\,500\,000 \text{ } \cancel{J}}$ = 16p \cancel{J}	(3)

Question Number	Answer	Mark
5(a)(ii)	Dividend paid per share = $\frac{\pounds 350\,000 \text{ } \cancel{J}}{2\,500\,000 \text{ } \cancel{J}}$ = 14p \cancel{J}	(3)

Question Number	Answer	Mark
5(a)(iii)	Price/Earnings ratio = $\frac{\pounds 1.85 \cancel{J}}{16 \cancel{J} \text{ o/f}}$ = 11.56 times/ years \cancel{J}	(3)

Question Number	Answer	Mark
5(a)(iv)	Dividend cover = $\frac{\pounds 400\,000 \text{ } \cancel{J}}{\pounds 350\,000 \text{ } \cancel{J}}$ = 1.142 times \cancel{J}	(3)

Question Number	Answer	Mark
5(b)(i)	Total ordinary dividend for the year = 4.8p \cancel{J} x 3 000 000 \cancel{J} = $\pounds 144\,000 \cancel{J}$	(3)

Question Number	Answer	Mark
5(b)(ii)	Share price = 4.32 \cancel{J} x 20 \cancel{J} = 86.4p \cancel{J}	(3)

Question Number	Answer	Mark
5(b)(iii)	Net profit after interest and tax = $\pounds 144\,000 \text{ o/f } \cancel{J}$ x 0.9 \cancel{J} = $\pounds 129\,600 \cancel{J}$	(3)

Question Number	Answer	Mark
5(b)(iv)	Dividend yield = $\frac{4.8 \text{ } \cancel{J}}{86.4 \text{ } \cancel{J} \text{ o/f}}$ = 5.55% \cancel{J}	(3)

Question Number	Answer	Mark																																
5(c)	<p>Company doing WORSE in 2008-9</p> <table border="1"> <thead> <tr> <th></th> <th>2007-8</th> <th>2008-9</th> <th>Difference</th> </tr> </thead> <tbody> <tr> <td>Net Profit after Interest and tax worse ✓</td> <td>£400 000</td> <td>£129 600 o/f</td> <td>£270 400 ✓</td> </tr> <tr> <td>Earnings per share worse ✓</td> <td>16p o/f</td> <td>4.32p</td> <td>11.68p ✓</td> </tr> <tr> <td>Dividend paid worse ✓</td> <td>£350 000</td> <td>£144 000 o/f</td> <td>£206 000 ✓</td> </tr> <tr> <td>Share price worse ✓</td> <td>£1.85</td> <td>86.4p o/f</td> <td>98.6p ✓</td> </tr> <tr> <td>Dividend per share worse ✓</td> <td>14p o/f</td> <td>4.8p</td> <td>9.2p ✓</td> </tr> </tbody> </table> <p>Company doing BETTER in 2008-9</p> <table border="1"> <thead> <tr> <th></th> <th>2007-8</th> <th>2008-9</th> <th>Difference</th> </tr> </thead> <tbody> <tr> <td>Price/Earnings Ratio better ✓</td> <td>11.56 o/f</td> <td>20</td> <td>8.44 ✓</td> </tr> </tbody> </table> <p>Maximum of 4 marks for arguing one side only.</p> <p>Conclusion 2 marks - company is doing worse in 2008-9.</p>		2007-8	2008-9	Difference	Net Profit after Interest and tax worse ✓	£400 000	£129 600 o/f	£270 400 ✓	Earnings per share worse ✓	16p o/f	4.32p	11.68p ✓	Dividend paid worse ✓	£350 000	£144 000 o/f	£206 000 ✓	Share price worse ✓	£1.85	86.4p o/f	98.6p ✓	Dividend per share worse ✓	14p o/f	4.8p	9.2p ✓		2007-8	2008-9	Difference	Price/Earnings Ratio better ✓	11.56 o/f	20	8.44 ✓	(8)
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(Total 32 marks)

Question Number	Answer	Mark																																																	
6 (a)(i)	<p>Payback Period</p> <p>$210 \times 500 \times \text{£}20 = \text{£} 2\,100\,000 \text{ } \textit{J}\textit{J}$</p> <p>$210 \times 600 \times \text{£}25 = \text{£} 3\,150\,000 \text{ } \textit{J}\textit{J}$</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Cash Inflow</th> <th>Cash Outflow</th> <th></th> <th>Net Cash Flow</th> <th></th> <th>Cumulative</th> </tr> </thead> <tbody> <tr> <td>0</td> <td></td> <td>6,000,000</td> <td></td> <td>6,000,000</td> <td><i>J</i></td> <td></td> </tr> <tr> <td>1</td> <td>2,100,000</td> <td>820,000</td> <td><i>J}\textit{J}</i></td> <td>1,280,000</td> <td><i>J</i> o/f</td> <td>-4,720,000</td> </tr> <tr> <td>2</td> <td>2,100,000</td> <td>820,000</td> <td></td> <td>1,280,000</td> <td></td> <td>-3,440,000</td> </tr> <tr> <td>3</td> <td>2,100,000</td> <td>820,000</td> <td></td> <td>1,280,000</td> <td></td> <td>-2,160,000</td> </tr> <tr> <td>4</td> <td>3,150,000</td> <td>1,020,000</td> <td><i>J}\textit{J}</i></td> <td>2,130,000</td> <td><i>J</i></td> <td>-30,000</td> </tr> <tr> <td>5</td> <td>3,150,000</td> <td>1,020,000</td> <td></td> <td>2,130,000</td> <td></td> <td>2,100,000</td> </tr> </tbody> </table> <p>Pay back is after 4 and $\frac{30}{2130}$ years = 4 years 0.16 months (5 days) <i>J}\textit{J}</i> o/f <i>J</i> o/f</p>	Year	Cash Inflow	Cash Outflow		Net Cash Flow		Cumulative	0		6,000,000		6,000,000	<i>J</i>		1	2,100,000	820,000	<i>J}\textit{J}</i>	1,280,000	<i>J</i> o/f	-4,720,000	2	2,100,000	820,000		1,280,000		-3,440,000	3	2,100,000	820,000		1,280,000		-2,160,000	4	3,150,000	1,020,000	<i>J}\textit{J}</i>	2,130,000	<i>J</i>	-30,000	5	3,150,000	1,020,000		2,130,000		2,100,000	(14)
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Question Number	Answer	Mark
6(a)(ii)	<p>Average Rate of Return</p> <p>Total Surplus of Project = $\frac{\text{£} 8\,100\,000}{\textit{J}} \text{ o/f} - \frac{\text{£} 6\,000\,000}{\textit{J}} = \frac{\text{£} 2\,100\,000}{\textit{J} \text{ o/f}}$</p> <p>Average Annual return = $\frac{\text{£} 2\,100\,000}{5 \text{ years } \textit{J}} \text{ o/f } \textit{J} = \text{£}420\,000 \text{ per year o/f } \textit{J}$</p> <p>Average rate of return = $\frac{\text{£} 420\,000}{\text{£} 6\,000\,000 \textit{J}} \text{ o/f } \textit{J} \times 100 = 7\% \text{ o/f } \textit{J} \textit{J}\textit{C}$</p> <p>Other formulae for calculating Average Rate of Return could receive full marks.</p>	(10)

Question Number	Answer	Mark
6(b)	<p>Evaluation Answers may include :</p> <p>FOR INVESTMENT</p> <ul style="list-style-type: none"> • Payback method invest ✓ as project profitable overall ✓ and within 5 year payback period. ✓ <p>AGAINST INVESTMENT</p> <ul style="list-style-type: none"> • ARR states do not invest ✓ as fails to meet % return figure of 10% ✓ <p>Other Relevant Points: Accuracy of predictions? ✓ What happens after 5 years? ✓ Other possible investment projects available? ✓ Objectives/strategy of company? ✓ If incomes fall ✓ consumers are likely to reduce expenditure on leisure activities (income elastic). ✓</p> <p>Total of 4 marks for arguing one side only. Conclusion : Must relate to points made above. ✓✓</p>	(8)

(Total 32 marks)

Question Number	Answer	Mark																																																
7(a)	<table border="1"> <thead> <tr> <th></th> <th>Nevgrad</th> <th>Ostorov</th> <th>Yutanga</th> <th>Total</th> <th></th> </tr> </thead> <tbody> <tr> <td>Sales Revenue</td> <td>2160000/</td> <td>1920000/</td> <td>2640000/</td> <td>6720000</td> <td></td> </tr> <tr> <td>Direct Labour</td> <td>1,620,000</td> <td>1,080,000</td> <td>1,265,000</td> <td>3965000</td> <td></td> </tr> <tr> <td>Direct Materials</td> <td>630,000</td> <td>680,000</td> <td>605,000</td> <td>1915000</td> <td></td> </tr> <tr> <td>Fixed Costs</td> <td>270,000</td> <td>320,000</td> <td>440,000</td> <td>1030000</td> <td></td> </tr> <tr> <td></td> <td>All costs</td> <td>All costs</td> <td>All costs</td> <td></td> <td></td> </tr> <tr> <td></td> <td>∫</td> <td>∫</td> <td>∫</td> <td></td> <td></td> </tr> <tr> <td>Profit (Loss)</td> <td>-360000/ o/f</td> <td>-160000/ o/f</td> <td>330000/ o/f</td> <td>-190000</td> <td>∫o/f∫∫ C</td> </tr> </tbody> </table>		Nevgrad	Ostorov	Yutanga	Total		Sales Revenue	2160000/	1920000/	2640000/	6720000		Direct Labour	1,620,000	1,080,000	1,265,000	3965000		Direct Materials	630,000	680,000	605,000	1915000		Fixed Costs	270,000	320,000	440,000	1030000			All costs	All costs	All costs				∫	∫	∫			Profit (Loss)	-360000/ o/f	-160000/ o/f	330000/ o/f	-190000	∫o/f∫∫ C	(12)
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7(b)	<table border="1"> <thead> <tr> <th>Per BTU</th> <th>Nevgrad</th> <th>Ostorov</th> <th>Yutanga</th> </tr> </thead> <tbody> <tr> <td>Sales Revenue</td> <td>24/</td> <td>24/</td> <td>24/</td> </tr> <tr> <td>Direct Labour</td> <td>18</td> <td>13.5</td> <td>11.5</td> </tr> <tr> <td>Direct Materials</td> <td>7</td> <td>8.5</td> <td>5.5</td> </tr> <tr> <td>Fixed Costs</td> <td>3</td> <td>4</td> <td>4</td> </tr> <tr> <td></td> <td>All costs</td> <td>All costs</td> <td>All costs</td> </tr> <tr> <td></td> <td>∫</td> <td>∫</td> <td>∫</td> </tr> <tr> <td>Profit (Loss)</td> <td>-4/</td> <td>-2/</td> <td>3/</td> </tr> <tr> <td>Contribution</td> <td>-1/</td> <td>2/</td> <td>7/</td> </tr> </tbody> </table>	Per BTU	Nevgrad	Ostorov	Yutanga	Sales Revenue	24/	24/	24/	Direct Labour	18	13.5	11.5	Direct Materials	7	8.5	5.5	Fixed Costs	3	4	4		All costs	All costs	All costs		∫	∫	∫	Profit (Loss)	-4/	-2/	3/	Contribution	-1/	2/	7/	(12)
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(Total 32 marks)