

Q1(a)(i) Mark Scheme		W1 Cost of Sales		£		
[9 AO1] [15 AO2] [3 AO3]			Factory wages	1 781 000	(1)AO2	C
Statement of Profit or Loss and other comprehensive income for Sofa So Good plc for y/e 31st March 2021			Direct Materials	1 670 000	(1)AO1	
			Less Discount Received	(28 000)	both	
Revenue	£ 6 840 000	AO2	Factory buildings Depreciation	118 000	(1)AO3	C
		(1o/f)	Production Machinery Depreciation	53 200	(1)AO2	C
Cost of sales (W1)	(3 547 200)	both	Opening Inventory	451 000	(1)AO1	
			Less Closing Inventory	(498 000)	(1)AO1	6
				3 547 200		
Gross profit C	3 292 800	(1o/f)	W2 Distribution Costs			
		AO2	Marketing	181 000	(1)AO2	C
Other Income	400	any 2	Discount Allowed	61 000	(1)AO1	
		(1o/f)	Motor lorries running expenses	27 500	both	
Distribution costs (W2)	(1 455 840)	AO2	Rent on warehouse	148 000	(1)AO1	
		(1o/f)	Depreciation on motor lorries	35 000	(1)AO3	C
Administrative expenses (W3)	(500 700)	any 2	Delivery costs	119 000	(1)AO1	
		(1o/f)	Commission on sales	62 340	both	
Financial cost (W4)	(42 500)	AO2	Warehouse wages	274 000	(1)AO2	C
		(1o/f)	Transport staff wages	137 000	(1)AO2	C
Profit on ordinary activities before tax	1 294 160	(1o/f)	Sales staff wages	411 000	(1)AO2	8 C
C		AO2		1 455 840		
Corporation tax C	(188 000)	(1)AO2	W3 Administrative Expenses			
		(1o/f)	Auditors fees	14 900	(1)AO2	C
Profit on ordinary activities after tax	<u>1 106 160</u>	AO2	Irrecoverable Debts Written Off	18 000	(1)AO1	
C		7	Increase in irrecoverable Debts prvsn	10 800	(1)AO3	C
			Head office expenses	320 000	(1)AO1	
			Head office wages	137 000	(1)AO2	5 C
				500 700		
			W4 Financial cost			
Total 27 marks			Debenture interest	42500	(1)AO2	1 C

(a)(ii) [7 AO1] [6 AO2] [3 AO3]

Statement of Financial Position of So Far So Good plc at 31/03/2021				
ASSETS	£	£	£	
Non-current assets				
Property, Plant & Equipment				
Factory buildings	2 832 000	(1o/f) AO2		
Production Machinery	212 800	(1o/f) AO2		
Motor lorries	72 000	(1o/f) AO2		
		3 116 800		
Goodwill		40 000	(1) AO1	
Total Non-current Assets			3 156 800	
Current Assets				
Inventories		498 000	(1) AO1	
Trade and Other Receivables				
Trade receivables	595 000	(1) AO3		
Less Irrecoverable debt allowance	(23 800)	both		
	571 200			
Other Receivables	22 000	(1) AO1		
		593 200		
Cash and Cash Equivalents				
Bank	65 000	(1) AO1		
Cash	27 000	both		
		92 000		
Total Current Assets			1 183 200	
Total Assets			4 340 000	
EQUITY AND LIABILITIES				
Equity				
Ordinary shares of £1.00 each	2 100 000			
Share premium	420 000	(1) AO1		
General Reserve	25 000	all three		
Retained Earnings	945 450	(1o/f) AO3		
Total Equity			3 490 450	
Current Liabilities				
Trade and other Payables				
Trade Payables	126 000	(1) AO1		
Other payables	11 700	both		
Debenture interest owed	21 250	(1) AO2		
Auditors fee owed	2 600	(1) AO1		
		161 550		
Debenture (2021)	500 000	(1) AO3		
Corporation Tax Payable	188 000	(1) AO2		
		688 000		
Total Current Liabilities			849 550	
Total Equity and Liabilities			4 340 000	(1o/f) AO2 (16)

(b) [1 AO1] [1 AO2] [4 AO3] [6 AO4]

An auditor is an independent person or business, appointed and authorized to examine accounts and accounting records, and state the result of their audit. Auditors are expected to pass comment on the corporate governance of a company.

Corporate governance is the framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in a company's relationship with all its stakeholders (financiers, customers, management, employees, government, and the community).

The auditor will report on the corporate governance of a company by feedback to the Board of Directors and in the Audit Report.

Case for the role of the auditor in corporate governance.

The auditor is an external person or business and should view all accounts, practices, procedures and company ethics from an independent viewpoint. This may allow the board to have feedback from a different, external viewpoint rather than from their own, internal position.

There is a UK Corporate Governance Code and auditors should examine if the company is complying with the Code. Companies must "comply or explain". They may be able to justify an alternative approach in writing. The Code has 5 areas and each area may require a comment by the auditors when auditing Sofa So Good plc.

Section A: Leadership – the company should be led by an effective board, who are responsible for success of company. There should be a clear division of responsibilities, with non-executive directors who should challenge. The Chairman is responsible for the Board. No individual should be able to make all the decisions. The auditor should advise Sofa So Good plc that the Chair is not also the CEO.

Section B: Effectiveness – the board should have an appropriate balance of skills, experience, independence, and knowledge to carry out duties effectively. Appointments to the board should be formal, rigorous and transparent. There should be induction for new board members, self-evaluation, and re-election. The auditor should advise Sofa So Good plc that the Code states that "board members should be re-elected at regular intervals" and also be rotated.

Section C : Accountability

The board should present a balanced and understandable assessment of the company's position and prospects. The board is responsible for risk and internal controls, and should have sound risk management. For Sofa So Good plc, this risk management should apply when taking over another company. If the board were interested in taking over another company, thorough checks need to be carried out on the other company, to verify financial statements etc. It would be the funds of the shareholders that would be put at risk if these checks were not made.

Section D: Remuneration

Levels of remuneration should attract, retain and motivate directors of the required quality. However, a company should avoid paying more than is necessary. Director's remuneration should be partly linked to individual and corporate performance. No director should be involved in deciding their own remuneration which is not the case for Sofa So Good plc.

Section E: Relations with shareholders

The board is responsible for ensuring a satisfactory dialogue with shareholders takes place, based on mutual understanding of objectives. Investors should be encouraged to participate at the Annual

General Meeting. Appropriate notice needs to be given to shareholders of Sofa So Good plc which will allow them to attend the AGM if they wish.

Case Against the role of the auditor in corporate governance.

Boards, including Sofa So Good plc, should maintain an appropriate relationship with the company's auditor. This may be difficult to put into practice. The auditor may be reluctant to criticise the company's corporate governance because the company is a lucrative source of income. The auditor may also be carrying out other, consultancy work with the company which is charged at a high rate. The auditors will be reluctant to lose fees for audit and management consultancy. This may result in poor corporate governance continuing into the future.

Suggestions have been made that different auditors should be used for audit work (including corporate governance) and management consultancy.

Other suggestions made have included the establishment of a separate, possibly government funded body that oversees the corporate governance of companies.

Conclusion

The role of the auditor in corporate governance is/is not appropriate nor beneficial.

12 marks

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1- 3	Isolated elements of knowledge and understanding which are recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
Level 2	4 - 6	Elements of knowledge and understanding, which may be applied to the scenario. Chains of reasoning are present, but may be incomplete or invalid. A generic or superficial assessment is present.
Level 3	7 - 9	Accurate and thorough understanding, supported by relevant application to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects. An attempt at an assessment is presented, using financial and maybe non-financial information, in an appropriate format and communicates reasoned explanations.
Level 4	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and maybe non-financial information and makes an informed decision.

Question Number	Answer	Mark																										
2 (a)	<p>A01 (6) AO1: Six marks for correct values and calculation to arrive at value.</p> <p>Calculation of Purchase price for Homesales plc</p> <table border="1"> <thead> <tr> <th></th> <th>Homesales plc (£000)</th> </tr> </thead> <tbody> <tr> <td>Buildings</td> <td>20 000</td> </tr> <tr> <td>Computers</td> <td>4 000 (1) A01 (any 2 NCA)</td> </tr> <tr> <td>Fixtures and Fittings</td> <td>1 400</td> </tr> <tr> <td>Vehicles</td> <td>700 (1) A01 (next two NCA)</td> </tr> <tr> <td>Inventory</td> <td>340</td> </tr> <tr> <td>Trade receivables</td> <td>2 110 (1) A01 (any 2 CA)</td> </tr> <tr> <td>Cash and Cash equivalents</td> <td>565 (1) A01</td> </tr> <tr> <td>Bank loan</td> <td>(3100)</td> </tr> <tr> <td>Trade payables</td> <td>(770)</td> </tr> <tr> <td>Other payables</td> <td>(110) (1) A01 (all 3 Liabs)</td> </tr> <tr> <td></td> <td></td> </tr> <tr> <td>Value of Homesales plc</td> <td>25 135 (1) o/f A01</td> </tr> </tbody> </table>		Homesales plc (£000)	Buildings	20 000	Computers	4 000 (1) A01 (any 2 NCA)	Fixtures and Fittings	1 400	Vehicles	700 (1) A01 (next two NCA)	Inventory	340	Trade receivables	2 110 (1) A01 (any 2 CA)	Cash and Cash equivalents	565 (1) A01	Bank loan	(3100)	Trade payables	(770)	Other payables	(110) (1) A01 (all 3 Liabs)			Value of Homesales plc	25 135 (1) o/f A01	(6)
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2 (b)	<p>A02 (2), A03 (2) AO2: Two marks for correct application and calculation to arrive at value of offer. AO3: Two marks for correct analysis of offer and decision.</p> <p>The offer values Homesales plc at (10 m x £2.50) (1) A02 = £25 million (1) A02 This is less than the value of Homesales plc which is £25.135 (1) A03 There is no goodwill / goodwill is negative (1) A03</p>	(4)

Question Number	Answer	Mark
2 (c)	<p>A01 (1), A02 (3) AO1: One mark for correct value of new offer. AO1: Three marks for analysis of offer and calculation of goodwill.</p> <p>New offer is (10m x £3) (1) A02 = £30 million (1) A01 Less Value of Homesales at (£25.135) million (1) o/f A02 Goodwill = £4.865 million (1) o/f A02</p>	(4)

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2 (d)(i)	<p>A01 (1), A02 (7) AO1: One mark for correct balancing off account. AO1: Seven marks for correct entries into the account.</p> <p>Digital Estates plc Realisation Account</p> <table border="1"> <thead> <tr> <th></th> <th>£ 000's</th> <th></th> <th>£ 000's</th> </tr> </thead> <tbody> <tr> <td>Buildings</td> <td>22 000</td> <td>Bank loan</td> <td>5 500</td> </tr> <tr> <td>Computers</td> <td>5 600</td> <td>Trade payables</td> <td>1 050</td> </tr> <tr> <td>Fixtures and Fittings</td> <td>1 900</td> <td>Other payables</td> <td>250 (1) A02 all three</td> </tr> <tr> <td>Motor vehicles</td> <td>1 200 (1) A02 all four</td> <td>Redbricks plc (Purchase Consideration) (1) A02</td> <td>42 000 (1) A02</td> </tr> <tr> <td>Inventory</td> <td>420</td> <td></td> <td></td> </tr> <tr> <td>Trade receivables</td> <td>2 950</td> <td></td> <td></td> </tr> <tr> <td>Cash and Cash equivalents</td> <td>870(1) A02 all three</td> <td></td> <td></td> </tr> <tr> <td>Sundry Shareholders (Profit on Realisation) (1) A02</td> <td>13 860 (1) o/f A02</td> <td></td> <td></td> </tr> <tr> <td></td> <td><u>48 800</u></td> <td></td> <td><u>48 800</u> (1) A01</td> </tr> </tbody> </table>		£ 000's		£ 000's	Buildings	22 000	Bank loan	5 500	Computers	5 600	Trade payables	1 050	Fixtures and Fittings	1 900	Other payables	250 (1) A02 all three	Motor vehicles	1 200 (1) A02 all four	Redbricks plc (Purchase Consideration) (1) A02	42 000 (1) A02	Inventory	420			Trade receivables	2 950			Cash and Cash equivalents	870(1) A02 all three			Sundry Shareholders (Profit on Realisation) (1) A02	13 860 (1) o/f A02				<u>48 800</u>		<u>48 800</u> (1) A01	(8)
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2 (e)	<p>A01 (7), A02 (2), A03 (4)</p> <p>A01: Seven marks for correct tangible non-current assets, current assets, liabilities, and balancing statement.</p> <p>A02: Two marks for correct labels of goodwill and share premium.</p> <p>A03: Four marks for correct figures for goodwill, shares and share premium.</p> <p>Statement of Financial Position of Redbricks plc at 1 October 2017</p> <table border="1"> <thead> <tr> <th></th> <th>£ 000's</th> <th>£ 000's</th> </tr> </thead> <tbody> <tr> <td>Assets</td> <td></td> <td></td> </tr> <tr> <td>Non-current assets</td> <td></td> <td></td> </tr> <tr> <td>Buildings</td> <td>45 000</td> <td></td> </tr> <tr> <td>Computers</td> <td>9 000 (1) A01 both</td> <td></td> </tr> <tr> <td>Fixtures and Fittings</td> <td>3 100</td> <td></td> </tr> <tr> <td>Motor vehicles</td> <td>1 800 (1) A01 both</td> <td></td> </tr> <tr> <td>Goodwill (1) A02- Homes</td> <td>4 865 (1) o/f A03</td> <td></td> </tr> <tr> <td>Digital Estates</td> <td>11 780 (1) A03</td> <td></td> </tr> <tr> <td></td> <td></td> <td>75 545</td> </tr> <tr> <td>Current assets</td> <td></td> <td></td> </tr> <tr> <td>Inventory</td> <td>740</td> <td></td> </tr> <tr> <td>Trade receivables</td> <td>5 060 (1) A01 both</td> <td></td> </tr> <tr> <td>Cash and Cash equivalents</td> <td>1 435 (1) A01</td> <td></td> </tr> <tr> <td></td> <td></td> <td>7 235</td> </tr> <tr> <td></td> <td></td> <td><u>82 780</u></td> </tr> <tr> <td>Equity and Liabilities</td> <td></td> <td></td> </tr> <tr> <td>Equity</td> <td></td> <td></td> </tr> <tr> <td>Ordinary Shares of £1 each</td> <td>24 000 (1) A03</td> <td></td> </tr> <tr> <td>Share Premium (1) A02</td> <td>48 000 (1) A03</td> <td></td> </tr> <tr> <td></td> <td></td> <td>72 000</td> </tr> <tr> <td>Non-current liabilities</td> <td></td> <td></td> </tr> <tr> <td>Bank loan</td> <td>8 600 (1) A01</td> <td></td> </tr> <tr> <td></td> <td></td> <td>8 600</td> </tr> <tr> <td>Current Liabilities</td> <td></td> <td></td> </tr> <tr> <td>Trade payables</td> <td>1 820</td> <td></td> </tr> <tr> <td>Other payables</td> <td>360 (1) A01 both</td> <td></td> </tr> <tr> <td></td> <td></td> <td>2 180</td> </tr> <tr> <td></td> <td></td> <td><u>82 780</u> (1) o/f A01</td> </tr> </tbody> </table>		£ 000's	£ 000's	Assets			Non-current assets			Buildings	45 000		Computers	9 000 (1) A01 both		Fixtures and Fittings	3 100		Motor vehicles	1 800 (1) A01 both		Goodwill (1) A02- Homes	4 865 (1) o/f A03		Digital Estates	11 780 (1) A03				75 545	Current assets			Inventory	740		Trade receivables	5 060 (1) A01 both		Cash and Cash equivalents	1 435 (1) A01				7 235			<u>82 780</u>	Equity and Liabilities			Equity			Ordinary Shares of £1 each	24 000 (1) A03		Share Premium (1) A02	48 000 (1) A03				72 000	Non-current liabilities			Bank loan	8 600 (1) A01				8 600	Current Liabilities			Trade payables	1 820		Other payables	360 (1) A01 both				2 180			<u>82 780</u> (1) o/f A01	(13)
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2 (f)	<p>AO1(1), AO2 (1), AO3 (4), AO4 (6) Possible answers could include:</p> <p>Goodwill is the difference between the value of a business as a whole, and the fair value of its net assets. The value of the business could be said to be the price that a buyer agrees to pay for the business. The fair value of the business is agreed after the possible revaluation of assets and liabilities.</p> <p>The correct treatment of the goodwill paid, or purchased, would be to amortize the goodwill over its useful economic life.</p> <p><u>For this treatment</u> The buyer is likely to derive benefits from the expenditure over a number of years, so spreading the cost of this expenditure over a number of years agrees with the matching concept and gives a true and fair view of the accounts. This treatment is in line with recommended practice. i.e. FRS102 / IAS 38</p> <p>To write the goodwill off immediately may make profit unrealistically low, and the tax charge on profits would be unfairly low.</p> <p><u>Case against this treatment</u> If goodwill were to be written off immediately against reserves, the prudence concept is followed. It is difficult to estimate the number of years the buyer will benefit from the purchase of the business assets. Thus, the annual amortisation charge in the accounts may be unrealistic.</p> <p><u>Decision</u> Writing off over a number of years is recommended and beneficial as it gives a true and fair view of the accounts. The decision should be supported by reference to key points of their argument.</p>	(12)

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