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A-level  
**ACCOUNTING**  
**7127/1**

Paper 1 Financial Accounting

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**Mark scheme**

June 2023

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Version: 1.0 Final



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, 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.

**Marking guidance question 11**

This question is only testing Assessment Objective 1.

You should apply the level of response mark scheme to the explanation.

Read the explanation 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 and show this on the answer by using the drop-down comment box.

Then put the appropriate mark for the question in the mark box.

**Marking guidance for questions 14.2 & 15.2**

These questions are testing Assessment Objectives 2 and 3.

Be clear on the focus of the question.

Read the whole question and decide which level should be awarded, then add the appropriate level to the script from the comment box, eg L3, L2, L1 or L0.

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

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.

**Marking guidance for questions 16 & 17**

Be clear on the focus of the question.

When you have decided on the level to be awarded add the appropriate comment which best describes the response to the end of the answer.

- L5** Convincing judgement/recommendation fully supported by evaluation and analysis of a wide range of evidence with a strong chain of reasoning.
- L5** Astute judgement/recommendation which takes limitations of evidence into account.
- L4** Judgement/recommendation is supported by evaluation and analysis of a range of evidence.
- L4** Judgement/recommendation is supported after some consideration of limitations of evidence.
- L3** Judgement/recommendation is incomplete but supported by analysis of a range of evidence.
- L3** Judgement/recommendation is developed but analysis and application are limited.
- L2** Judgement/recommendation is given but with limited analysis and weak application.
- L2** Limited range of evidence is analysed and limited chain of reasoning.
- L1** Fragmented points of little/unclear relevance.
- L1** No conclusion/recommendation/judgement with poor application.
- L1** Conclusion unsupported.
- L0** Has not attempted the question.
- L0** Has not produced an answer of any value.

Then review the script and annotate using the following comments:

<b>Where you identify:</b>	<b>Situation</b>	<b>Comment to use</b>
<b>Application</b> knowledge of principles/concepts/techniques	Application is fragmented or descriptive or not adequately applied to the context	<b>Weak application</b>
	Application is relevant and applied fully to the context	<b>Clear application</b>
<b>Analysis</b>	A limited attempt at analysis	<b>Weak analysis</b>
	Analysis is logical/considered	<b>Reasoned analysis</b>

<b>Evaluation</b>	An attempt at assessment/evaluation with little or no supporting evidence	<b>Weak evaluation</b>
	Evaluation/assessment is logical and supported by evidence	<b>Supported evaluation</b>
	Evaluation/assessment considers the relative significance and limitations of the evidence	<b>Astute evaluation</b>
<b>Judgement or Conclusion or Recommendation</b>	An attempt at judgement is made but unsupported by evidence or argument	<b>Judgement/conclusion – unsupported</b>
	A judgement is made and is supported but the support is weak or evidence used is limited	<b>Judgement/conclusion – limited/weak support</b>
	The judgement is supported by evidence and argument but may not be fully balanced	<b>Judgement/conclusion – supported</b>
	Judgement is supported by evidence and considers the limitations of the evidence in context	<b>Judgement/conclusion – fully justified</b>

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, e.g. 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 content then contact your Team Leader. Please make sure that you follow the guidance in the standardisation scripts as we need to have a consistent 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 a 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.

## Financial Statements

Where questions require students to prepare financial statements (or extracts of these), the indicative mark schemes will include the standard wording that we have suggested in our statements resource. Students may use slightly different wording for entries in statements, which should not be penalised if it is clear that the meaning is the same.

**Section A**

**Multiple Choice Questions**

<b>Question Number</b>	<b>Answer</b>	
<b>01</b>	<b>C</b>	Local community
<b>02</b>	<b>A</b>	An invoice for machinery repairs posted to the machinery cost account.
<b>03</b>	<b>B</b>	Contra entry; discounts received; purchase returns
<b>04</b>	<b>D</b>	Trade in value of machinery used in part exchange
<b>05</b>	<b>D</b>	$\frac{\text{Profit before interest and tax}}{\text{Interest payable}}$
<b>06</b>	<b>A</b>	Cash book
<b>07</b>	<b>D</b>	£39 860
<b>08</b>	<b>C</b>	£58 495
<b>09</b>	<b>D</b>	£26 141 Debit
<b>10</b>	<b>B</b>	Other income of £1 481

**[1 mark for each correct answer]**

Qu	Part	Marking Guidance	Total marks
11		<p>A bookkeeper received a purchase invoice that has <b>not</b> been recorded in the accounts.</p> <p>Explain why this error might not be discovered.</p>	3

**AO1 – 3 marks**

Level	Marks	Description
3	3	A clear and thorough explanation showing understanding of why this error might not be discovered.
2	2	A partial explanation showing understanding, but lacking detail and/or minor inaccuracies.
1	1	Fragmented points made.
0	0	Nothing worthy of credit.

**Answers may include:**

- The preparation of the trial balance would not discover this error as it an error of omission – the transaction has been excluded from all financial records.
- The double entry will still be correct, as the total amount posted to the purchases ledger control account in the general ledger will equal the total of the purchase invoices posted to the purchases account in the general ledger.
- The error might not be discovered because the total of the trade payables balances and the purchase ledger control account balances agree.

Qu	Part	Marking Guidance	Total marks
12		Prepare the trading section of the income statement to show the gross profit for the year ended 31 January 2023.	7

**AO1 – 7 marks**

**Peter**

**Extract from income statement for the year ended 31 January 2023**

	£		£	
Revenue			225 000	
Returns inwards			<u>(16 440)</u>	
			208 560	<b>(1)</b>
<b>Cost of sales</b>				
Inventory at 1 February 2022	34 195	*		
Purchases	155 000	<b>*(1) both</b>		
Goods taken for own use	(2 240)	<b>(1) W1</b>		
Inventory at 31 January 2023	<u>(29 235)</u>	<b>(3) W2</b>		
			<u>(157 720)</u>	
<b>Gross Profit</b>			<u>50 840</u>	<b>(1) OF#</b>

**Workings**

**W1 – Good taken for own use**

$$£2\,800 \times 100/125 = £2\,240$$

**W2 – Inventory at 31 January 2023**

$$£29\,785 \text{ (1)} - £27\,000 \text{ (1)} + £26\,450 \text{ (1)} = £29\,235 \text{ OF}$$

$$\text{Cost} = 2\,000 \times £13.50 = £27\,000$$

$$\text{NRV} = (2\,000 \times £14.65) - £2\,850 = £26\,450$$

**W2 – Alternative presentation**

Original cost	£29 785 (1)
Damaged inventory	<u>(£550) (2)</u>
	<u>£29 235 OF</u>

**Marker note:**

Marks are awarded for correct placement and direction.

\*Award 1 mark for both entries.

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

A figure of **£152 760** for deducting drawings of inventory from the purchases (£155 000 – £2 240) can be awarded **2 marks** as long as opening inventory is correctly included in the cost of sales section.

Qu	Part	Marking Guidance	Total marks
13		Prepare the current account for Bennett, clearly showing the balance brought down at 1 June 2022. Dates are not required.	10

**AO1 – 10 marks**

Dr		Current account - Bennett		Cr	
Details	£	Details	£		
Balance b/d	5 298 (1)	Salary	28 000 *		
Drawings	12 000 *(1) both	Interest on capital	2 475 W2 (1)		
Share of loss	4 293 W1 (5)				
Interest on Drawings	720 W3 (1)				
Balance c/d	8 164				
	<u>30 475</u>		<u>30 475</u>		
		Balance b/d	8 164 (1) OF		

**W1**

	£
Profit for year	47 000
Add interest on drawings (£11 000 + £12 000 + £26 000) × 6%	2 940 (1)
Less interest on capital (£67 000 + £45 000 + £38 000) × 5.5%	(8 250) (1)
Less salaries	(56 000) (1)
Loss to be distributed	(14 310) OF

Share of loss:  $(£45\,000 / (£67\,000 + £45\,000 + £38\,000)) (1) \times £14\,310 (1) \text{ OF} = £4\,293 \text{ OF}$

**Alternative answer:**

Share of loss:  $30\% \text{ (or } 45/150) (1) \times £14\,310 (1) \text{ OF} = £4\,293 \text{ OF}$

**W2** –  $£45\,000 \times 5.5\% = £2\,475$

**W3** –  $£12\,000 \times 6\% = £720$

**Marker note:**

\*Award 1 mark for both entries.

The marks for interest on drawings, interest on capital, salary and the opening balance b/d must be on the correct side of the current account and supported by an appropriate label (recognisable abbreviations for Balance e.g. Bal c/d, b/d, Bal c/fwd, b/fwd) for the mark to be awarded.

The balance b/d at 1 June 2022 can be on the debit or credit side, provided mathematically correct.

If the share of loss is calculated to be a profit then it must appear on the credit side.

**Alternative answer if single figure used in appropriation account.**

<b>Dr</b>		<b>Current account - Bennett</b>		<b>Cr</b>	
Details	£	Details	£		
Balance b/d	5 298 (1)	Appropriation account	25 462 (7) W4*		
Drawings	12 000				
				<b>*(1) both drawings and salary</b>	
Balance c/d	8 164				
	<u>25 462</u>		<u>25 462</u>		
		Balance b/d	8 164 (1) OF		

**W4**

	£
Profit for year	47 000
Add interest on drawings (£11 000 + £12 000 + £26 000) × 6%	2 940 (1)
Less interest on capital (£67 000 + £45 000 + £38 000) × 5.5%	(8 250) (1)
Less salaries	(56 000) (1)
Loss to be distributed	(14 310) OF

Share of loss:  $(£45\,000 / (£67\,000 + £45\,000 + £38\,000)) (1) \times £14\,310 (1) \text{ OF} = £4\,293 \text{ OF}$

**Alternative answer:**

Share of loss:  $30\% \text{ (or } 45/150) (1) \times £14\,310 (1) \text{ OF} = £4\,293 \text{ OF}$

$£28,000^* + £2\,475 (1) - £720 (1) - £4\,293 (OF) = £25\,462 \text{ OF}$   
 (Int on capital) (Int on drawings) (Share of loss)

**Marker note:**

\* To award the 1 mark for drawings, the salary figure of £28,000 must be included in the appropriation account calculation of **W4**.

The mark for the opening balance b/d must be on the correct side of the current account for the mark to be awarded.

The balance b/d at 1 June 2022 can be on the debit or credit, provided mathematically correct.

If the share of loss is calculated to be a profit then the share must be added in the appropriation account calculation of **W4**.

**Section B**

Qu	Part	Marking Guidance	Total marks
14	1	Complete the Statement of Changes in Equity for Rexarol plc for the year ended 31 March 2023.	14

**AO2 – 14 marks**

**Rexarol plc**  
**Statement of Changes in Equity for the year ended 31 March 2023**

	<i>Workings</i>	Share capital £'000	Share premium £'000	Revaluation reserve £'000	Retained earnings £'000
Balance at 1 April 2022		1 400	630	0	1 054
Bonus issue	<b>W1</b>	560 (1)	(560) (1) <b>OF#</b>		
Rights issue	<b>W2</b>	490 (2)	392 (1)		
Dividends paid	<b>W3</b>				(616) (3)
Revaluation	<b>W4</b>			690 (2)	
Profit for the year after taxation	<b>W5</b>				1 409 (3)
Balance at 31 March 2023		2 450	462	690	1 847 (1 row) <b>OF##</b>

**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 row but both entries are correct award 1 mark.

## The mark for the final row can be awarded as long as it contains no extraneous items (e.g. the proposed dividend for 2023 of £784 000) and is arithmetically correct.

**W1 Bonus issue**

Nominal value of bonus issue:  $5\,600\,000 \times \frac{2}{5} \times £0.25 = £560\,000$  (1)

**Marker note:**

£1 400 000  $\times \frac{2}{5} = £560\,000$  is acceptable.

£560 000 has to be deducted from share premium (1)

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

**W2 Rights issue**

Number of shares before rights issue =  $5\,600\,000 + (5\,600\,000 \times \frac{2}{5}) = 7\,840\,000$  shares (1)

Nominal value of rights issue =  $7\,840\,000 \text{ OF} \times \frac{1}{4} \times £0.25 = £490\,000$  (1) **OF**

Share premium on rights issue =  $7\,840\,000 \text{ OF} \times \frac{1}{4} \times £0.20 = £392\,000$  (1) **OF**

**Marker note:**

Where a student has combined the rights and bonus issue, award the following as long as there is a suitable narrative e.g. share issue, issue of shares.

Share capital of £1050 000 award **3** marks  
 Share premium of £ (168 000) award **2** marks

**W3 Dividends paid**

**Final dividend 2022**

$£1\,400\,000 \div £0.25 \times £0.075 = £420\,000$  **(1)**

**Interim dividend 2023**

$(7\,840\,000 \text{ OF} + 7\,840\,000 \times 1/4) = 9\,800\,000$  **(1) OF**  $\times £0.02 = £196\,000$  **(1) OF**

**Marker note:**

If the student shows dividends fragmented (i.e. as separate entries of £420 000 and £196 000) then award 1 mark for each correct item.

**W4 Property revaluation**

Net book value  $£1\,800\,000 - (£1\,800\,000 \times 6\% \times 5) = £1\,260\,000$  **(1)**

Revaluation reserve  $£1\,950\,000 - £1\,260\,000 \text{ OF} = £690\,000$  **(1) OF**

**Marker note:**

The **OF** can only be given if the calculation starts with £1 950 000

**W5 Profit for the year**

	<b>£'000</b>
Profit from operations	1 858
Accrual no longer required	292 <b>(1)</b>
Debenture interest $£550\,000 \times 6\%$	(33) <b>(1)</b>
Taxation	(708) <b>(1)</b>
Profit for the year after taxation	1 409 <b>OF</b>

**Marker note:**

Marks awarded for both correct figure and correct direction.

Profit for the year after taxation can be awarded as long as there are no extraneous items and the total is arithmetically correct.

Qu	Part	Marking Guidance	Total marks
14	2	Assess the impacts that the bonus issue and the asset revaluation will have on the individual shareholders of Rexarol plc	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 in 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 worthy of credit.

**Answers may include:**

**AO2**

Increase in number of shares for bonus issue  $2/5 \times 100 = 40\%$

**Bonus issue impact**

The shareholders will each have 40% more shares that can be sold on the open market.

The value of their total investment in the company remains the same.

The market price per share will fall.

If the dividends per share is maintained then the total dividends received will increase. However, this is unlikely to be the case as the dividend per share will usually reduce proportionally.

**Asset revaluation impact**

The value of the assets increases and so the value of the investment in the company increases.

The revaluation reserve can be used to increase the share capital through bonus shares in the future.

The revaluation reserve cannot be used to pay dividends to the shareholders.

Depreciation will increase- this will reduce future profits so could affect the amount of dividends paid to shareholders.

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

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

The gearing ratio will reduce which may be seen as more favourable by shareholders as it could offer the opportunity for further borrowing to fund future expansion.

Qu	Part	Marking Guidance	Total marks
15	1	Prepare an extract of the statement of financial position at 31 December 2022 showing the <b>total</b> (non-current and current) assets section only.	14

**AO2 – 14 marks**

**Bhamen**  
**Extract from the statement of financial position at 31 December 2022**

	£	£	£
<b>Non-current assets</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>
Computer equipment	21 984 <b>(1) W1</b>	9 666 <b>(2) W2</b>	12 318
Fixtures and fittings	16 200 <b>(1) W3</b>	8 125 <b>(3) W4</b>	8 075
	<u>38 184</u>	<u>17 791</u>	<u>20 393</u>
<b>Current assets</b>			
Trade receivables	31 850 <b>(2) W5</b>		
Less provision for doubtful debts	637 <b>(1)</b>		
		31 213	
Other receivables		1 140 <b>(1) W6</b>	
Bank		1 670 <b>(2) W7</b>	
			<u>34 023</u>
<b>Total assets</b>			<u><u>54 416 <b>(1) OF#</b></u></u>

# Must be labelled with an appropriate label i.e. total assets for mark to be awarded.

**W1 – Computer equipment cost**

£15 000 + £6 984 = £21 984 **(1)**

**W2 – Computer equipment accumulated depreciation**

£5 625 + £3 750 **(1)** + £291 **(1)** = £9 666 **OF\***

\*Must include £5 625 to be awarded both marks – otherwise only award 1 mark

Charge on assets held at start of year: £15 000 × 25% = £3 750

Charge on additions: £6 984 × 25% × 2/12 = £291

**W2 Alternative answer**

£5 625 + £3 125 **(1)** + £916 **(1)** = £9 666 **OF**

Charge on assets before addition:  $£15\,000 \times 25\% \times 10/12 = £3\,125$

Charge on assets held after addition:  $£21\,984 \times 25\% \times 2/12 = £916$

**W3 – Fixture and fittings at cost**

$£20\,200 - £4\,000 = £16\,200$  (1)

**W4– Fixture and fittings accumulated depreciation**

$£6\,700$  (1) +  $£1\,425$  (2)# =  $£8\,125$

Accumulated depreciation b/f on assets held at year end:  $£7\,800 - (£4\,000 - £2\,900) = £6\,700$

# Depreciation charge for the year:  $(£16\,200 - £6\,700) \times 15\%$  (1)\* =  $£1\,425$  (1)

\* Must be applied to a student's own NBV and not the cost figure of  $£16\,200$

**W5 – Trade receivables**

$£637$  (1) / 0.02 (or /100 x 2) (1) =  $£31\,850$  OF

**W6 – Other receivables**

$£4\,560 / 12 \times 3 = £1\,140$  (1)

**Marker note:**

Accept a label such as prepaid expense

**W7 – Bank**

$(£425)$  (1) +  $(£2\,714 - £619)$  (1) =  $£1\,670$  OF

**Marker note**

To award the marks for all of the items it should be clear which section of the statement of financial position the figure is in and should have an appropriate label.

**Award the following figures without workings being required: -**

Total non-current assets figure of  $£20\,393$  is worth **7 marks**

Computer equipment figure of  $£12\,318$  is worth **3 marks**

Fixtures and fittings figure of  $£8\,075$  is worth **4 marks**

Trade receivables figure of  $£31\,213$  is worth **3 marks**

Qu	Part	Marking Guidance	Total marks
15	2	Assess whether Bhamen should accept the bookkeeper's proposal.	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 in 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:**

**Arguments for the use of a single entry system**

- Easier to maintain and less work for the bookkeeper, therefore she will be under less pressure.
- Less training required to maintain the records for any new staff members.
- Wages of accounts staff could be lower as less expertise is required.
- Much quicker to record the transactions.
- Many small businesses do not use double entry. Bhamen is a sole trader with £31 850 of trade receivables so appears to be a relatively small business.
- Bhamen has a service business so detailed inventory records should not be required which could reduce the need for a double entry system.

**Arguments against the use of a single entry system**

- Greater likelihood of making mistakes which are not identified.
- Some trade payables and receivables may be overlooked.
- Longer to prepare financial statements which increases the cost charged by the accountant.
- More expensive to prepare financial statements as more experienced staff required to prepare.
- Cannot easily verify the accuracy of the financial records.
- If the reason the book-keeper is finding the work time consuming is due to the data corruption then switching systems will not actually improve this.

Bhamen should decide to accept or decline the proposal based on the businesses needs rather than the time taken to complete the accounts.

**Section C**

Qu	Part	Marking Guidance	Total marks
16		Evaluate which option should be used to reduce Rexmantel Ltd’s overdraft.  Your answer should include a justified recommendation.	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.

		<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>
<b>0</b>	<b>0</b>	Nothing worthy of credit.

**Indicative content may include:**

**AO2 Application**

- Annual loan repayments  $\text{£}1\,000\,000 / 5 = \text{£}200\,000$
- Loan interest in year 1 of  $\text{£}1\,000\,000 \times 9\% = \text{£}90\,000$  but reducing by  $\text{£}18\,000$  each year.
- Year 1 net charges on loan and interest =  $\text{£}200\,000 + \text{£}90\,000 - \text{£}66\,000 = \text{£}224\,000$
- Additional interest in year 1:  $\text{£}90\,000 - \text{£}66\,000 = \text{£}24\,000$
- Share capital is  $\text{£}30\,000 / \text{£}0.06 = 500\,000$  Ordinary  $\text{£}1$  shares.
- Profit after tax =  $\text{£}1\,312\,400 - \text{£}66\,000 - \text{£}292\,378 = \text{£}954\,022$  (assuming tax charge = tax paid)
- Earnings per share =  $\text{£}954\,022 / 500\,000 = \text{£}1.908$  or 190.8p (assuming tax charge = tax paid)
- Gearing if loan taken =  $\text{£}1\,000\,000 / \text{£}1\,500\,000 = 66.67\%$

**AO3 Evaluation of Options**

**Option 1 – Improved management of cash inflows and outflows**

**Arguments for**

- For the following year, if cash generated from operations and dividend payments remains the same and there is no investment in non-current assets, the cash and cash equivalents will be a positive figure at the end of the year.
- By reducing the trade receivables collection period and increasing the trade payables payment period, the liquidity will improve.
- Funds can be released through careful inventory management and reducing the inventory held. This will reduce the bank overdraft, reducing the interest paid on the overdraft and increase profitability and cash generated from operations.
- After two years, the business may have a cash surplus to invest in new projects.

**Arguments against**

- At the start of the year Rexmantel Ltd already had a substantial overdraft. This does indicate that the business may not be efficient at managing their resources.
- The terms of the trade with the customers may not be under the control of Rexmantel Ltd, which may affect the collection period.
- If the level of profit is not maintained, the business may not be able to reduce the outgoings.
- The business may require additional investment in non-current assets which will need to be financed from internally generated funds. This will reduce the funds available to clear the overdraft.
- The increased profits may result in increased payments for taxation which will have a negative impact on the available funds.

## **Option 2 – Accept the bank's offer of £1 000 000 9% loan**

### **Arguments for**

- The excess of the loan offered by the bank to the bank overdraft will provide funds for day-to-day operations. Suppliers may be paid earlier to take advantage of any cash discounts available. This will improve both liquidity and profitability.
- The interest will decrease by £18 000 each year which will have a positive impact on both profitability and liquidity.
- The earnings per share is £1.908 but the dividend payment is 6p per share. With the increased finance, the company will be able to pay a higher dividend from the cash generated from operations. This will increase the shareholders confidence.
- The repayment is a known figure each year and can be budgeted for.

### **Arguments against**

- The bank loan will increase the gearing which may impact the availability of future loans.
- The duration of the contract is not stated – if this is for a fixed term which is less than the length of the loan, this could impact the ability of the business to meet the annual repayments.
- The loan repayment will reduce the cash available for shareholder dividends. Without improvements in asset management, this may have a significant impact on the shareholders' confidence.

### **Wider Issues**

- Did the directors not consider issuing more shares, or offering a rights issue to the existing shareholders? This would save the additional outflow on the loan interest.
- Cash flow only given for current year – long-term plans following the expansion, would need to be reviewed to be able to make a better judgement.

### **Limitations**

- The current bank balance is not known. The overdraft may have increased since the accounts were prepared, so the loan may not be sufficient to cover the overdraft.
- The new contract may have required Rexmantel Ltd customers to have longer credit terms. The trade receivables collection period for the current and previous year would be required to comment further.
- Would need to look at the trend in the trade payables payment period to be able to comment further.
- The future profitability of the contract is unknown which will impact the ability of Rexmantel Ltd to generate funds internally.

### **Overall evaluation**

Decision made as to which option (if any) to accept. Summary justification given to support decision.

### **Marker note**

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

Qu	Part	Marking Guidance	Total marks
17		<p>Advise Okeke on whether Gary Hughes is acting in the best interests of Gonville plc.</p> <p>Consider <b>both</b> ethical and financial factors.</p>	25

**AO2 – 5 marks, AO3 – 20 marks**

Level	Marks	Description
5	21–25	<p>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.</p> <p>There is an insightful assessment of the significance and limitations of the evidence used to support the judgement.</p>
4	16–20	<p>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.</p> <p>There is a partial assessment of the significance and limitations of the evidence used to support the judgement.</p>
3	11–15	<p>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.</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> <p>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.</p>
2	6–10	<p>A basic judgement and conclusion/solution is presented, it is supported by a limited evaluation of evidence provided in the question, containing significant 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>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.</p>
1	1–5	<p>A 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 worthy of credit.

**Answers may include:**

**AO2 Application**

**For Gonville plc**

- Price reduction  $\text{£}2\,000\,000 \times 7\% = \text{£}140\,000$
- Discount received of  $\text{£}2\,000\,000 \times 2\% = \text{£}40\,000$
- Commission paid  $8.6\% \times \text{£}2\,000\,000 = \text{£}172\,000$
- Overall increase in profit for Gonville plc of  $(\text{£}140\,000 + \text{£}40\,000 - \text{£}172\,000) = \text{£}8\,000$

**For Newhams Ltd**

- Income from contract  $\text{£}2\,000\,000 - \text{£}40\,000 + \text{£}172\,000 = \text{£}2\,132\,000$

**AO3 Application**

**Financial factors – Gonville plc**

- The reduction in the purchase price of  $\text{£}140\,000$  does meet with the company's requirements to reduce cost of sales.
- The discount received of  $\text{£}40\,000$  will improve the overall profitability but will not affect the cost of sales, as it is included in other income.
- The commission payment of  $\text{£}172\,000$  will be included in expenses, and so will not affect the cost of sales.
- Gary Hughes can therefore argue that the new contract does meet the requirement of improving profitability by reducing the cost of sales.
- It is unusual to pay a commission on the amount purchased and the reason for inclusion in the contract terms should be a cause for concern.
- Gonville plc will show a very small increase in operating profit of  $\text{£}8\,000$  which again does meet the requirement to improve profitability, but the percentage increase is negligible.

**Ethical factors**

Ethical behaviour – assuming the two Gary Hughes are the same people.

- Gary Hughes has not informed Gonville plc of his involvement in Newhams Ltd and therefore is in breach of the ethical principle of integrity.
- Gary Hughes has agreed a substantially reduced payment period, which is an example of bias and breach of the ethical principle of objectivity.
- Gary Hughes may be in breach of confidentiality rules by discussing Gonville plc's requirement for a new supplier and may have given Kate Hughes information on the current supplier's pricing structure.
- As Finance Director for both companies, he will not be able to maintain confidentiality in intercompany transactions.
- As Gary Hughes is a qualified accountant, his behaviour is unprofessional as he has put his own interest before those of his profession.

- Gary Hughes' motivation for the terms of the contract would appear to move profits from Gonville plc to Newhams Ltd to enable him to financially benefit.

#### **Financial benefit from Gary's involvement in Newhams Ltd**

- Newhams Ltd will gain an income of £2 000 000 less the discount allowed of £40 000, plus the rebate of £172 000 = £2 132 000
- The 15-day credit period will ensure that Newhams Ltd has the funds in the bank before payment to their suppliers.
- This could significantly increase the profit after tax and therefore the dividend payments to the two shareholders.

#### **Wider Issues**

As Gary Hughes is a director of Gonville plc, he is also expected to follow the rules of the Companies Act 2006 which requires directors to:

- Promote the success of the company – it appears that Gary Hughes is promoting his own financial gain above that of the company.
- Exercise independent judgement – Gary Hughes is not independent as he will gain financially from both companies.
- Exercise reasonable care, skill and diligence – Gary Hughes has used the prospect of personal gain from increased profitability in Newhams Ltd and future subsequent dividends and remuneration.
- Avoid conflicts of interest – being finance director of both companies means that there is a continual conflict of interest.
- A director must disclose any interest in any proposed transactions involving Gonville plc Gary Hughes has not disclosed the shareholding in Newhams Ltd and therefore is in breach.
- What was the selection process of sourcing a new exclusive supplier?

#### **General Limitations**

- Newhams Ltd's share ownership is not clear – it is assumed that the two Gary Hughes are the same people.
- Are there any family links between Gary Hughes and Kate Hughes?
- Are there any family links between Kate Hughes and any other directors/shareholders of Gonville plc?

#### **Limitations on financial data**

As the company has only been trading for 12 months, only one set of financial statements have been prepared, so the historical performance of the business cannot be used for analysis.

- Turnover from the last financial statements was £550 000. Do they have the finance to build an infrastructure to quadruple their operations to £2 million?
- The margin that Newhams Ltd will make on the hinges and handles is not known. This will impact the overall profitability. Newhams Ltd may have underestimated the running costs and the company may be unable to supply Gonville plc.

#### **Marker note**

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