

Question Number	Answer	Mark
1 (a)(i)	AO1 (10), AO2 (16), AO3 (1) AO1: Ten marks for Direct labour and materials, opening and closing inventory, marketing and trade fairs, discount allowed and motor vehicle running expenses, delivery costs and sales commission, sales and delivery staff wages, auditors fees and bad debts written off, head office expenses and staff, corporation tax, AO2: Sixteen marks for factory and machinery depreciation, factory power, warehouse rent, depreciation on motor vans, warehouse, shops and head office power, bank loan and debenture interest, revenue and cost of sales, gross profit, other income and distribution costs, administration expenses and financial cost, profit on ordinary activities before and after tax. AO3: One mark for Increase in Bad debt provision	(27)

		W1 Cost of Sales			
[10 AO1] [16 AO2] [1 AO3]		Direct factory labour	1890000		
Statement of Comprehensive Income for Brama Sun plc for y/e 31 March 2017		Direct Materials	2150000	AO1	both
Revenue	9864000	Less Discount Received	-43000	AO1	
		Factory Depreciation	92000	AO2	
		Machinery Depreciation	43900	AO2	
		Opening Inventory	772000		
Cost of sales	(4601900)	Less Closing Inventory	-779000	AO1	both
		Factory power	476000	AO2	
Gross profit	5262100		4601900		6
		W2 Distribution Costs			
Other Income	1000	Marketing	324000		
		Trade fairs and exhibitions	110000	AO1	both
Distribution costs	o/f (2448330)	Discount Allowed	87000		
		Motor vehicle running expenses	43000	AO1	both
Administrative expenses	o/f (1470920)	Rent on warehouse	257000	AO2	
		Depreciation on motor vans	76800	AO2	
Financial cost	o/f (102000)	Sales Commission	94530		
		Delivery costs	178000	AO1	both
Profit on ordinary activities before tax	o/f 1241850	Sales staff wages	632000		
		Delivery staff wages	476000	AO1	both
Corporation tax	(218000)	Warehouse power	68000	AO2	
		Shops power	102000	AO2	
Profit on ordinary activities after tax	o/f 1023850		2448330		8
		W3Administrative Expenses			
		Auditors fees	18500		
Total 27 marks	7	Bad Debts Written Off	26000	AO1	both
		Increase in Bad Debt provision	1420	AO3	
		Head office expenses	510000		
		Head office staff	881000	AO1	both
		Head office power	34000	AO2	
			1470920		4
		W5 Financial cost			
		Bank loan interest	12000	AO2	
		Debenture interest	90000	AO2	2
			102000		

Question Number	Answer	Mark
1 (a)(ii)	AO1 (6), AO2 (5), AO3 (5) AO1: Six marks for goodwill, bank and cash, general reserve, debenture, trade payables and bank loan. AO2: Five marks for factory, machinery, motor vans, debenture and bank interest. AO3: Five marks for trade and other receivables, retained earnings, other payables and corporation tax	(16)

Statement of Financial Position of Brama Sun plc at 31 March 2017			
	£	£	£
ASSETS			
Non-current assets			
Property, plant and equipment			
Factory	3 588 000	(1) o/f AO2	
Machinery	395 100	(1) o/f AO2	
Motor vans	131 200	(1) o/f AO2	
			4 114 300
Goodwill	90 000		
			90 000
			4 204 300
Current assets			
Inventories	779 000	(1) AO1 both	
Trade and other receivables			
Trade receivables	821 000		
Less allowance for doubtful debts	(16 420)		
	804 580	(1) AO3	
Other receivables	23 000	(1) AO3	

			827 580
Cash and cash equivalents			
Bank and cash	175 000	(1) AO1	
			175 000
			1 781 580
Total assets			5 985 880
EQUITY AND LIABILITIES			
Equity			
Share Capital			
Ordinary shares of £0.50	3 700 000	both	
General reserve	56 000	(1) AO1	
Retained earnings	399 380	(1) AO3 off	
			4 155 380
Non-current liabilities			
7.5% debenture	1 200 000	(1) AO1	
			1 200 000
Current liabilities			
Trade payables	175 000	(1) AO1	
Other payables	17 500	both	
	24 000	(1) AO3	
Debenture interest	45 000	(1) AO2	
Bank interest	1 000	(1) AO2	
Bank loan – must be current	150 000	(1) AO1	
Corporation tax payable	218 000	(1) AO3	
			630 500
Total equity and liabilities			5 985 880

Question Number	Answer	Mark
1 (b)	<p>AO1(1), AO2 (1), AO3 (4), AO4 (6)</p> <p><u>For Importance</u></p> <ul style="list-style-type: none"> Auditors are independent scrutineers of the financial statements of the company who report that the financial statements have been prepared "correctly" in accordance with International Accounting Standards and give a true and fair view (or do not). The senior partner will sign the Auditors Report found in the Annual Report, giving the auditors opinion of the financial statements of the company. Auditors are reporting on how directors have used the funds invested by shareholders. The auditors duty is to the shareholders of the company. Auditors may report on corporate governance under the following headings: <ul style="list-style-type: none"> Leadership – e.g. is there a clear definition of roles Effectiveness – e.g. does the board have the appropriate skills, experience, knowledge Accountability – e.g. is the board clear that it is responsible for risk management Remuneration – e.g. is the pay to board members appropriate Relations with shareholders – e.g. is a satisfactory dialogue with shareholders taking place Auditors may give tax authorities more confidence that the tax computation of the company is correct. Professional supervisory bodies exist to give guidelines to auditors, e.g. Auditing Practices Board. Auditors should be professionally qualified e.g. Chartered Accountants. 	(12)

	<p><u>Against Importance</u></p> <ul style="list-style-type: none"> • Auditors may not be very independent, going along with the wishes of clients, in order to keep their custom, which may include non-audit work. • Auditors could be misled by the directors of the company and provide an inaccurate Report. • Auditors do not guarantee that material fraud has not occurred. <p><u>Conclusion</u> Auditors role in limited companies is important.</p>	
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 throughout 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 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 and 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.

Mark scheme

Q1(a) AO1 (12) AO2 (17) AO3 (5)

AO1: One mark each for direct materials, discount received, opening inventory, closing inventory, marketing, discount allowed, motor lorries running expenses, warehouse rent, auditors fees, irrecoverable debts written off, bank current account interest, and revenue.

AO2: One mark each for factory depreciation, factory wages, delivery costs, transport wages, warehouse wages, office expenses, office staff, depreciation of computer equipment, debenture interest, cost of sales, gross profit, distribution costs, administrative expenses, financial cost, profit on ordinary activities before tax, corporation tax, and profit on ordinary activities after tax.

AO3: Two marks for depreciation calculation, one mark each for motor lorries depreciation, decrease in irrecoverable debt provision, and amortisation of goodwill.

Calculation of machinery depreciation:

Cost of machinery over life = £370 000 - £10 000 = £360 000

Cost per unit = $\frac{£360\,000}{80\,000}$ = £4.50 per unit [1] AO3

Cost of producing this years' output = £4.50 x 13 560 = £61 020 [1] AO3

Q1(a) Mark Scheme			W1 Cost of Sales		
AO1(12) AO2(17) AO3(5)			Direct materials	670000	(1)AO1
Statement of Comprehensive Income for Sparkle plc for y/e 30th September 2025			Less Discount received	(19000)	(1)AO1
Revenue	3784000	(1)AO1	Factory depreciation	72000	(1)AO2
			Production machinery depreciation	61020	(2)AO3
Cost of sales	1664020	(1o/f)AO2	Opening inventory	321000	(1)AO1
			Less Closing inventory	(335000)	(1)AO1
Gross profit	2119980	(1o/f)AO2	Factory wages	894000	(1)AO2
			1664020	8	
Distribution costs	1185300	(1o/f)AO2	W2 Distribution Costs		
			Marketing	54000	(1)AO1
Administrative expenses	713235	(1o/f)AO2	Discount Allowed	47000	(1)AO1
			Motor lorries running expenses	19400	(1)AO1
Finance costs	28850	(1o/f)AO2	Rent on warehouse	44000	(1)AO1
			Depreciation on motor lorries	44800	(1)AO3
Profit before tax	192595	(1o/f)AO2	Delivery costs	82100	(1)AO2
			Transport wages	335250	(1)AO2
Corporation tax	38519	(1o/f)AO2	Warehouse wages	558750	(1)AO2
			1185300	8	
Profit after tax	154076	(1o/f)AO2	W3 Administrative Expenses		
			Auditors fees	8700	(1)AO1
W4 Finance costs			Irrecoverable Debts Written Off	7500	(1)AO3
Debenture interest	27000	(1)AO2	Decrease in Irrecoverable Debt provision	(265)	(1)AO1
			Office expenses	213300	(1)AO2
			Office wages	447000	(1)AO2

Bank current account interest	1850	(1)AO1	Depreciation of computer equipment	29000	(1)AO2
	28850	2	Amortisation of goodwill	8000	(1)AO3
Total 34 marks				713235	7

Question 1 (b)
(b)AO1(2) AO2(6) AO3(1)

AO1: One mark for listing two debt items. One mark for listing any first three equity items.

AO2: One mark for debt total. One mark for listing next three equity items. One mark for equity total. Three marks for calculating gearing ratio.

AO3: One mark for gearing formula.

$$\text{Gearing ratio} = \frac{\text{Fixed cost capital (debt)}}{\text{Total capital employed (debt + equity)}} \times 100 \text{ (1)AO3}$$

Debt

9% Debenture	300 000	
Total Debt	300 000	(1)AO2

Equity

Foreign Exchange reserve	45 000	
General reserve	100	Any first three
Ordinary shares	1 900 000	(1)AO1
Retained earnings	618 660	Next two
+ Profit after tax for year	154 076	(1)AO1
Revaluation reserve	360 000	Next two
Share premium	475 000	(1)AO2
Total Equity	3 552 836	(1of)AO2

$$\begin{aligned} \text{Gearing ratio} &= \frac{300\,000}{(300\,000 + 3\,552\,036)} \times 100 \text{ (1of)AO2} \\ &= 7.78\% \text{ (1of)AO2} \end{aligned}$$

(9)

(c) AO1(1) AO2 (1) AO3 (4) AO4 (6)
Own figure rule applies.

Case for Good performance

Gearing is very low at 8.292% which means very little is paid out in interest to capital providers. The financial cost is only £28 850

Gross profit as a percentage of revenue is $\frac{£2\,119\,980}{£3\,784\,000} \times 100$ which is 56.02% which is healthy.

Case for poor performance

Gearing is very low which means capital is provided internally and no interest is paid. No interest being paid on internal funding means a higher tax bill than if funding was external.

Net profit before tax as a percentage of revenue is $\frac{£192\,595}{£3\,784\,000} \times 100$ which is

5.09% which is quite a small percentage. This indicates that the distribution, administrative and financial expenses of the company are high.

Net profit after tax as a percentage of revenue is $\frac{£154\,076}{£3\,784\,000} \times 100$ which is 4.07% which is low.

Return on capital employed is $\frac{£154\,076}{£3\,852\,836} \times 100 = 4\%$ which is quite low.

Arkle, as a shareholder, has seen no return on his investment in the form of dividends. This should be worrying to Arkle. This could be explained by the relatively small profit of £154 076 being made.

No dividends have been paid to shareholders.

The lack of cash and the bank overdraft also explain the non-payment of dividends.

Other points

It is not known what the share price is at the start and end of the year. Is the share price high or low?

Has the share price risen or fallen over the year?

Conclusion

Sparkle plc has made a small profit for the year ended 30 September 2025.

Perhaps the company should try to reduce factory wages and warehouse wages moving forward, as these are two of the highest expenses.

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12 marks

Total for Question 1 = 55 marks