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			Direct Materials	1 670 000	(1)AO1	
income for Sofa So Good plc			Less Discount Received	(28 000)	both	
for y/e 31st March 2021	£		Factory buildings Depreciation	118 000	(1)AO3	C
Revenue	6 840 000	AO2	Production Machinery Depreciation	53 200	(1)AO2	C
		(1o/f)	Opening Inventory	451 000	(1)AO1	
Cost of sales **(W1)**	(3 547 200)	both	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		Discount Allowed	61 000	(1)AO1	
		any 2	Motor lorries running expenses	27 500	both	
Distribution costs **(W2)**	(1 455 840)	(1o/f)	Rent on warehouse	148 000	(1)AO1	
		AO2	Depreciation on motor lorries	35 000	(1)AO3	C
Administrative expenses **(W3)**	(500 700)		Delivery costs	119 000	(1)AO1	
		any 2	Commission on sales	62 340	both	
Financial cost **(W4)**	(42 500)	(1o/f)	Warehouse wages	274 000	(1)AO2	C
		AO2	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**			
			Auditors fees	14 900	(1)AO2	C
Profit on ordinary activities after tax	1 106 160	(1o/f)	Irrecoverable Debts Written Off	18 000	(1)AO1	
C		AO2	Increase in irrecoverable Debts prvsn	10 800	(1)AO3	C
		7	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.

Q1a Mark Scheme

[AO1 16] [AO2 21] [AO3 6]

W1 Cost of Sales			
Direct Materials	3 090 000	(1) AO1	
Less Discount Received	(71 000)	(1) AO2	
Electricity	72 000	(1) AO2	
Equipment Depreciation	6 000	(1) AO3	
Factory Depreciation	42 000	(1) AO3	
Gas	8 000	(1) AO2	
Insurance	14 000	(1) AO2	
Chefs Wages	525 500	(1) AO1	
Opening Inventory	244 500	(1) AO1	
Less Closing Inventory	(281 500)	(1) AO2	
	3 649 500	(1 o/f) AO1	**11 marks**
W2 Distribution Costs			
Advertising	47 000	(1) AO2	
Fuel	140 000	(1) AO2	
Electricity	90 000	(1) AO2	
Gas	8 000	(1) AO2	
Insurance -shops	10 000	(1) AO2	
Insurance - vehicles	20 000	(1) AO2	
Depreciation on motor vans	78 750	(1) AO3	
Motor van maintenance	238 000	(1) AO1	
Shop Rents	654 000	(1) AO1	
Motor van driver wages	302 000	(1) AO1	
Shop staff wages	884 000	(1) AO1	
	2 471 750	(1 o/f) AO1	**12 marks**
W3Administrative Expenses			
Electricity	18 000	(1) AO2	
Gas	8 000	(1) AO2	
Insurance - office	2 000	(1) AO2	
Office expenses	138 000	(1) AO1	
Office staff wages	117 000	(1) AO1	
Stationery	9 000	(1) AO1	
	292 000	(1 o/f) AO1	**7 marks**
W4 Financial cost			
Interest on bank loan	21 000	(1) AO2	
Bank charges	11 000	(1) AO1	
Interest on debenture	120 000	(1) AO3	
	152 000	(1 o/f) AO1	**4 marks**

Accept bank charges as administrative expenses

Statement of Profit or Loss and Other Comprehensive Income for Cyprieat plc for y/e 30 September 2019			
Revenue	7 489 000	(1) AO2	
Cost of sales	(3 649 500)	(1 o/f) AO2	
Gross profit	3 839 500	(1 o/f) AO2	
Distribution costs	(2 471 750)	(1 o/f) AO2	
Administrative expenses	(292 000)	(1 o/f) AO2	
Financial cost	(152 000)	(1 o/f) AO2	
Profit on ordinary activities before tax	923 750	(1 o/f) AO3	
Corporation tax	(185 000)	(1) AO2	
Profit on ordinary activities after tax	738 750	(1 o/f) AO3	**9 marks**

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

Case for ICT

Cyprieat plc saves time and therefore money, compared to preparing accounts by hand. The need to have ledgers and books is eliminated, and this saves space as well.

Many bookkeeping/accounting programmes complete the double entry after the first entry is made. This could reduce errors. They can also produce final financial statements automatically.

Cyprieat plc can use spreadsheets for quick calculations. Also displaying financial and management accounts in a pre-prepared formats. Flexed budgets could be speedily produced by changing key variables.

Packages provide an audit trail, so entries can be tracked. This allows auditors to audit the accounts at the year end.

Spreadsheets can also be used to generate graphical information. This may be useful for break-even analysis.

Cyprieat plc can use packages to complete invoices, purchase orders, requisition notes, delivery notes, etc. The presentation could be a clearer, standard format, which should be useful.

Case Against ICT

The financial cost of hardware, software, staff training, running costs, maintenance etc. may cost Cyprieat plc a great deal of money.

Hardware has a relatively short life, software often needs updating, new staff will need to be trained, and often outside experts are needed for maintenance issues.

If staff are not trained or are unskilled, they can make errors, which may lead to generation of incorrect information. These errors will take time and money to correct.

Security risks if management or Cyprieat plc wish to keep the information confidential. Outside hackers could access sensitive information if security controls are weak. Internal staff could gain access to information they are not meant to view if security controls are lapsed.

Computer crashes, freezes, power cuts, etc which may result in a loss of information and waste of staff time. Back-up copies should be kept in case these issues occur

Should conclude that ICT is very advantageous.

Level	Mark	Descriptor
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