



A-level
ACCOUNTING
7127/1

Paper 1 Financial Accounting

Mark scheme

June 2021

Version 1.1 Final Mark Scheme



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 for the explanation 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:

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

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 eg 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.

Section A

Multiple Choice Questions

Question Number	Answer	
1	B	$\frac{\text{Trade payables}}{\text{Credit purchases}} \times 365$
2	B	Consistency
3	C	To provide a set of rules which suits all companies.
4	D	£19 500 profit
5	B	Interest paid on loans at 5% per annum No interest paid on capital
6	A	$\frac{\text{Dividend per share}}{\text{Market price per share}} \times 100$
7	A	£10 400
8	C	£17 624
9	A	£133 Cr
10	A	£5 500

[1 mark for each correct answer]

Qu	Part	Marking Guidance	Total marks
11		Explain why it is important to apply the going concern concept.	3

AO1 – 3 marks

Level	Marks	Description
3	3	A clear and thorough explanation showing knowledge of a reason for preparing the accounts on a going concern basis.
2	2	A partial explanation showing knowledge of a reason, but lacking detail and/or minor inaccuracies.
1	1	Fragmented points made.
0	0	Nothing written worthy of credit.

Answers may include:

Allows a business to apply the accruals concept so income and expenditure are matched to the periods they belong to and therefore the profit figures are more accurately reported.

Allows a business to apply the historical cost concept for non-current assets and write this off over its expected lifetime rather than expecting the assets to be liquidated within the next twelve months.

Helps reassure shareholders and other stakeholders as it implies the ability to trade as normal for the foreseeable future.

Qu	Part	Marking Guidance	Total marks
12	1	Prepare the equipment disposal account. Show clearly the amount to be transferred to the income statement. Dates are not required.	6

AO1 – 6 marks

Dr		Equipment Disposal Account		Cr	
Details	£	Details	£		
Equipment at cost	67 500 (1)	Provision for depreciation	47 500 (3) OF W1		
Income Statement	7 500 (1) OF*	Cash book / Bank	27 500 (1)		
	<u>75 000</u>		<u>75 000</u>		

Marker note

To award marks the entries must be on the correct side and supported by an appropriate label. Abbreviations are accepted as long as the meaning is clear, eg Equipment, Cost, Depreciation, Dep, IS, Inc St, P&L.

* This mark is OF – the answer must be numerically correct but could be either on the debit or credit side of the account depending on the student answer. Do **not** award if a balance b/d is shown for the start of the next period.

W1 Where student uses the NBV method to calculate depreciation

Depreciation	$£67\,500 \times 2/3 = £45\,000$ NBV Yr 1
	$£45\,000 \times 2/3 = £30\,000$ NBV Yr 2 (1)
	$£30\,000 \times 2/3 = £20\,000$ NBV Yr 3
	Cost – NBV = Depreciation
	$(£67\,500 - £20\,000) (1) = £47\,500 (OF)$

Award **1 further mark** for placing the £47 500 on the credit side of the account.

W1 Alternative version where student works out each year’s depreciation and adds these together

Year 1 depreciation	$£67\,500 \times 1/3 = £22\,500$
Year 2 depreciation	$£45\,000 \times 1/3 = £15\,000$ (1)
Year 3 depreciation	$£30\,000 \times 1/3 = £10\,000$
Total depreciation	Year 1 + Year 2 + Year 3
	$£22\,500 + £15\,000 + £10\,000 = £47\,500$ (10F)

Award **1 further mark** for placing the £47 500 on the credit side of the account.

Marker note

For a depreciation figure of the following numbers please reward with **1 mark**.

- £37 500 (1) (two years depreciation calculated)
- £54 166 (1) (four years depreciation calculated)
- £54 166.66 (1) (four years depreciation calculated)
- £54 166.67 (1) (four years depreciation calculated)
- £54 167 (1) (four years depreciation calculated)

Award **1 further mark** for placing **any** value (students own depreciation figure) on the credit side of the account as long as it is clearly labelled with an appropriate label (eg depreciation, provision for depreciation, dep etc.)

Qu	Part	Marking Guidance	Total marks
12	2	Prepare the provision for doubtful debts account. Balance the account and bring the balance down on 1 May 2021.	3

AO1 – 3 marks

Dr			Provision for Doubtful Debts Account			Cr		
Date	Details	£	Date	Details	£			
			1 May 2020	Balance b/d	786	(1)		
30 April 2021	Income Statement	144						1 (OF)*
30 April 2021	Balance c/d	642						#
		786			786			
			1 May 2021	Balance b/d	642	(1)		W1

W1

(Trade receivables – irrecoverable debt) × 2% = Provision at 1 May 2021
 (£33 450 – £1 350) × 2% = £642 **(OF)**

Award **1 mark** for placing **£642 (OF)** as the balance b/d on the credit side of the account.

* Award **1 mark** for any Income Statement figure where it is used to balance the account and is numerically correct and no extraneous items are present. This Income Statement figure could be on either side.

Marker note

To award marks the entries must be on the correct side (except Income Statement) and supported by an appropriate label. Abbreviations are accepted as long as the meaning is clear Bal b/d, c/d; Bal b/fwd, c/fwd, IS, P&L). Dates are not essential to award marks

Qu	Part	Marking Guidance	Total marks
13		Prepare an extract of the income statement for Crofty Ltd for the year ended 30 April 2021. Your answer should start with the profit from operations.	8

AO1 – 8 marks

Crofty Ltd
Extract from the Income Statement for the year ended 30 April 2021

	£	
Profit from operations	47 286	(2) W1
Less interest	5 700	(2) W2
Profit before tax	41 586	(1) OF #
Less taxation	9 404	(2) W3
Profit for the year	32 182	(1) OF #

Marker note

Each figure must have a relevant narrative to be awarded.

W1 Profit from operations

	£	
Draft profit from operations	45 586	
Returns outwards	1 030	(1)
Prepaid expenses	670	(1)
Profit from operations	47 286	OF *

* Must include draft profit from operations.

W2 Interest

£60 000 × 8% = £4 800 **(1)**
 £20 000 × 6% × 9/12 = £900 **(1)**
 £4 800 + £900 = £5 700 **(OF)**

W3 Taxation

£8 863 **(1)** + £3 102 **(*)** – £2 561 **(* 1 mark for using all three)** = £9 404 **(OF)**

Direction of calculation must be correct for each of the last two profit figures to be awarded.

W3 Alternative working where student has used a ledger account for taxation.

Taxation			
Dr		Cr	
Details	£	Details	£
Bank	8 863 (1)	Balance b/d	2 561 (1) for both *
Balance c/d	3 102 *	Income Statement	9 404 OF#
	11 965		11 965
	11 965	Balance b/d	3 102

OF for Income Statement **must** be mathematically correct and have a suitable label (Tax, Taxation etc) to be awarded.

Marker note

Ignore narratives as this is a working.

Section B

Qu	Part	Marking Guidance	Total marks
14	1	<p>Prepare the partnership appropriation account for the year ended 31 January 2021.</p> <p>Clearly show all the relevant figures for the seven months before Usma joined and the five months after.</p>	14

AO2 – 14 marks

**Partnership appropriation account
for the year ended 31 January 2021**

	01/02/2020 to 31/08/2020 £	01/09/2020 to 31/01/2021 £	Marks
Profit for the year	58 625*	41 875*	(1) for both*
Less			
Salary – Tom	14 350**	10 250**	(1) W1 for both**
Interest on Capital Sue Tom Usma	1 575 (1) W2 2 940 (1) W2		
Interest on Capital Sue Tom Usma		1 310 (3) OF W3 1 490 (2) OF W3 125 (2) OF W3	
Profit available for distribution	39 760***	28 700***	(1) OF for all ***
Share of Profits Sue Tom	19 880 19 880		(1) OF W4 for both entries
Share of Profits Sue Tom Usma		10 045 11 480 7 175	(1) OF W5 for all three entries

Workings

W1 Salary for Tom

$\pounds 24\,600 \times 7/12 = \pounds 14\,350$

$\pounds 24\,600 \times 5/12 = \pounds 10\,250$

(1) for both answers.

W2 Interest on Capital – Sue and Tom

Sue $\pounds 45\,000 \times 6\% \times 7/12 = \pounds 1\,575$ (1)

Tom $\pounds 84\,000 \times 6\% \times 7/12 = \pounds 2\,940$ (1)

Marker note

The correct capital figures and interest rate **must** be used for marks.

W3 Interest on Capital – Sue, Tom and Usma

Sue $\pounds 45\,000 + \pounds 25\,500$ (1) + $(\pounds 27\,000 - \pounds 18\,900)$ (1) = $\pounds 78\,600$
 $(\pounds 78\,600$ (OF) $\times 4\% \times 5/12)$ (1) = $\pounds 1\,310$ OF

Tom $\pounds 84\,000 + (\pounds 27\,000 - \pounds 21\,600)$ (1) = $\pounds 89\,400$
 $(\pounds 89\,400 \times 4\% \times 5/12)$ (1) = $\pounds 1\,490$ OF

Usma $(\pounds 21\,000 - \pounds 13\,500)$ (1) $\times 4\% \times 5/12)$ (1) = $\pounds 125$ OF

W3 Alternative calculation

Capital accounts at 1 September 2020

	Sue	Tom	Usma		Sue	Tom	Usma
	£	£	£		£	£	£
G/will	18 900	21 600	13 500	B/d	45 000	84 000	
C/d	78 600	89 400	7 500	Bank	25 500		21 000
				G/will	27 000	27 000	
	97 500	111 000	21 000		97 500	111 000	21 000
				B/d	78 600	89 400	7 500
					(2) *	(1)	(1)

*1 mark for $\pounds 45\,000 + \pounds 25\,500$. 1 mark for $\pounds 27\,000 - \pounds 18\,900$.

Sue $\pounds 78\,600 \times 4\% \times 5/12 = \pounds 1\,310$ (1) OF

Tom $\pounds 89\,400 \times 4\% \times 5/12 = \pounds 1\,490$ (1) OF

Usma $\pounds 7\,500 \times 4\% \times 5/12 = \pounds 125$ (1) OF

W4 Share of profits Sue and Tom

Sue £39 760 (OF) × 50% = £19 880 (OF)

Tom £39 760 (OF) × 50% = £19 880 (OF)

(1) OF for both.

W5 Share of profits Sue, Tom and Usma

Sue £28 700 (OF) × 35% = £10 045 (OF)

Tom £28 700 (OF) × 40% = £11 480 (OF)

Usma £28 700 (OF) × 20% = £7 175 (OF)

(1) OF for all three.

Qu	Part	Marking Guidance	Total marks
14	2	Assess whether the partnership should make this change.	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 to the 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

Additional work is required to complete both ledger accounts which is time consuming and more prone to misposting.

Inexperienced partners may believe that the current account is the amount that they have available in the business bank current account.

Arguments against

Capital injections and share of profits kept separate which enables more accurate calculations for the appropriation account.

Capital account fixed – only alters if capital increases enabling easier calculation of interest on capital (if included in the partnership agreement).

Current account is fluctuating or working account. This makes it easier for the partners to know what their annual earnings were for a financial year.

Some partners may wish to show the excess or surplus of their share of profit which has not been withdrawn.

Clearly identifies when a partner has withdrawn more profit than they have earned:

	Drawings	Share of profits
	£	£
Sue	26 000	32 810
Tom	35 000	60 390
Usma	10 000	7 300

Usma has withdrawn more than she is entitled to and may be trying to hide this fact from the other partners.

Quicker to find the information for the financial statements which should include the amount invested in the partnership by each partner.

Qu	Part	Marking Guidance	Total marks
15	1	Prepare entries in the journal required to make the necessary adjustments. Dates and narratives are not required.	14

AO2 – 14 marks

Marker note

For all journals the entries **must** be on the correct side and supported by an appropriate account name.

a)

Details	Dr	Cr	
	£	£	
Motor expenses	3 500		(1) for both
Motor vehicles		3 500	

b)

Details	Dr	Cr	
	£	£	
Suspense	1 575		(1) for both
Sales		1 575	

c)

Details	Dr	Cr	
	£	£	
Suspense	90		(2) for both W1
Purchases		90	

W1

£650 – £560 = £90 (1) OF

Marker note

Award **1 mark** where the suspense account is debited and the purchases account is credited with the same **OF**.

Alternative

Details	Dr	Cr	
	£	£	
Suspense	650		(1)
Suspense		560	
Purchases	560		(1)
Purchases		650	

d)

Details	Dr	Cr	
	£	£	
Rent	500		(3) for all W1
Drawings		500	

W1

$(2\,500/25\%) = £10\,000 \times 20\% = £2\,000$ (1) OF

$£2\,500 - £2\,000$ OF = £500 (1) OF

Marker note

Award **1 mark** where the rent account is debited and the drawings account is credited with the same OF.

Alternative

Details	Dr	Cr	
	£	£	
Rent	2 500		(1)
Drawings		2 500	
Drawings	2 000		(1) OF W2
Rent		2 000	

W2

$(2\,500/25\%) = £10\,000 \times 20\% = £2\,000$ (1) OF

e)

Details	Dr	Cr	
	£	£	
Suspense	32 242		(4) for all W1
Purchase returns/ Returns outwards		16 121	
Sales returns/ Returns inwards		16 121	

W1

$(1400 \times £35) \times (100\% - 6\%) (1) \times 35\% (1) = £16\ 121$ **OF**

$£16\ 121 \times 2 (1) = £32\ 242$ **OF**

Marker note

Award **1 mark** where the suspense account is debited and the correct accounts are credited with the same **OF**.

f)

Details	Dr	Cr	
	£	£	
Bank	8 820		(3) for all W1
Discounts allowed	180		
Trade receivables		9 000	

W1 $£15\ 000 \times 60\% \times (100\% - 2\%) = £8\ 820 (1)$

W2 $£9\ 000 - £8\ 820 = £180 (1)$

Marker note

Award **1 mark** where the correct accounts are debited and trade receivables/Optical are credited with the same **OF**.

Qu	Part	Marking Guidance	Total marks
15	2	<p>Peter believes that if the trial balance balances, the financial records are accurate.</p> <p>Assess whether Peter’s view is correct.</p>	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	<p>Judgements are partially supported by evidence. A reasoned, but unbalanced, analysis of data/information/issues is provided; starts to develop a chain of reasoning.</p> <p>Comprehensive and relevant knowledge and understanding of principles/concepts/techniques has been applied to the context.</p>
1	1–2	<p>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.</p> <p>Limited but relevant knowledge and understanding of principles/concepts/techniques has been applied to the context.</p>
0	0	Nothing written worthy of credit.

Answers could include:

A trial balance will pick up some errors

For example

- Partial omission
- Unequal entry
- Posting
- Addition
- Transposition

However not all errors affect the trial balance.

For example:

- errors of principle, for example the invoice posted to Motor Vehicles rather than motor expenses
- errors of commission where the incorrect account name has been entered
- reversal of entries
- errors of original entry
- errors of omission, for example the omission of the amount received from Optical for the sale or return
- compensating errors.

Other reasons why the financial records may be inaccurate:

- changes in policy, such as the change in private use for the storage rental
- changes in depreciation rates
- accruals and prepayments may not have been accounted for
- trade receivables may include irrecoverable debts.

Therefore Peter’s view is not correct as some errors may be present.

Section C

Qu	Part	Marking Guidance	Total marks
16		Evaluate whether Bruschetti should purchase the accounting software and make the other changes Charles has suggested. Justify your answer. 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	<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:

- cost in the first year of (£15 000 + £1 800 + £2 000 + £1 000) = £19 800
- saving of up to £6 000 for the accountant fees
- yearly saving of up to £4 200 (accountant fees minus the software costs)
- could save additional money if any potential theft is prevented
- may increase sales by appearing to be more modern to its customers
- may save staff time producing bills, processing sales, preparing wages and banking the takings
- may reduce wastage from smaller orders being placed.

AO3 Analysis and Evaluation:

Arguments for

- Modernisation of systems will save money in the longer term (staff time, wastage, banking costs from handling less cash etc).
- Speed of service could increase so could serve more customers each day as tables become free more quickly.
- Analysis of data could identify where to make further savings.
- Could eliminate/reduce the risk of staff theft (eg supervisor) from the tills as less cash will be handled and double entry may identify the amounts stolen more easily.
- Charles has had a positive influence on the business growth suggesting his previous ideas have benefitted the company.
- Reduced waste will save money and boost profitability.
- Reduced storage needs mean it could be converted to seat more customers and thus boost revenues.

Arguments against

- Large initial costs to consider.
- Transferring the data could cause errors or bring additional costs such as data protection.
- Training might need repeating for some staff.
- Resistance to change by Enzo/the supervisor could affect other staff they manage.
- Might not have the cash as the business sometimes has cash flow problems and Enzo is not keen to borrow money.
- What if the system crashes? Additional cost of back-up systems could prove expensive.
- Costs seem to be round figures and quite low – are they accurate?

Other factors

- Could start to purchase raw materials on credit and use the initial improved cash flow to help with the earlier repayments when purchasing the system.
- What are the current profit levels and access to borrowings/liquidity to purchase the system.
- How much inventory is wasted? Bruschetti would need to recoup quite a lot to pay for the amount of the investment.
- Will the business be able to afford the cost of converting storage space into restaurant tables? Is there actual demand for more tables with restaurants currently being fully booked?
- Does the business need to install new broadband for the system to work?
- Will the systems communicate with each other or will data still need to be transferred from one piece of software to another? Will their accounting costs be eliminated completely or simply reduced?
- Does Enzo agree with the changes? Or will this cause conflict between Enzo and Charles and how will this be resolved in the partnership?

Marker note

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

Qu	Part	Marking Guidance	Total marks
17		Evaluate whether Prost plc should purchase Ayrton Aerobics plc. Justify your answer. 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 to data:

- share price fell by 50% and is still only at 64% of its value before the stock market crash
- profits fell last year although this was due to external factors and it is expected to improve following the purchase of Ayrton Aerobics plc
- buying a competitor may improve their overall profitability and improve their market share
- Prost plc is more highly geared than the industry average
- gearing ratio will fall if the shares are sold
- selling the shares will raise £11 500 000
- costs incurred will mean that there is enough raised £10 000 000 (£11 500 000 – £1 500 000) to cover the book value of the business
- the data is historical and the current trading position may be significantly different
- projections are estimates and may be based on inaccurate assumptions.

AO3 – Analysis and Evaluation of data:

- gearing will fall so it is less reliant on external borrowing but is still higher than the industry average
- Prost plc has not seen its share price recover fully which could mean potential investors lack confidence in its future prospects
- additional shares would mean higher dividend pay-outs if current levels of dividends per share are maintained. However they could pay smaller dividends per share instead which is proportional to their profit levels. This could result in shareholders selling shares if they are unhappy with the level of dividends paid
- fall in sales could be temporary and may have rebounded without the need to purchase Ayrton Aerobics plc
- not having an online store could mean they may have lost customers permanently to competitors
- the increase in profits of 29% means its profits will increase significantly which suggests the purchase of Ayrton Aerobics plc will be a good idea. However is 29% realistic given the costs involved in purchasing another company and any assimilation issues?
- although they raise £10 000 000 in finance which is enough to cover the book value, it does not cover the value placed on it by the current value of the shares of £11 000 000. It might be expected to pay above the market price to encourage shareholders of Ayrton Aerobics plc to sell
- it might prove difficult to purchase the whole of the company and might have to settle for a shareholding which does not give it a majority ownership. If this is the case what does it do with the remaining funds?

Arguments for purchasing Ayrton Aerobics plc

- Access to a fast-growing company like Ayrton Aerobics plc could provide long-term benefits as it sells to a different type of customer than Prost plc does. This spreads the risk with a wider customer base.
- Eliminates a competitor from the market and increases market share.
- Access to a website which could be adapted to suit the whole company and help Prost plc gain an online presence.
- Economies of scale which could boost profitability and could be reflected in the 29% growth.
- Even if it can't buy the company outright it could influence the direction of Ayrton Aerobics plc by using its voting power.

Arguments against purchasing Ayrton Aerobics plc

- May not be able to sell enough shares to purchase Ayrton Aerobics plc as other companies have struggled to sell their shares. Also Prost plc has not yet seen its share price recover suggesting investors are not confident in future prospects – particularly after the loss the previous year. If so they might have to borrow which will further increase gearing and reduce profitability given an increase in interest to be paid.
- Existing shareholders of Ayrton Aerobics plc may not wish to sell their shares feeling that Ayrton Aerobics has good prospects. A hostile takeover may prove far more expensive to Prost plc if the share price paid rises further.
- If the earnings do not grow then shareholders may receive smaller dividends per share (and a lower dividend yield). Existing shareholders will find their control of the company diluted and may be unhappy with this and use their vote/sell their shares.
- Integrating the two companies' systems together might prove expensive in the short term.
- Will the company have enough liquid funds to integrate Ayrton Aerobics plc into the group after buying the shares?
- If the purchase doesn't work as well as expected dividends might have to be reduced further.
- Some of the costs of the public offering are sunk costs which are lost if the share offering is not a success so they could actually lose money as a result.

Other factors

- The data provided does not show non-financial information. How realistic is a 29% growth? How much profit growth would they have achieved without the purchase of Ayrton Aerobics plc?
- Industry average may not be reliable and could be skewed by a few large competitors in the market.
- Many companies affected by the fall in share price as investor confidence falls. Will they need to offer a greater discount on the share price in order to sell enough shares? If so will this raise enough funds to buy Ayrton Aerobics plc?
- Is this reaction to a poor year a bit extreme – would it be better to spend money marketing to boost Prost plc's own sales revenue rather than a large purchase of a competitor?
- Can Prost plc afford to do so given the fall in sales in 2020? Would they be better waiting to confirm that the company has recovered from a poor year of trading in 2020?
- By the time Prost plc has raised the finance to be in a position to purchase Ayrton Aerobics plc the share price could have increased significantly causing Ayrton Aerobics to become too expensive for them to purchase?
- If the purchase of Ayrton Aerobics plc takes time to go through will 29% be achievable? Any further could mean Ayrton Aerobics plc share price rises further which could make it too expensive to buy.

Marker note

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