

AS
ACCOUNTING
7126

PAPER 1 FINANCIAL AND MANAGEMENT ACCOUNTING

Mark scheme

Specimen

V 1.0

Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Assessment Writer.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Further copies of this mark scheme are available from aqa.org.uk

Level of response marking instructions

Level of response mark schemes are broken down into levels, each of which has a descriptor. The descriptor for the level shows the average performance for the level. There are marks in each level.

Before you apply the mark scheme to a student's answer read through the answer and annotate it (as instructed) to show the qualities that are being looked for. You can then apply the mark scheme.

Step 1 Determine a level

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptor for that level. The descriptor for the level indicates the different qualities that might be seen in the student's answer for that level. If it meets the lowest level then go to the next one and decide if it meets this level, and so on, until you have a match between the level descriptor and the answer. With practice and familiarity, you will find that for better answers you will be able to quickly skip through the lower levels of the mark scheme.

When assigning a level, you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best fit approach for defining the level and then use the variability of the response to help decide the mark within the level, ie if the response is predominantly level 3 with a small amount of level 4 material it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

Step 2 Determine a mark

Once you have assigned a level you need to decide on the mark. The descriptors on how to allocate marks can help with this. The exemplar materials used during standardisation will help. There will be an answer in the standardising materials which will correspond with each level of the mark scheme. This answer will have been awarded a mark by the Lead Examiner. You can compare the student's answer with the example to determine if it is the same standard, better or worse than the example. You can then use this to allocate a mark for the answer based on the Lead Examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

Indicative content in the mark scheme is provided as a guide for examiners. It is not intended to be exhaustive and you must credit other valid points. Students do not have to cover all of the points mentioned in the Indicative content to reach the highest level of the mark scheme.

An answer which contains nothing of relevance to the question must be awarded no marks.

Examiners are required to assign each of the students' responses to the most appropriate level according to its overall quality, then allocate a single mark within the level. When deciding upon a mark in a level examiners should bear in mind the relative weightings of the assessment objectives and be careful not to over/under credit a particular skill. For example, in questions 18 and 19 more weight should be given to AO3 than to AO2. This will be exemplified and reinforced as part of examiner training.

The own figure rule

General principle

The own figure rule is designed to ensure that students are only penalised once for a particular error at the point at which that error is made, and suffer no further penalty as consequence of the error. The error could be in an account, a calculation, financial statement, or prose explanation. Where the own figure rule is to be applied in a mark scheme, the symbol **OF** is used.

Applications

In an account: a student could still achieve a mark for balancing an account with their own figure, rather than the correct figure, if they had made an error in the account (such as the omission of an entry, or the inclusion of an incorrect figure for an otherwise valid entry). However, it should be noted that an own figure would not be awarded for the balance of an account, if the account contained any item which should not have appeared (often referred to as an 'alien' item).

In a complex calculation to which several marks are allocated: a student could achieve an own figure mark for the result of a complex calculation, if an error has been made in one of the steps leading to the final result. The complex calculation could be a separate task, or an aspect of a larger requirement (such as workings to provide details for a financial statement).

In a financial statement: a student could still achieve a mark for calculating an own figure for a key subtotal within a financial statement where an error had already occurred in the data making up the subsection (such as the omission of an item, or an incorrect figure for an otherwise valid entry). Again, the own figure for a subtotal would not be given if the subsection included any 'alien' item.

In a prose statement: a student who is explaining or interpreting some financial statements or data that they have prepared but which contains errors, would be credited with an appropriate interpretation of their own figures.

Workings

A '**W**' next to a figure in the mark schemes means that the figure needs to be calculated by the student to which workings are shown for reference. If the figure the student has given in their answer is wrong and the marks given for that calculation are more than 1 then the marker must refer to the working for that item. The working will show the steps of the calculation to which the marks are attributed and the student should be allocated the marks for the steps they completed correctly.

Section A

MULTIPLE CHOICE QUESTIONS

AO1 – 10 marks

Question Number	Answer
1	C
2	B
3	B
4	A
5	C
6	D
7	B
8	C
9	D
10	B

(1 mark for each correct answer)

Qu	Part	Marking guidance	Total marks
11	1	<p>Closing inventory that cost £12 600 has been damaged. It can be repaired at a cost of £2000 and could then be sold for £13 880.</p> <p>Identify the accounting concept that should be applied to the valuation of inventory.</p>	1

AO1 – 1 mark

1 mark for correct answer

Answer: Prudence

11	2	State how the concept identified in question 11.1 is applied to the valuation of closing inventory that has been damaged.	2
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AO1 – 2 marks

1 mark for stating either cost or net realisable value

1 mark for stating that it should be the lower of the two realisable values

11	3	Calculate the value of closing inventory.	1
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AO1 – 1 mark

1 mark for correct answer

Answer: £11 880

Working: £13 880 – £2000 = £11 880 which is lower than cost £12 600

12	1	<p>The following balances have been extracted from the books of account for the year ended 31 December 2015.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: center;">£</th> </tr> </thead> <tbody> <tr> <td>Closing inventory</td> <td style="text-align: right;">22 000</td> </tr> <tr> <td>Opening inventory</td> <td style="text-align: right;">18 000</td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">204 000</td> </tr> <tr> <td>Revenue</td> <td style="text-align: right;">280 000</td> </tr> </tbody> </table> <p>State the formula for the mark-up percentage.</p>		£	Closing inventory	22 000	Opening inventory	18 000	Purchases	204 000	Revenue	280 000	1
	£												
Closing inventory	22 000												
Opening inventory	18 000												
Purchases	204 000												
Revenue	280 000												

AO1 – 1 mark

1 mark for the correct answer

Answer:
$$\frac{\text{Gross profit} \times 100\%}{\text{Cost of sales}}$$

12	2	Calculate the mark-up percentage.	1
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AO1 – 1 mark

1 mark for correct answer

Answer: 40%

Working:
$$\frac{80\,000}{200\,000} \times 100\%$$

12	3	State the formula to calculate the rate of inventory turnover.	1
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AO1 – 1 mark

1 mark for correct answer

Answer: $\frac{\text{Cost of sales}}{\text{Average inventory}}$

Alternative answer: $\frac{\text{Average inventory}}{\text{Cost of sales}} \times 365$

12	4	Calculate the rate of inventory turnover.	2
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AO1 – 2 marks

Answer: 10 times or 37 days

Working: Average inventory $\frac{18\,000 + 22\,000}{2} = 20\,000$ (1)

$\frac{200\,000}{20\,000} = 10$ times (1)

Working: Average inventory $\frac{18\,000 + 22\,000}{2} = 20\,000$ (1)

$\frac{20\,000}{200\,000} \times 365 = 36.5$ days (1)

13	Explain, using examples, the differences between the role of the accountant and the role of the bookkeeper in the preparation of the financial statements.	6
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AO1 – 6 marks

Level	Marks	Description
3	5–6	A thorough response that deals with most of the knowledge and understanding of accounting principles and concepts required by the question. Examples are given that are correct, relevant and support the response.
2	3–4	A reasonable response that refers to much of the knowledge and understanding of accounting principles and concepts required by the question. There may be inaccuracies or omissions. Examples are given to support the knowledge and understanding of accounting principles and concepts that are relevant but may not be complete or could contain inaccuracies.
1	1–2	A limited response which may lack clarity but shows fragmented knowledge and understanding of accounting principles and concepts not consistently related to the context. Isolated examples may be given which may be poorly selected and not fully related to the question.
0	0	Nothing written worthy of credit.

Answers may include:

The main differences are:

Bookkeepers are usually responsible for recording the day to day transactions:

- maintaining accounting records
- entering transactions in the day books and ledger accounts
- checking the accuracy of the bookkeeping.

Bookkeepers may assist in the preparation of the financial statements by preparing the trial balance.

However, accountants are usually responsible for the actual preparation of the financial statements including making sure that:

- accounting concepts are applied to the preparation
- the financial statements show a true and fair view of the business.

In some businesses the bookkeeper may prepare the financial statements and the accountant may be involved in the bookkeeping.

Other creditworthy material should be rewarded as appropriate.

Section B

14	1	Prepare the books of prime entry to record the information for the last week of June 2016. (It is not necessary to balance the cash book on 30 June).	7
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AO1 – 7 marks

CASH BOOK												
Dr						Cr						
			Discounts	Cash	Bank				Discounts	Cash	Bank	
			£	£	£				£	£	£	
June	24	Bal b/d		1830		June	24	Bal b/d			2840	(1)*
	26	Cash			840		26	Bank		840		(1)~
	27	H Williams (1) W1	65		1235							

Marker note:

- * 1 mark for correctly recording both the cash balance and the bank balance on 24 June
- ~ 1 mark for correctly recording both aspects of the contra entry on 26 June

Working

W1 27 June : Cash discount is 5% x £1300 = £65; receipt 95% x £1300 = £1235, mark given for recording both figures correctly

SALES JOURNAL					
				£	
June	25	H Williams		2700	(1) W2

SALES RETURNS JOURNAL					
				£	
June	28	H Williams		675	(1) W3

GENERAL JOURNAL							
				Dr £	Cr £		
June	29	H Williams		48		(1#	
		K Williams Ltd			48		
		Correction of error of commission (1) (for giving an appropriate narrative)					

Marker note: # 1 mark for a correct debit and credit entry, this must include the correct account names.

Workings

W2 25 June: Sale is 75% × £3600 = £2700

W3 28 June: Sales returns: $\frac{1}{4} \times (75\% \times £3600) = £675$

14	2	Prepare the accounts of the trade receivables for the last week of June 2016. Balance the accounts on 30 June 2016.	8
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AO1 – 8 marks

RECEIVABLES LEDGER

H WILLIAMS Account

Dr						Cr		
			£				£	
June	24	Bal b/d	1300	(1)*	June	27	Bank	1235
	25	Sales	2700	(1)		27	Discounts allowed	65 (1)
	29	K Williams	48	(1)		29	Sales returns	675 (1)
			4048			30	Bal c/d	2073
July	1	Bal b/d	2073	(1)OF				4048

K WILLIAMS LTD Account

Dr						Cr		
			£				£	
June	25	Bal b/d	994	*	June	29	H Williams	48 (1)
			994			30	Bal c/d	946
July	1	Bal b/d	946	(1)OF				994

Marker note: * For recording both opening balances as debit entries

15	1	Prepare an updated cash book on 31 May 2016.	6
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AO2 – 6 marks

Cash Book (bank columns)								
Dr						Cr		
May	31	Balance b/d	(1)	577	May	31	Excelsior Finance	1200 (1)
	31	CT Interest	(1)	72		31	Bank charges	85 (1)
	31	Drawings						
	31	error	(1) W1	9				
	31	Balance c/d		627				
			1285					1285
June	1	Balance b/d		627 (1)	OF			

Marker note: the mark for the closing balance b/d is awarded for the balancing process and can be OF and could be on the debit side; it can only be awarded if there are no alien items recorded in the updated cash book.

Working

W1 Drawings error $165 - 156 = 9$ (1)

15	2	Prepare a bank reconciliation statement on 31 May 2016.	4
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AO2 – 4 marks

Either:

Bank Reconciliation Statement
at 31 May 2016

	£	
Balance as per cash book	(627) (1)	OF
Add unrepresented cheque		
372143 Catering Supplies	671 (1)	
	(44)	
Less amounts not yet credited	427 (1)	
Balance as per bank statement	(383) (1)	

Or (alternative layout):

Bank Reconciliation Statement
at 31 May 2016

	£	
Balance as per bank statement	(383) (1)	
Less unrepresented cheque		
372143 Catering Supplies	671 (1)	
	(1054)	
Add amounts not yet credited	427 (1)	
Balance as per bank statement	(627) (1)	OF

Marker note: the mark for the final figure in either layout (OF) can only be awarded if there are no alien items recorded in the reconciliation statement.

16	1	Complete the income statement for Brogia Ltd for the year ended 30 April 2016.	6
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AO2 – 6 marks

Brogia Ltd.
Income statement for the year ended 30 April 2016

	£	£	
Gross profit		171 360	
Less expenses			
Operating expenses	84 090		
Depreciation	<u>33 000</u>		(2) W1
		(117 090)	
Profit from operations		54 270	(1) OF must include label, gross profit and operating expenses
Finance costs		<u>(3 000)</u>	(1) W2
Profit for the year		51 270	
Provision for taxation		<u>(10 254)</u>	(1) W3
Profit for the year after tax		<u><u>41 016</u></u>	(1) OF must include label

Workings

W1 Depreciation

	£	
Non-current assets cost	147 800	
Provision for depreciation	<u>48 800</u>	
	99 000	(1)
	×	
	<u>33¹/₃%</u>	
Depreciation for the year	<u>33 000</u>	(1)

W2 Finance costs (bank interest)

	£	
Interest paid	1 800	
Interest accrued	<u>1 200</u>	
	3 000	(1)

W3 Provision for taxation

	£	
Profit for the year before tax	51 270	OF
Taxation at	<u>20%</u>	
	<u>10 254</u>	(1)

16	2	Prepare the statement of changes in equity for the year ended 30 April 2016. A total column is not required.	9
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AO2 – 9 marks

Brogia Ltd
Statement of changes in equity for the year ended 30 April 2016

	Share capital		Share premium		Retained earnings
	£		£		£
At 1 April	120 000		20 000		48 560 (1) for all entries
Issue of shares	40 000 (1) W1		30 000 (1) W2		
Profit for the year					41 016 (1)*
Dividends paid					(24 000) (2) W3
At 31 March	160 000		50 000		65 576
	(1)OF**		(1)OF**		(1)OF**

Workings

- W1** Share issue
200 000 shares × 20p = £40 000 **(1)**
- W2** Share premium
200 000 share × (35–20) 15p = £30 000 **(1)**
- W3** Dividends
 $120\,000 \times \frac{100}{20} (1) = 600\,000 \times .04 = £24\,000 (1) \text{ OF}$

Marker note:

- * award 1 mark for including both the profit for the year and dividends in the retained earnings column and showing them separately.
- * *award **OF** marks for totals if numerically correct and no extraneous items in that column, must include the column heading.

17	1	Prepare the budgeted income statement for Andy Givens for the year ending 30 June 2017 taking into account the changes identified.	15
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AO2 – 15 marks

Andy Givens
Budgeted Income Statement for the year ending 30 June 2017

	£		£	
Revenue			346 275	(4) W1
less: Cost of sales				
Opening inventory	13 750			
Purchases	174 240	(2) W3		
Closing inventory	<u>(13 365)</u>	(4) W2	<u>(174 625)</u>	
Gross profit			171 650	
less: Expenses				
Advertising	18 000	(1)		
Wages	41 000	(1) W4		
General expenses	36 822	(1) W5		
Rent	15 000			
Carriage out	<u>21 375</u>	(1) W6	<u>(132 197)</u>	
Profit for the year			<u>39 453</u>	(1) OF must be labelled

Workings**W1 Calculation of budgeted revenue:**

$\text{£}300\,000 / 6000 \text{ units} = \text{£}50 \text{ per unit (1)} \times (1 - 0.028) = \text{£}48.60 \text{ new sales price (1)}$

$6000 \times (1 + 0.1875) = 7125 \text{ units (1)}$

$\text{£}48.60 \times 7125 = \text{£}346\,275 \text{ (1)}$

W2 Calculation of closing inventory:

$\text{£}143\,000 / 6500 = \text{£}22 \text{ per unit (1)} \times (1 + 0.125) = \text{£}24.75 \text{ new purchase price (1)}$

$625 \text{ units} \times (1 - 0.136) \text{ (1)} = 540 \text{ units} \times \text{£}24.75 = \text{£}13\,365 \text{ (1)}$

W3 Calculation of purchases:

$\text{Purchase units} = 7125 + 540 - 625 = 7040 \text{ units (1)}$

$7040 \times \text{£}24.75 = \text{£}174\,240 \text{ (1)}$

W4 Calculation of wages:

$$£40\,000 \times (1+0.025) = £41\,000 \text{ (1)}$$

W5 Calculation of general expenses:

$$£38\,000 \times (1 - 0.031) = £36\,822 \text{ (1)}$$

W6 Calculation of carriage out:

$$£3.50 - £0.50 = £3.00 \text{ per unit} \times 7125 \text{ units} = £21\,375 \text{ (1)}$$

18	1	Evaluate the financial and non-financial implications of the proposed order from the overseas customer. Your answer should include a justified recommendation as to whether to accept or reject the order.	20
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AO2 – 5 marks, AO3 – 15 marks

Level	Marks	Description
4	16–20	<p>A balanced response that presents a coherent and logically reasoned judgement and conclusion/solution that is supported by an astute consideration of relevant evidence drawn from both the stimulus and other sources.</p> <p>There is a clear assessment of the significance and limitations of the evidence used to support the judgement.</p>
3	11–15	<p>A reasoned, but in places unbalanced, judgement and conclusion/solution is presented that considers relevant evidence that can be drawn from the stimulus and/or other sources.</p> <p>The judgements of relative significance may be indistinct. There is an awareness of the impact of any limitations or qualifying factors, but assessment is partial or equivocal.</p> <p>A comprehensive and relevant selection of information is analysed, showing a developed logical chain of reasoning. The results of any appropriate calculation/s are integrated into the analysis and evaluations offered on most.</p>
2	6–10	<p>An underdeveloped judgement and conclusion/solution is presented, supported by a limited evaluation of evidence provided in the stimulus material. There may be inconsistencies and the reasoning may contain inaccuracies.</p> <p>A limited but relevant selection of information is analysed, starting to develop a logical chain of reasoning. The results of the calculation/s are integrated into the analysis but with weak evaluations.</p> <p>Relevant knowledge and understanding of principles/concepts/techniques is drawn together and applied successfully to the context. Where appropriate, relevant calculations are attempted; these may include minor errors.</p>
1	1–5	<p>A basic judgement and conclusion/solution may be asserted, but it is unsupported by any evidence.</p> <p>Responses present a limited selection of information that is not wholly relevant with an attempt at analysis. A chain of reasoning ranges from being barely present to undeveloped.</p> <p>Fragmented items of knowledge and understanding of principles/concepts/techniques relevant to the contexts are present. These are likely to be descriptive, with limited application to the context. Where appropriate, some calculations are attempted; these are likely to contain errors and may not be relevant to the context. Results of the calculations are stated with little or no evaluation.</p>
0	0	Nothing written worthy of credit

Answers may include:

<p>A02 - Application</p> <ul style="list-style-type: none"> • The incremental revenue is £187 500 • Incremental costs are calculated as $1500 \times (12+5+32) = £73 500$ • Skilled labour cost is calculated as $1500 \times 3\text{hrs}, 4500 - 2040 = 2460 \text{ hrs} \times (£15 + £5) = £49 200$ • Shipping and insurance cost £16 500 • Profit on the order is found by deducting costs from revenue. $£187 500 - (£73 500 + £49 200 + £16 500) = £48 300$ • Financially the order would produce a significant increase in profit ($£48 300 \times 100 / 111 400 = 43.4\%$)
<p>A03 – Analysis and Evaluation</p> <p>Financial implications of order:</p> <ul style="list-style-type: none"> • Financially the order would produce a significant increase in profit and as growth is wanted this would meet this objective. • If order is accepted then a large discount is being given, how will existing customers react if they discover this? • Potential future orders would also give growth, but much will depend upon what unit selling price is agreed for such large quantities, will further discounts be required? • Need to consider exchange rate issues ie what currency will be used to pay for current and future orders? • Will future orders be paid for in advance and if not will credit control checks prove satisfactory? • If future large orders taken will there be sufficient production capacity to handle this? If not what are the cost implications of adding more capacity, eg how will fixed overheads change? • What are the working capital implications of order under consideration and future orders? <p>Non-financial matters to consider:</p> <ul style="list-style-type: none"> • Would skilled employees be prepared to work overtime at £5 premium? • What about stress caused by working large amounts of overtime in a short period of time? • Can delivery be guaranteed in 3 months and what would happen to current customer orders? Extra 1500 units is close to 3 months current output • Will the output match the quality requirements of the overseas customer and what happens if it does not? • How likely is it that future orders of the size indicated will materialise? • If subsequent orders of 5000 units p.a. materialise will extra skilled staff needed be recruited? • Would material and semi-skilled resources be available if large future orders materialise and at current cost levels? • What alternative overseas markets are there that HP DAK Ltd. should investigate?

Note: Not all content needs to be covered to gain full marks.

The indicative content is not exhaustive; other creditworthy material should be awarded marks as appropriate.

19	1	<p>Evaluate potential sources of finance to:</p> <p>(a) solve the short-term cash flow problems;</p> <p>(b) finance the purchase of the premises.</p> <p>In your answer you must advise the directors which sources of finance you would recommend.</p>	20
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AO2 – 5 marks, AO3 – 15 marks

Level	Marks	Description
4	16–20	<p>A balanced response that presents a coherent and logically reasoned judgement and conclusion/solution that is supported by an astute consideration of relevant evidence drawn from both the stimulus and other sources.</p> <p>There is a clear assessment of the significance and limitations of the evidence used to support the judgement.</p>
3	11–15	<p>A reasoned, but in places unbalanced, judgement and conclusion/solution is presented that considers relevant evidence that can be drawn from the stimulus and/or other sources.</p> <p>The judgements of relative significance may be indistinct. There is an awareness of the impact of any limitations or qualifying factors, but assessment is partial or equivocal.</p> <p>A comprehensive and relevant selection of information is analysed, showing a developed logical chain of reasoning. The results of any appropriate calculation/s are integrated into the analysis and evaluations offered on most.</p>
2	6–10	<p>An underdeveloped judgement and conclusion/solution is presented, supported by a limited evaluation of evidence provided in the stimulus material. There may be inconsistencies and the reasoning may contain inaccuracies.</p> <p>A limited but relevant selection of information is analysed, starting to develop a logical chain of reasoning. The results of the calculation/s are integrated into the analysis but with weak evaluations.</p> <p>Relevant knowledge and understanding of principles/concepts/techniques is drawn together and applied successfully to the context. Where appropriate, relevant calculations are attempted; these may include minor errors.</p>
1	1–5	<p>A basic judgement and conclusion/solution may be asserted, but it is unsupported by any evidence.</p> <p>Responses present a limited selection of information that is not wholly relevant with an attempt at analysis. A chain of reasoning ranges from being barely present to undeveloped.</p> <p>Fragmented items of knowledge and understanding of principles/concepts/techniques relevant to the contexts are present. These are likely to be descriptive, with limited application to the context. Where appropriate, some calculations are attempted; these are likely to contain errors and may not be relevant to the context. Results of the calculations are stated with little or no evaluation.</p>
0	0	Nothing written worthy of credit

Answers may include:

A02 - Application	
Issue 1	
Comparison of bank overdraft and short-term loan	
Bank overdraft	Short-term loan
Cost £30 000 x 9% = 2700/4 for the period = £675	Cost £30 000 x 5% = £1500
Repayment Repayable on demand	Repayment Only repayable on 1 June 2018
Issue 2	
Possible solutions:	
<p>Issue shares – there are £120 000 of shares that could be issued. No repayment required Dividends do not have to be paid and can be varied. To raise the total amount required this would need issue price of £5 per share.</p>	
<p>Mortgage Has to be repaid Interest payable</p>	
<p>Bank loan Has to be repaid Interest payable Able to budget for repayments and interest</p>	
A03 – Analysis and Evaluation	
Issue 1	
Bank overdraft	Short-term loan
If repayment is requested this could cause further cash flow problems for the business	The company will be able to plan for the repayment in advance
The overdraft finishes on 31 October; however, the funds from the new contract will not be paid for a further 90 days – this could result in a significant cash deficit and may mean a further overdraft and increased costs.	The loan will be paid to the business and the funds available. However, if the funds are not received from the new contract this could mean that more funds are required.
Will the bank agree to the overdraft facility?	Will the bank agree the loan?
The cost of the bank loan appears to be more expensive than the overdraft. However, this will	

depend on the overdraft being paid off on time.
Would £30 000 be enough – forecasts could be incorrect.

Other possible solutions

Have the directors considered other solutions such as; improving cash flows eg by reducing payments; increasing sales.

Other considerations

Is the problem really short-term or will sales continue to fall?
Will the contract from India replace falling sales?
Will the customer in India pay on time?
Will exchange rates affect cash flows?

Issue 2

Issue shares –

Do current shareholders have funds to purchase shares?
Change of ownership if sold to new investors
Current shareholders need to agree on any new investors
Would investors want to buy shares?

Mortgage

Mortgage secured on premises, could lose premises if repayments not made
Will they be able to get a mortgage?

Bank loan

Bank may want security eg premises therefore could lose premises if repayments not met.

Note: Not all content needs to be covered to gain full marks.

The indicative content is not exhaustive; other creditworthy material should be awarded marks as appropriate.

