



A-level
ACCOUNTING
7127/1

Paper 1 Financial Accounting

Mark scheme

June 2020

Version: 1.0 Final Mark Scheme

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 Examiner.

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.

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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, i.e. 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.

Marking guidance question 12

This question is only testing Assessment Objective 1.

You should apply the level of response mark scheme to each benefit.

Read the explanation of each benefit as a whole and decide if it is clear, partial, fragmented or nothing worthy of credit.

When you have made your decision, award the appropriate level by using L3, L2, L1 or L0 for each benefit and show these on the answer against the relevant benefit by using the drop down comment box.

Then put the total marks for the question in the mark box.

Marking guidance for questions 17 & 18

Be clear on the focus of the question.

As you read through the answer use the following to comments to annotate the script.

Where you identify:	Situation	Comment to use
Application knowledge of principles/concepts/techniques	Application is fragmented or descriptive or not adequately applied to the context	Weak application
	Application is relevant and applied fully to the context	Clear application
Analysis	A limited attempt at analysis	Weak analysis
	Analysis is logical/considered	Reasoned analysis
Evaluation	An attempt at assessment/evaluation with little or no supporting evidence	Weak evaluation
	Evaluation/assessment is logical and supported by evidence	Supported evaluation
	Evaluation/assessment considers the relative significance and limitations of the evidence	Astute evaluation

Judgement or Conclusion or Recommendation	An attempt at judgement is made but unsupported by evidence or argument	Judgement/conclusion – unsupported
	A judgement is made and is supported but the support is weak or evidence used is limited	Judgement/conclusion – limited/weak support
	The judgement is supported by evidence and argument but may not be fully balanced	Judgement/conclusion – supported
	Judgement is supported by evidence and considers the limitations of the evidence in context	Judgement/conclusion – fully justified

Remember that the indicative content provides possible answers but there may be others that are equally valid and you should give credit to other lines of argument.
A good response does not need to include all the indicative content.

Consider the question as a whole, together with the annotations made, and decide on the level to be awarded.

Show the Level awarded, eg L2 using the relevant comment from the drop down list and then enter the mark in the total box reflecting where in the level the answer sits.

If in doubt about an answer or if you are unsure of the validity of the contact then contact your Team Leader. Please make sure that you follow the guidance in the standardisation scripts as we need to have a standardised approach across all marking.

Be positive in your marking and look to reward what is there.

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

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

[1 mark for each correct answer]

Qu	Part	Marking Guidance	Total marks
11		Explain why a business might choose to employ book-keepers and ledger clerks as well as use the services of a professional accountant.	3

AO1 – 3 marks

Level	Marks	Description
3	3	A clear and thorough explanation showing knowledge of why a business might employ bookkeepers, ledger clerks and accountants.
2	2	A partial explanation showing knowledge, but lacking detail and/or minor inaccuracies.
1	1	Fragmented points made.
0	0	Nothing written worth of credit.

Answers may include:

Employing bookkeepers and ledger clerks allows some of the more straightforward work to be done in a more cost effective manner. The accountant can oversee and check the work the bookkeeper and ledger clerks complete to ensure their accuracy rather than doing the work themselves. This will free the accountant up to complete other duties, eg they can aid with management decision making based on the financial information generated.

Employing bookkeepers and ledger clerks allows the basic book-keeping work to be done internally. The business may then recruit an external accountant who only needs to complete the financial statements rather than the whole process. This will save the business money since the bookkeepers and ledger clerks will usually be paid less than an accountant.

Qu	Part	Marking Guidance	Total marks
12	1	Record the necessary entries in Manisha's cash book. Bring down any updated balance on 1 April 2020. Dates are not required.	3

AO1 – 3 marks

Dr		Cash Book (bank columns)			Cr
Details	£		Details	£	
Balance b/d	807		G Steiner	830	(1)
			Bank charges	53	(1)
Balance c/d	76	#			
	883			883	
			Balance b/d	76	# (1)

Marker note:

Must not contain any extraneous items in the account to receive balancing mark and must have both Balance c/d and Balance b/d.

To award marks entries must be on the correct side and supported by an appropriate label (recognisable abbreviations are acceptable for Balance, e.g. Bal c/d, b/d; Bal c/fwd, b/fwd).

Qu	Part	Marking Guidance	Total marks
12	2	Prepare a bank reconciliation statement at 31 March 2020.	3

AO1 – 3 marks

Monisha
Bank reconciliation statement at 31 March 2020

	£	
Balance as per updated cash book	(76)	* (OF) from 12.1)
add unpresented cheque	45	(1)
less outstanding lodgements	(380)	(1)
Balance as per bank statement	(411)	* (1) (OF) for both balances

Alternative presentation:

Monisha
Bank reconciliation statement at 31 March 2020

	£	
Balance as per bank statement	(411)	*
less unpresented cheque	(45)	(1)
add outstanding lodgements	380	(1)
Balance as per updated cash book	(76)	* (1) (OF) from 12.1) for both balances

Marker note:

Each item **must** have an appropriate label and be treated in the correct direction to be awarded.

Qu	Part	Marking Guidance	Total marks
12	3	Explain two reasons why a business would prepare a bank reconciliation statement.	6

Level	Marks	Description
3	3	A clear and thorough explanation showing knowledge of a reason for performing bank reconciliation.
2	2	A partial explanation showing knowledge of a reason for performing bank reconciliation, but lacking detail and/or containing minor inaccuracies.
1	1	Fragmented points made.
0	0	Nothing written worth of credit.

Marker note:

Grid should be applied twice – one for each of the two reasons provided.

Answers may be applied to the question but they do not need to be applied in order to achieve full marks.

Answers may include:

- enables missing entries in the cash book to be accounted for
- enables errors in the cash book to be identified and corrected, preventing errors in the financial statements
- enables errors on the bank statement to be identified/investigated and notified to the bank for correction
- enables out-of-date cheques to be identified and cancelled in the cash book
- acts as a deterrent to fraud due to the bank statement acting as an independent accounting record when checked against the cash book.

Qu	Part	Marking Guidance	Total marks
13		Prepare the statement of changes in equity for Chandhok plc for the year ended 31 March 2020. A total column is not required.	5

AO1 – 5 marks

Chandhok plc
Statement of changes in equity for the year ended 31 March 2020

	Issued share capital		Share premium		Retained earnings	
	£		£		£	
At 31 March 2019	500 000		284 367		346 345	
Bonus issue	200 000	1 W1	(200 000)	1 W1 #		
Profit for the year					72 100	1
Dividend					(56 000)	1 W2
At 31 March 2020	700 000		84 367		362 445	1 (OF) for row

Marker note:

Each row must have a relevant narrative to receive the mark for that row. If there is no narrative on the bonus issue line but both entries are correct award **1 mark**.

W1 Calculation of bonus issue

Total value of shares x 2/5

$$£500\,000 \times 2/5 = £200\,000$$

Where a student miscalculates the bonus issue, the share premium entry can be awarded as long as the same figure as the bonus issue is deducted in the share premium column.

W2 Calculation of dividend

Total number of shares after bonus issue x dividend per share

$$((£500\,000 + £200\,000) \div £0.50) \times £0.04 = £56\,000$$

Section B

Qu	Part	Marking Guidance	Total marks
14	1	Complete the schedule of non-current assets for Kubica plc for the year ended 31 March 2020. A total column is not required.	14

AO2 – 14 marks

Kubica plc
Schedule of non-current assets for the year ended 31 March 2020

	Land and buildings		Plant and machinery		Fixtures and fittings
Cost	£		£		£
At 1 April 2019	800 000		250 000		85 900
Additions					12 000
Disposals			(16 000)	1	(4 100) 1
Revaluation	300 000	1 W1			
At 31 March 2020	1 100 000		234 000		93 800
Depreciation					
At 1 April 2019	72 000		122 000		30 924
Depreciation charge	18 000	1 W2	23 552	4 W3	18 760 1 W5
Disposals			(5 760)	2 W4	(1 476) 2 W6
At 31 March 2020	90 000		139 792		48 208
Net Book Value					
At 31 March 2020	1 010 000		94 208		45 592
At 31 March 2019	728 000		128 000		54 976

1 for row

(OF)

W1 Land revaluation

Land revaluation (new) – land revaluation (old)

£500 000 – £200 000 = £300 000 (1)

W2 Depreciation of buildings

Buildings cost = (land and buildings – land)

£800 000 – £200 000 = £600 000

Building depreciation = building costs x depreciation rate %

£600 000 x 3% = £18 000 (1)

W3 Depreciation of plant and machinery

Plant and machinery cost = £250 000 – £16 000 = £234 000 (1)

Accumulated depreciation after disposal = £122 000 – £5 760 (OF) = £116 240 (1)

Net book value = cost – accumulated depreciation

£234 000 – £116 240 = £117 760 (1) (OF)

Depreciation charge = net book value

£117 760 x 20% = £23 552 (1) (OF)

W4 Plant and machinery depreciation eliminated on disposal

NBV is disposal value + loss on disposal

£10 000 + £240 = £10 240 (1)

Accumulated depreciation is cost – net book value

£16 000 – £10 240 = £5 760 (1 OF)

W5 Depreciation of fixtures and fittings

Cost x Depreciation rate

£93 800 (OF) x 20% = £18 760 (1)

(Only award this mark if £12 000 added to cost)

W6 Fixtures and fittings depreciation eliminated on disposal

Net book value = disposal – profit on disposal

£3 000 – £376 = £2 624 (1)

Depreciation eliminated on disposal = cost – net book value

£4 100 – £2 624 = £1 476 (1)

Marker note:

Each row must have a relevant narrative in order to be rewarded.

If no narrative is present deduct **one mark** from the first awarded mark in that row.

Qu	Part	Marking Guidance	Total marks
14	2	Assess the implications of revaluing the building based on the new valuation.	6

AO2 – 2 marks, AO3 – 4 marks

Level	Marks	Description
3	5–6	Judgements are fully supported by a wide range of evidence. A clear and balanced analysis of data/information/issues is provided, showing a logical chain of reasoning.
2	3–4	Judgements are partially supported by evidence. A reasoned, but unbalanced, analysis of data/information/issues is provided; starts to develop a chain of reasoning. Comprehensive and relevant knowledge and understanding of principles/concepts/techniques has been applied to the context.
1	1–2	Judgements may be asserted but are unsupported by evidence. An analysis of discrete points of data/information/issues provided; no chain of reasoning is attempted. Limited but relevant knowledge and understanding of principles/concepts/techniques has been applied to the context.
0	0	Nothing written worthy of credit.

Answers may include:

The revaluation reserve would increase which would reduce the gearing of the business.

The value of the company would increase by £600 000 which could help with future financing by borrowing against the value of the buildings. This could allow for faster growth than relying on growth through retained earnings.

The company has a higher asset value which could help reduce the risk of takeovers bids from other companies.

The depreciation will double from £18 000 to £36 000 on its buildings. This will reduce the amount of profits and could affect the amount of dividends paid out to shareholders as a result.

Reduced profit per year (from higher depreciation) could impact on the share price which could cause the share price to fall which could impact on shareholder confidence.

Shareholders may view their investment more favourably if the asset value is significantly higher.

No actual profit/cash gain for the business in changing the valuation.

Marker 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

Qu	Part	Marking Guidance	Total marks
15	1	Prepare an income statement for Rachel for the year ended 31 March 2020.	14

AO2 – 14 marks

Rachel
Income Statement for the year ended 31 March 2020

	£	£		
Revenue		156 468	1	W1
Cost of sales				
Opening Inventory	16 276			
Purchases	70 567		1	W2
Closing inventory	(24 002)		3 OF	W3
		(62 841)	1 OF	
Gross profit		93 627	# 1 OF	
add other income				
Discount received		820	1	
		94 447		
Less expenses				
Rent and rates	12 500		1	W4
Discount allowed	460		1	
Depreciation of fixtures and fittings	20 000		3 OF	W5
General expenses	26 500			
		(59 460)		
Profit for the year		34 987	## 1	(OF)

Gross profit must be labelled and mathematically correct based upon students own revenue and cost of sales figures.

Profit for the year must be labelled appropriately, contain general expenses of £26 500 and must contain no alien items (e.g. trade payables, trade receivables, bank overdraft) in the expenses – see page 6 of the mark scheme for clarification.

Accept Net Profit as the label.

Do not accept abbreviations, eg PFTY or NP.

W1 Revenue

Revenue – items on sale or return

£162 468 – £6 000 = £156 468

W2 Purchases

Purchases – purchase of fixtures and fittings

£82 567 – 12 000 = £70 567

W3 Closing inventory

	£
Original closing inventory	19 267
Sale or return at cost	4 800 (1) *
Damaged item	<u>(65) (2)</u>
	<u>24 002</u>

Alternative presentation of closing inventory

	£
Original closing inventory	19 267
Sale or return at cost	4 800 (1)
Less cost of damaged item	(925) (1)
Add NRV of damaged item	<u>860 (1) #</u>
	<u>24 002</u>

Items **must** be in the correct direction to be awarded, eg items on sale or return £4 800 must be added.

* £6 000/1.25 = £4 800

NRV figure £1 020 – £160 = £860

Damaged item cost – NRV £925 – £860 = £65

W4 Rent and rates

Rent and rates - prepayment

£14 000 – (£9 000 x 2/12) = £12 500

W5 Fixtures and fittings depreciation

	£
Existing fixtures and fittings depreciation	19 200 (1) *
New fixtures and fittings depreciation	<u>800 (2) **</u>
Total fixtures and fittings depreciation	<u>20 000</u>

* £96 000 x 20% = £19 200

** £12 000 x 20% = £2 400 (1) x 4/12 (1) = £800

Award **2 marks** for a fixtures and fixtures depreciation figure of £21 600 (£19 200 + £2 400).

Qu	Part	Marking Guidance	Total marks
15	2	Assess whether the adjustments will have a positive impact on Rachel's financial statements. You should make reference to the relevant accounting concepts.	6

AO2 – 2 marks, AO3 – 4 marks

Level	Marks	Description
3	5–6	Judgements are fully supported by a wide range of evidence. A clear and balanced analysis of data/information/issues is provided, showing a logical chain of reasoning.
2	3–4	Judgements are partially supported by evidence. A reasoned, but unbalanced, analysis of data/information/issues is provided; starts to develop a chain of reasoning. Comprehensive and relevant knowledge and understanding of principles/concepts/techniques has been applied to the context.
1	1–2	Judgements may be asserted but are unsupported by evidence. An analysis of discrete points of data/information/issues provided; no chain of reasoning is attempted. Limited but relevant knowledge and understanding of principles/concepts/techniques has been applied to the context.
0	0	Nothing written worthy of credit.

Answers may include:

Additional information 1

Realisation concept states that revenue can only be claimed once realised. Since the sale had not been agreed, the revenue should be reduced by £6 000 with trade receivables also going down by the same figure. The closing inventory will be increased by £4 800 in both the income statement and statement of financial position to avoid overstating profits/assets. Overall profit and current assets will both reduce by £1 200.

Also accept:

Prudence concept states that a business should not anticipate profit until realised. Since the sale had not been agreed the revenue should be reduced by £6 000 with trade receivables also going down by the same figure. The closing inventory will be increased by £4 800 in both the income statement and statement of financial position to avoid overstating profit/assets. Overall profit and current assets will both reduce by £1 200.

Additional information 2

Prudence concept says that inventory should be valued at the lower of cost or net realisable value. Since the business expects to make a loss on the items of inventory the lower value should be used. This increases the cost of sales by £65 in the income statement which reduces both profit for the year and current assets figures by £65 in the statement of financial position.

Judgement:

Rachel is wrong in her assessment as both items will cause a reduction in profit and the valuation of her business.

Or

Rachel is correct in her assessment as the figures in the financial statement will show a true and fair view which could lead to better informed decisions being made.

Marker 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

Section C

Qu	Part	Marking Guidance	Total marks
16		Evaluate both businesses from Karun's perspective as a potential investor. Make a recommendation on how he should invest his savings.	25

AO2 – 5 marks, AO3 – 20 marks

Level	Marks	Description
5	21–25	A clear and balanced response that presents a coherent and logically reasoned judgement and conclusion/solution that is supported by an astute consideration of a wide range of evidence including other factors relevant to the wider context. There is an insightful assessment of the significance and limitations of the evidence used to support the judgement.
4	16–20	A reasoned, but in places unbalanced, judgement and conclusion/solution is presented that is supported by an evaluation of a wide range of evidence, including a narrow consideration of other factors relevant to the wider context. There is a partial assessment of the significance and limitations of the evidence used to support the judgement.
3	11–15	An underdeveloped judgement and conclusion/solution is presented that is supported by an evaluation of a range of evidence provided in the question; however there may be inconsistencies and the reasoning may contain inaccuracies. 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. Comprehensive and relevant knowledge and understanding of principles/concepts/techniques is drawn together and applied successfully to the context. Where appropriate, a thorough selection of relevant calculations is attempted; these may include minor errors.
2	6–10	A basic judgement and conclusion/solution is presented, it is supported by a limited evaluation of evidence provided in the question, containing significant inaccuracies. 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. Limited but relevant knowledge and understanding of principles/concepts/techniques is drawn together and applied successfully to the context. Where appropriate, a limited selection of relevant calculations is attempted; these may include minor errors.
1	1–5	A judgement and conclusion/solution may be asserted, but it is unsupported by any evidence.

		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. 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.
0	0	Nothing written worthy of credit.

Answers may include:

Case for Rayd plc

AO2 Application

- Market price of Rayd plc shares are lower than Bloo plc so Karun should be able to buy more shares (104 166) in Rayd plc than in Bloo plc (90 909 shares).
- Market price for Rayd plc has risen over the last 12 months.
- Rayd plc would provide a dividend of £6 250 based on 2019 figures.
- Dividend yield is falling but is still much higher than Bloo plc.

AO3 Analysis and evaluation

- Dividend cover is 1.33 times which is lower than Bloo plc (although it has improved on the previous year). This suggests a greater return to shareholders which may be good for shareholders in the very short-term.
- Pays out a high dividend per share in proportion to its earnings per share. This was arguably too high in 2018 as it could not cover the dividend payments. Rayd plc might have paid out high dividends in 2018 in order to keep shareholders happy and protect the share price from falling. This may not be sustainable in the longer term.
- Price earnings ratio has fallen so shares could represent better value to purchase now.
- Rising market price suggest stock market confidence in the company which may make it a more attractive deal in the longer term.
- Rayd plc has lots of high street property of significant value which could be sold to generate cash if it decides to move more into online banking. However these properties could also cost the company more in expenses to maintain them each year. In addition the company is likely to be highly geared as a result of the properties being used as security on long-term loans. This could increase the risk of dividends not being paid as the interest must be paid first or the properties could be taken from then.
- Rayd plc has been trading for a long time so it has an established reputation.
- Rayd plc having a strong ethical stance could help it avoid investing in unethical companies. This might avoid share prices of the companies it invest in falling through controversy.

Case for Bloo plc

AO2 Application

- Dividend per share is low but is growing (but still very small compared to Rayd plc).
- Earnings per share is very high and growing.
- Would only be able to buy 90 909 shares which gives a potential dividend of £2 000 to Karun based on 2019 figures. This is significantly lower than Rayd plc which could give a potential dividend of £6 250.
- Dividend cover is very high.
- Price earnings ratio is growing.

AO3 Analysis and evaluation

- Dividend cover is very high. This would indicate investment through retained earnings which may be good for investors in the longer term although less so in the short-term.
- Price earnings ratio is growing. The share is becoming more expensive to buy compared to its level of profit per share which indicates confidence in the company by investors.
- Dividend yield has fallen as a result of the increase in share price. This would mean a smaller return in terms of dividends Karun can expect to receive as he will own fewer shares.
- Bloo plc is an online only company so it may be able to keep costs lower which boost profitability and thus dividends in the longer term.
- Arguably greater risk overall than Rayd plc.
- Is Karun happy to buy shares in a company which does not treat its employees fairly? Staff complaints could reduce productivity which could mean the company's profits fall which will reduce profitability and therefore dividends.

Limitations could include

- Ratios are all historic data – what is their current trading position? This data is at least 5 months out of date as the year end is in 2019.
- Current market price of shares is unknown so the decision to buy shares could be affected by share price changes. Depending where the current price is this could have a significant impact on the attractiveness of buying the share.
- Karun's preferred investment style is unknown – is he prepared to take risks, is he looking short-term or long-term, does he consider a business ethical stance important to his decision?
- Ratios do not provide the actual figures so could be masking a bigger problem that could be seen by looking at the accounts as a whole. The financial statements could have been window dressed. For example the data implies that Rayd plc is highly geared and Bloo plc lowly geared but this ratio is not given.
- Ratios do not take into consideration other non-financial factors such as the company changing its strategic direction, management experience, investment plans, sources of their finance. The fast growth of Bloo plc suggests market conditions in this area are changing quickly.
- Market conditions of the two companies may be very different since they are in different sectors of business. It is difficult to make a true comparison between them as a result.

Evaluation

- There could be other better opportunities to invest elsewhere. With such a large amount Karun is likely to want to spread the risk by investing money into both companies/many companies.
- Non-financial factors could be important to decision making – what is Karun's ethical stance on staff conditions?
- Short-term gain vs potential long-term prospects should be considered. In the short-term Rayd plc appears better but long-term Bloo plc appears to be a better prospect to invest in.

Conclusion

Bloo plc may be the more appropriate choice given the fast growth and amount of profit retained. Reinvestment in the company rather than paying out dividends suggest future prospects may be better but in the short-term the dividend return he will receive is much lower.

Alternative conclusion

Rayd plc may be the more appropriate choice as it pays out significantly more in total dividends which meets his needs by providing the higher annual income. However, the fact that Rayd plc has loans secured on the properties is a risk given interest must be paid before dividends.

Alternative conclusion

The fact that Karun is investing his life savings suggests he might wish to spread the risk between Rayd plc, Bloo plc and other companies so that, should one company's performance deteriorate it will not impact too greatly on the overall value of his investments.

Marker note

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

Qu	Part	Marking Guidance	Total marks
17		Evaluate whether Jhene should make the suggested changes to the accounts. Your answer should include the associated ethical implications.	25

AO2 – 5 marks, AO3 – 20 marks

Level	Marks	Description
5	21–25	A clear and balanced response that presents a coherent and logically reasoned judgement and conclusion/solution that is supported by an astute consideration of a wide range of evidence including other factors relevant to the wider context. There is an insightful assessment of the significance and limitations of the evidence used to support the judgement.
4	16–20	A reasoned, but in places unbalanced, judgement and conclusion/solution is presented that is supported by an evaluation of a wide range of evidence, including a narrow consideration of other factors relevant to the wider context. There is a partial assessment of the significance and limitations of the evidence used to support the judgement.
3	11–15	An underdeveloped judgement and conclusion/solution is presented that is supported by an evaluation of a range of evidence provided in the question; however there may be inconsistencies and the reasoning may contain inaccuracies. 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. Comprehensive and relevant knowledge and understanding of principles/concepts/techniques is drawn together and applied successfully to the context. Where appropriate, a thorough selection of relevant calculations is attempted; these may include minor errors.
2	6–10	A basic judgement and conclusion/solution is presented, it is supported by a limited evaluation of evidence provided in the question, containing significant inaccuracies. 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. Limited but relevant knowledge and understanding of principles/concepts/techniques is drawn together and applied successfully to the context. Where appropriate, a limited selection of relevant calculations is attempted; these may include minor errors.
1	1–5	A judgement and conclusion/solution may be asserted, but it is unsupported by any evidence. 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.

		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.
0	0	Nothing written worthy of credit.

Answers may include:

AO2 Application

- Changing the depreciation will take it from £240 000 to £144 000 should increase profits by £96 000.
- Ignoring the accrual would increase profit for this year but would negatively affect the next year's profitability and would not apply the accruals concept.
- Selling the buildings will make a one off profit of £50 000.

Impact on reported profit

	£
Item 1	96 000
Item 2	44 000
Item 3	50 000
Total impact	190 000

AO3 Analysis and evaluation

- Depreciation will reduce each year boosting profits. Non-current assets may then be overstated (prudence concept) and this could lead to a loss on disposal so no impact on profits over the life of the asset. It would also not comply with the consistency concept which could impair the comparability of accounts. The company would need to justify the change in depreciation method and show what the profits would have been in previous years which may look unusual to users of the accounts causing them to question the validity of the accounts. Changing method is allowable so the auditors will not be concerned with this item.
- Ignoring the accrued wages will boost profits but for this year only as these would still need to be paid and could simply impact on future dividends. Gow plc will not be applying the accruals concept. Auditors will only certify financial statement if they have been prepared using the accruals basis of accounting. Therefore the auditors are likely to challenge this omission if they become aware of it so this could cause some issues going forward. The auditors could refuse to sign off the accounts.
- Selling off the buildings would, if sold above NBV, generate increased profits. However the buildings might be needed by the business and could affect the way it runs and reduce efficiency/sales/costs as a result which could reduce profitability in the longer term. However disposal proceeds could be used elsewhere, eg repaying loans which could save them money in terms of interest payments. The company may need the buildings and be forced to lease back the premises which could prove more expensive in the long-term. If the assets are no longer used it could also reduce maintenance costs going forward. This is a legitimate transaction which the auditors will have no concerns over.
- The directors have a duty to act in the best interests of the shareholders and provide accounts which show a true and fair view. **Item 1** makes the accounts a little unclear in terms of comparability. **Item 2** would not be permissible. **Item 3** would be fine but could have longer term cost implications.
- By making some of these changes, Jhene would not be fully complying with the fundamental principles of integrity, objectivity and professional behaviour. He could be accused of doing it for his own self gain (ie bonuses and increased dividends) or possibly as a result of intimidation by Herbert.

- In addition the auditor, if they knew of the changes, would also be breaching these principles as well as those of professional competence and due care if Jhene's friend audits the accounts due to their familiarity with their client.
- Jhene will need to consider a suitable course of action to resolve the conflict of interest both him and his friend may have if the accrued wages are not accounted for.

Limitations

- Has Jhene been pressured by Herbert? This could be the threat of intimidation.
- Have the company been involved in manipulating the accounts before? The more this continues the less accurate the accounts will be and the greater risk of being caught.
- What will shareholders think if the accounts are audited and found to have been manipulated? Their share price would fall. Other stakeholder may be upset and could take action. Will the directors be forced to resign and if so who will run the company?
- Will these changes be enough to ensure they achieve the level of profitability needed?
- Is the business seasonal? If so profits could be lower in the first half of the year due to demand.
- Are the buildings needed to run effectively? The company may need the buildings and be forced to lease back the premises which could prove more expensive in the long-term. However, if the buildings are no longer used it could also reduce maintenance costs going forward as well as the one off profit gain.

Evaluation

Adjusting the accounts to suit the needs of the directors is unfair on other stakeholders as it could lead to them making decisions based on incorrect data.

We don't know if the changes will be enough to achieve the profit targets so the actions taken might be for no real gain and could cause issues for Jhene/the directors if they decide to make these changes.

Marker note

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