



A-level
ACCOUNTING
7127/1

Paper 1 Financial Accounting

Mark scheme

June 2024

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.

No student should be disadvantaged on the basis of their gender identity and/or how they refer to the gender identity of others in their exam responses.

A consistent use of 'they/them' as a singular and pronouns beyond 'she/her' or 'he/him' will be credited in exam responses in line with existing mark scheme criteria.

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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 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, e.g. 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:

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, 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

Question Number	Answer									
01	A	Carriage inwards; carriage outwards; returns inwards								
02	B	Debenture interest paid								
03	A	Business entity								
04	D	$\frac{\text{Non-current liabilities}}{\text{Issued share capital} + \text{reserves} + \text{non-current liabilities}} \times 100$								
05	B	£31 997 Debit								
06	D	Profit for the year understated								
07	B	0% interest on capital; 5% interest on loans								
08	D	Reduced training costs								
09	C	<table style="width: 100%; border: none;"> <tr> <td style="width: 33%;">Goodwill</td> <td style="width: 33%;">£60 000</td> <td style="width: 33%;">Capital – Adam</td> <td style="width: 33%;">£30 000</td> </tr> <tr> <td></td> <td></td> <td>Capital – Bea</td> <td>£30 000</td> </tr> </table>	Goodwill	£60 000	Capital – Adam	£30 000			Capital – Bea	£30 000
Goodwill	£60 000	Capital – Adam	£30 000							
		Capital – Bea	£30 000							
10	C	<table style="width: 100%; border: none;"> <tr> <td style="width: 50%;">Share capital £117 000</td> <td style="width: 50%;">Share premium £35 400</td> </tr> </table>	Share capital £117 000	Share premium £35 400						
Share capital £117 000	Share premium £35 400									

[1 mark for each correct answer]

Qu	Part	Marking Guidance	Total marks
11		Explain the impact on the financial statements when writing off a credit customer's debt as irrecoverable.	3

AO1 – 3 marks

Level	Marks	Description
3	3	A clear and thorough explanation that demonstrates knowledge and understanding of how the write off affects both the income statement and the statement of financial position.
2	2	A partial explanation that shows knowledge and understanding of how the write off affects either the income statement or the statement of financial position.
1	1	Fragmented points made.
0	0	Nothing worthy of credit.

Answers may include:

- The write off ensures that both assets and profits for the year are not overstated.
- Writing off the amount owed by a credit customer who cannot pay ensures that the trade receivables, included in current assets, at the year-end date are not overstated.
- It also ensures that expenses for the year include the cost of the irrecoverable debt, so as to ensure that profit for the year is not overstated.

Qu	Part	Marking Guidance	Total marks
12	1	Prepare journal entries to correct the errors. Dates and narratives are not required.	6

AO1 – 6 marks

Account	Debit £	Credit £
Purchases	800	
Suspense		800 (1) for both
Suspense	40	
Returns outwards		40 (1) for both
Cash	104	
Sales		104 (2) for both W1
Suspense	780	
Purchases		780 (2) for both W2

Marker note:

For all journals the entries **must** be on the correct side and supported by an appropriate account name.
 Allow purchase returns as a label instead of returns outwards
 Do not allow cash sales as a label for either cash or sales

W1

$£52 \times 2 = £104$ **(1)** Award 1 mark where the cash account is debited and the sales account is credited with the same **OF**.

W2

$£390 \times 2 = £780$ **(1)** Award 1 mark where the suspense account is debited and the purchases account is credited with the same **OF**.

Qu	Part	Marking Guidance	Total marks
12	2	Calculate the revised profit for the year ended 30 April 2024 after correcting for the errors found.	5

AO1 – 5 marks

	£
Draft profit for the year ended 30 April 2024	19 220
Error 1	(800) (1)
Error 2	40 (1)
Error 3	104 (1) OF
Error 4	780 (1) OF
Revised profit for the year ended 30 April 2024	19 344 (1) OF*

Marker note:

Error 3 **(1) OF** figure from 12.1 of £52 can be awarded if added

Error 4 **(1) OF** figure from 12.1 of £390 can be awarded if added

* Award the final **OF** mark provided that the draft profit figure is included and arithmetically correct

Qu	Part	Marking Guidance	Total marks
13		Prepare the inventory account for the year ended 31 March 2024. Show clearly the amounts to be transferred to the income statement. Balance the account and bring the balance down on 1 April 2024.	6

AO1 – 6 marks

Dr		Inventory Account		Cr	
Date	Details	£	Date	Details	£
1 April 2023	Balance b/d	18 150 (1)	31 March 2024	Income statement	18 150 (1)
31 March 2024	Income statement	19 816 (1) OF *		Balance c/d	19 816 (2) W1
		<u>37 966</u>			<u>37 966</u>
1 April 2024	Balance b/d	19 816 (1) OF			

Workings:

W1 Closing inventory

£19 930
 (£114) (1) W2
 £19 816 (1) OF

W2

95 × [£4.50 – (£7.10 – £3.80 = £3.30)] = £114 (1)

Marker note:

To award marks the entries must be on the correct side and supported by an appropriate detail. There should be at least one date at the top of each side (Dr and Cr) of the account. Where a learner does not have at least one date on each side do not reward one of the OF marks (either the balance b/d or closing Income Statement figure) but award the other entries if there is a suitable narrative.

Accept reasonable abbreviations e.g. for the income statement, accept profit and loss account or understandable abbreviations, for balance entries accept bal b/d, bal b/fwd.

The balance b/d can be awarded even if the account is not correctly totalled.

*Award the debit entry for Income Statement figure (OF) with one mark as long as it is the same figure as the balance b/d on the 1 April 2024.

Section B

Qu	Part	Marking Guidance	Total marks
14	1	Prepare the statement of cash flows for the year ended 31 May 2024 to comply with IAS 7. The reconciliation of operating profit to the net cash flow from operating activities for the year ended 31 May 2024 should be shown.	14

AO2 – 14 marks

C Ltd
Statement of cash flows for the year ended 31 May 2024

Reconciliation of operating profit to the net cash flow from operating activities	£
Operating profit	6 965
Depreciation	32 000(2) OF W1
Loss on disposal	1 000(1) W2
Increase in inventories	(5 500)#
Increase in trade receivables	(3 765)#
Decrease in trade payables	<u>(5 250)# (1) for all 3</u>
Cash from operations	25 450
Interest paid	(5 000)(1)
Corporation tax paid	<u>(16 375)(1)</u>
Net cash flow from operating activities	4 075(1) OF *
Cash flows from investing activities	
Purchase of property, plant and equipment	<u>(97 000)</u>
Net cash used in investing activities	(97 000)~ (1) W3
Cash flows from financing activities	
Proceeds from issue of shares	130 000(1) W4
Repayment of borrowings	(50 000)(1)
Equity dividend paid	<u>(12 000)(1)</u>
Net cash from financing activities	68 000
Net decrease in cash and cash equivalents	<u>(24 925) (2) CF or (1) OF</u>
Cash and cash equivalents at the beginning of the year	<u>15 525</u>
Cash and cash equivalents at the end of the year	<u>(9 400) (1) for both</u>

Marker note:

* To award the **OF** mark for net cash flow from operating activities the operating profit must be included and there should be no extraneous items, e.g. Dividends.

~ Accept £100 000 as an outflow and £3 000 as an inflow instead of an outflow of £97 000

W1 Depreciation

	£
Net book value at 31 May 2023	40 000
Disposal	<u>(4 000)</u>
	36 000
Addition	<u>100 000</u>
Net book value after adjusting for addition and disposal	136 000 (1)
Net book value at 31 May 2024	<u>(104 000)</u>
Depreciation for year	<u>32 000(1) OF#</u>

Marker note:

To award the **OF** mark for depreciation the closing net book value must be included in the calculation.

W2 Loss on disposal

	£
Net book value	4 000
Part-exchange	<u>(3 000)</u>
Loss on disposal	<u>1 000(1)</u>

W3 Purchase of property plant and equipment

	£
Purchase of plant at cost	100 000
Part-exchange	<u>(3 000)</u>
Cash outflow	<u>97 000(1)</u>

W4 Proceeds from share issue

	£
Increase in ordinary shares	120 000
Increase in share premium	<u>10 000</u>
Cash inflow	<u>130 000(1)</u>

Qu	Part	Marking Guidance	Total marks
14	2	Assess whether the directors of C Ltd should issue the debenture to fund the loan repayment.	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:

- Interest rate of 10% is greater than the current loan. This would increase the interest charge by £5 000 resulting in lower profits for the year.
- Current cash flows from operating activities would not cover the interest due e.g. debenture interest. £10 000 – bank loan interest £5 000 as the net cash flow from operating activities is only £4 075 OF. This could lead to cash flow problems.
- The debenture may need to be secured. It could be secured on the non-current assets provided the lenders are happy with this.
- Would investors be willing to buy the debentures? This would depend how investors view the company, the likelihood of receiving interest and repayment and also on alternative investments that are available.
- Capital repayment will not be due until at least 2034 – this may provide opportunities to generate sufficient funds in the interim as C Ltd has a bank overdraft of £9 400 at the 31 May 2024.
- Shareholders may favour this option as it does not affect control of the business.

- Shareholders may be concerned that interest payments will reduce potential future dividends – proposed dividend may be under threat.
- Have the directors considered other options?

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

Qu	Part	Marking Guidance	Total marks
15	1	Prepare the statement of financial position at 31 May 2024.	14

AO2 – 14 marks

Steven
Statement of financial position at 31 May 2024

	£	£	£
Non-current assets	Cost	Accumulated depreciation	Net book value
Motor vehicle	48 000	8 000	40 000 (1)W1
Current assets			
Inventory		9 500	(4)W2 OF
Trade receivables		18 250	(1)W3
Less provision for doubtful debts		<u>(1 095)</u>	(1)W4 OF
			<u>26 655</u>
Total assets			<u>66 655</u>
Capital account			
Capital at 1 June 2023			40 900 (1)W5
Profit for the year			<u>33 655</u> (4)W6 OF
			74 555
Drawings			<u>(24 750)</u>
Capital at 31 May 2024			49 805 (1)OF*
Current liabilities			
Trade payables		6 600	#
Bank overdraft		<u>10 250</u>	# (1) both
			<u>16 850</u>
Total capital and liabilities			<u>66 655</u>

* award **OF** mark for Capital total provided both opening capital and drawings have been included and correctly treated

Marker note:

To award full marks for an item it must be in the correct section of the statement of financial position. If inventory or profit for the year are shown in an incorrect section or not used in the statement then mark the workings and award up to a maximum of 3 marks.

Workings

W1 Motor vehicle

	£
Cost	48 000
Depreciation (£48 000 × 25% × 8/12)	<u>8 000</u>
Net book value	<u>40 000(1)</u>

W2 Inventory

		£
Revenue		162 000
Mark up = Formula is	$\frac{100}{(100 + 50)}$	(1)
	(Or accept 2/3)	
Cost of sales		108 000 (1)OF*
Inventory turnover	12 times	
Average inventory (£108 000 ÷ 12)		9 000 (1)OF**
Closing inventory = Average inventory × 2 – opening inventory		
Closing inventory = £9 000 × 2 = £18 000 – £8 500 =		9 500 (1)OF***

Marker note:

***OF** award the **OF** mark for correct application of mark up.

****OF** award **OF** mark for dividing cost of sales by 12.

*****OF** award **OF** mark for application of correct method to **OF** for average inventory.

Where learner incorrectly uses gross profit margin instead of mark up.

		£
Revenue		162 000
Margin = Formula is	$\frac{50}{100}$ (accept 1/2)	
Cost of sales		81 000(1)OF*
Inventory turnover	12 times	
Average inventory (£81 000 ÷ 12)		6 750(1)OF**
Closing inventory = Average inventory × 2 – opening inventory		
Closing inventory = £6 750 × 2 = £13 500 – £8 500 =		5 000(1)OF***

Marker note:

*OF award the OF mark for correct application of gross profit margin.

**OF award OF mark for dividing OF cost of sales by 12.

***OF award OF mark for application of correct method to OF for average inventory.

W3 Trade receivables

		£
Trade receivables at 31 May 2024		20 250
Irrecoverable debt		<u>2 000</u>
		<u>18 250(1)</u>

W4 Provision for doubtful debts

		£
Trade receivables W3		18 250
Provision	6%	
		<u>1 095 (1)OF</u>

Marker note:

Award a mark for correct calculation if irrecoverable debt is omitted e.g. £20 250 × 6% =£ 1 215

Award two marks for a trade receivables figure of £17 155

W5 Opening capital

Balances at 1 June 2023	£
Motor vehicle	6 000
Inventory	8 500
Trade receivables	20 000
Bank balance	14 400
Trade payables	<u>(8 000)</u>
Capital at 1 June 2023	<u>40 900(1)</u>

W6 Profit for the year

		£
Original profit		47 000
Irrecoverable debt		(2 000)(1)
Provision for doubtful debts		(1 095)(1) OF*
Depreciation	£21 000 × 25% × 4/12 = £1 750	(9 750)(1)
	£48 000 × 25% × 8/12 = £8 000	
Loss on disposal	NBV = £6 000 – £1 750 = £4 250 – proceeds £3 750 =	<u>(500)(1) OF**</u>
Adjusted profit for the year		<u>33 655OF</u>

Marker note:

* award mark for **OF** from **W4**

** award **OF** mark for loss on disposal provided the NBV figure used is consistent with the calculation of depreciation for the year e.g. if depreciation on old vehicle is omitted than loss on disposal would be NBV £6 000 – £3 750 = £2 250 loss.

Qu	Part	Marking Guidance	Total marks
15	2	Assess whether Steven should reduce the credit period allowed.	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:

- Reducing the credit period to 15 days should reduce his trade receivable days, as customers should pay more quickly. However at the moment his customers exceed the credit period by 12 days, so unless he is able to improve his debt collection then there is no guarantee that the receivable days will in fact be reduced.
- Reducing the credit period may reduce the possibility of irrecoverable debts as it should enable him to chase up debts more quickly, however this is dependent on having time to implement the credit control system effectively.
- Reducing the credit period should improve cash flow which should benefit the business as money will be collected more quickly.
- Reducing the credit period may reduce sales – as customers may turn to alternative suppliers – the success of this may depend on competitors' credit periods.
- Reducing the credit period will not eliminate irrecoverable debts unless other action is taken, such as regular monitoring of trade receivables.
- Steven should look at other aspects of credit control e.g. setting limits on customer's credit; sending regular statements; chasing late-paying customers.
- The £2 000 may be a one-off irrecoverable debt that could not be avoided. Therefore changing the credit period may not be necessary.

Section C

Qu	Part	Marking Guidance	Total marks
16		Evaluate the two options and advise Hassan on which option he should choose. Consider both financial and non-financial factors.	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	<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 written worthy of credit.

Indicative content may include:

AO2 Application

Financial factors

Option 1 – sole trader

	£
Profit	50 400
Loan interest $(10\% \times 135\,000) =$	<u>(13 500)</u>
Profit after interest	36 900
Drawings	<u>(30 000)</u>
Retained profit	<u>6 900</u>

Option 2 HK Ltd

	£
Profit	50 400
Directors remuneration – Karen & Hassan	<u>(55 000)</u>
Retained loss	<u>(4 600)</u>

Non-financial factors:

Option 1 – sole trader

- Unlimited liability
- Able to make all decisions

Option 2

- Limited liability
- May be loss of control as Karen would have the majority of shares issued.

AO3 Analysis and evaluation.

Financial factors

Option 1

- Provides the £30 000 return required by Hassan leaving additional retained profits of £6 900.
- Can Hassan find a guarantor for the loan?
- Hassan has to use most of his savings – leaving only £2 000 left.
- What happens if interest rates increase in future years?
- Will Hassan be able to generate sufficient funds to repay the loan when due?

Option 2

- HK Ltd will have a shortfall of £4 600.
- However, profits are predicted to increase so this may mean that the company becomes profitable.
- Profits would need to increase by at least £11 500 to make this option as financially successful as option 1.
- Hassan will maintain his savings of £7 000.
- Will Karen want a return on her investment of £140 000 in the form of dividends? However, if the company pays Karen a dividend then it would also have to pay Hassan.

Non-financial factors

Option 1

- Hassan has unlimited liability which if the business fails could result in losing personal assets.
- Hassan wants to run his own restaurant but will he want to make all the decisions himself?
- May lack expertise to run the business successfully.

Option 2

- Karen has experience of business and this may be of benefit to Hassan.
- However, her involvement may mean that he loses control of the business and it is no longer “his restaurant”.
- Will they be able to work together?

Limitations/Other factors

- How popular was the television programme – would this generate the publicity Hassan thinks?
- Predictions based on London – the results may not reflect the outcomes in his home town. Costs may be lower – leading to higher profit.
- There may be fewer customers or the customers may be less willing to spend – leading to lower profit or a loss.
- How accurate is the set-up/initial running costs?
- Karen believes her input would significantly increase profits – is there any evidence to substantiate this claim?

- The expected capacity utilisation is 80% e.g. 24 customers per night. 75% utilisation leads to a loss – this is 22.5 customers per night on average.
- The state of the economy and local employment conditions could impact the success of the business.

Evaluation

- If Hassan really does want to make all the business decisions than the sole trader option would appear to be best – but this depends on finding a guarantor and could be affected by interest changes in the future.
- Hassan could consider opening longer hours, or having two sittings each evening and hiring another chef – which may increase the profit of the business

Marker note:

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

Qu	Part	Marking Guidance	Total marks
17		Assess the professional and ethical implications of Isha’s concerns.	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 written worthy of credit.

Indicative content may include:

AO2 Application

The possible impact of Isha’s concerns e.g.:

- **Inventory:** if it is overvalued this would increase profits and assets of the business making it look more successful.
- **Goods on sale or return:** this would also increase sales and profit and again making the business look more successful.
- **New sales contract:** It appears that this has caused the share price to increase which again makes the business appear more successful.

All of these may result in targets being met and triggering the bonus payments.

The expected behaviour of professional accountants are:

- integrity
- objectivity
- professional competence
- confidentiality
- professional behaviour.

The threats to compliance are:

- self-interest
- self-review
- advocacy
- familiarity
- intimidation.

In this case: Justin may face for example:

- self-interest e.g. bonus scheme
- self-review e.g. previous audits
- familiarity – previous audits.

Impact on company reputation if new sales contract announcement was incorrect/made before it was signed.

Possible contravention of regulatory framework – new sales contract announcement.

AO3 Analysis and evaluation

Inventory

Potential professional and ethical implications:

- If the inventory is overvalued/overstated then this could be the result of self-interest – e.g. to ensure the company remains profitable or to ensure that directors receive their bonus.

Lack of self-review and familiarity for example:

- Justin may have been responsible for the audit of E plc and should have ensured that the inventory was correctly valued.

Limitations:

- Is the inventory in fact overvalued/overstated?
- How significant is any overvaluation?
- Will the reduction in inventory be material to the companies results?
- Is there a valid reason for maintaining such high levels of inventory – for example preparing for a new product launch – such as new sports wear range?
- Has the inventory been audited in previous years – this could call into question the independence of the auditors?

Goods on sale or return

Potential professional and ethical implications:

- Self-interest – this may have been recorded to ensure that targets were met to ensure that a bonus was paid.

Limitations:

- Are the overstated sales/profit material to the results of the business?
- Have the sales in fact been recorded correctly?
- The evidence of sales may have been delayed but could prove to be correct.
- Is there any evidence that sales were not in fact made? Has anyone contacted the customers to check if the sales have been made?

New sales contract

Potential professional and ethical implications:

- This could be an example of the threat of self-interest as it could have been announced to ensure that the company appears more successful to shareholders and/or to ensure that bonus targets are met.
- Does the announcement contravene the regulatory framework e.g. FRC guidelines – this could lead to legal action, fines and would impact the company image?

Limitations:

- Has the contract actually been signed subsequently?
- Was the increase in share price actually linked to the announcement?
- The increase could have been the result of the recommendation by the investment analyst – this could have been independent of the new contract.

Limitations/Other factors

- What has Isha done about her concerns – has she discussed them with Justin?
- Has Isha sought professional guidance with regard to her concerns?
- What role, if any, did Justin have in the audit of E plc in previous years? If he was involved directly then his objectivity, competence and professional behaviour could be called into question. We do not know how long ago Justin was a partner at the audit firm.
- Are Isha's concerns genuine or the result of not being made Finance Director – e.g. her own self-interest?

Evaluation

If the concerns are shown to be genuine then action should be taken to:

- minimise the risks involved
- to resolve any conflicts of interest
- seek advice from relevant professional bodies.

Marker note:

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