



A-level
ACCOUNTING
7127/2

Paper 2 Accounting for analysis and decision-making

Mark scheme

June 2021

Version 1.0 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 one disadvantage.

Read the description 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 question 13.2

This question is only testing Assessment Objective 1.

You should apply the level of response mark scheme to one benefit.

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 & 15.3

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
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, 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 standardised 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	C	Indirect and stepped fixed
2	A	$\frac{\text{Current assets}}{\text{Current liabilities}}$
3	B	It encourages managers to work together
4	B	The product with the highest contribution per labour hour.
5	C	£990 Adverse
6	A	$\frac{\text{Average inventory}}{\text{Cost of sales}} \times 365$
7	C	6 850
8	B	Increase in carriage inwards
9	A	External audit
10	D	It needs a minimum of one director.

[1 mark for each correct answer]

Qu	Part	Marking Guidance	Total marks
11		Describe one disadvantage of a standard costing system.	3

AO1 – 3 marks

Level	Marks	Description
3	3	A clear and thorough description showing understanding of a disadvantage.
2	2	A partial description showing understanding of a disadvantage but lacking detail and/or minor inaccuracies.
1	1	Fragmented points made.
0	0	Nothing worthy of credit.

Answers may include:

- cost – it will take time to collect the data to set up the standard cost. These will need to be regularly reviewed so there will be an ongoing cost
- does not encourage continuous improvement – it may be seen that meeting the standard is acceptable so there would be no incentive to improve
- if the standard set is incorrect or out of date then comparing this with the actual cost will be misleading.

Other factors:

- may not be suitable for all organisations – more suited to a production company rather than service company, as it is difficult to quantify, eg customer satisfaction.

Qu	Part	Marking Guidance	Total marks
12	1	Calculate the total production cost per unit using absorption costing.	1

AO1 – 1 mark

£10.40 (1) W1

W1

OAR = £22 000/5 000 = £4.40

£6 + £4.40 = £10.40

Qu	Part	Marking Guidance	Total marks
12	2	Prepare an income statement using absorption costing for the month of February 2021. Clearly identify any under or over absorption of fixed production overheads.	6

AO1 – 6 marks

Income statement for February 2021

	£	£	
Revenue		93 100	
Cost of sales			
Opening inventory	6 240		(1) OF W1
Cost of production	49 920		(1) OF W2
Closing inventory	<u>(5 200)</u>		(1) OF W3
		(50 960)	
Under absorption		(880)	(2) W4
Profit		41 260	(1) OF

Workings

W1

$$600 \times \text{£}10.40 \text{ (OF)} = \text{£}6\,240 \text{ (1) OF}$$

W2

$$4\,800 \times \text{£}10.40 \text{ (OF)} = \text{£}49\,920 \text{ (1) OF}$$

W3

$$500 \times \text{£}10.40 \text{ (OF)} = \text{£}5\,200 \text{ (1) OF}$$

W4

$$\text{OAR} = \text{£}22\,000 / 5\,000 = \text{£}4.40$$

$$(5\,000 - 4\,800) = 200 \text{ (1)} \times \text{£}4.40 = \text{£}880 \text{ under absorbed (1) OF}$$

Marker note

Mark for under/over absorption is for both the amount and the direction.

A figure of £50 960 or (4 900 × OF from 12.1) with a label is worth **3 marks**.

Qu	Part	Marking Guidance	Total marks
13	1	Prepare the labour budget showing the hours required and cost for both quarters 1 and 2.	7

AO1 – 7 marks

Labour Budget for F Ltd

	Quarter 1	Quarter 2
Labour hours required	4 375 (1) W1	5 750 (1) W2
Cost	£56 160 (2) W3	£72 210 (3) W4

Workings

W1

$$1\,750 \times 2.5 = 4\,375 \text{ (1)}$$

W2

$$2\,300 \times 2.5 = 5\,750 \text{ (1)}$$

W3

$$\text{Higher of } 4\,375 \text{ or } (40 \times 9 \times 13) = 4\,680 \text{ (1)}$$

So

$$4\,680 \text{ OF} \times 480/40 = £56\,160 \text{ (1) OF}$$

W4

$$\text{Overtime: } 5\,750 - 4\,680 = 1\,070 \text{ (1)}$$

$$(40 \times 9 \times 13) \times 480/40 = £56\,160$$

$$+ (1\,070 \text{ OF} \times 12 \times 1.25) = £16\,050 \text{ (1) OF}$$

$$= £72\,210 \text{ (1) OF}$$

Marker note

$$5\,750 \text{ OF} \times £12 = £69\,000 \text{ (1)}$$

Qu	Part	Marking Guidance	Total marks
13	2	Explain, using an example, one benefit of preparing a labour budget.	3

AO1 – 3 marks

Level	Marks	Description
3	3	A clear and thorough explanation and example showing understanding of a benefit.
2	2	A partial explanation and/or example showing understanding of a benefit but lacking detail and/or minor inaccuracies.
1	1	Fragmented points made.
0	0	Nothing worthy of credit.

Answers may include:

- planning staffing levels needed – preparing a labour budget will highlight whether there are sufficient employees available to meet the production required, allowing managers to plan for additional demand by eg recruiting new staff or arranging overtime. If sufficient staff cannot be arranged then the budget would highlight that labour is a limiting factor. It would also highlight if less staff are required, allowing managers to consult with staff to cut hours/make redundancies
- calculating wage costs – it can be used for wage negotiations/bonuses. If staff can produce the units in less hours than budgeted for in the labour budget then they could be paid bonuses
- allows co-ordination between departments
- enables managers to compare actual labour costs against budget so that corrective action can be taken if actual expenditure differs from budgeted, whilst also allowing management time to be saved if differences are significant so managing by exception.

Section B

Qu	Part	Marking Guidance	Total marks
14	1	Calculate the revised profit for the year ending 30 June 2021 and the bank balance to be included in the statement of financial position as at that date.	14

AO2 – 14 marks

	Profit for the year £		Bank £	
Draft figures	58 320		(14 784)	
Note 1	30	(2) W1*	(720)	(1)
Note 2	(775)	(1) W2	(2 325)	(1)
Note 3	470	(1)		
Note 4	(1 032)	(1) W3	(430)	(1) W3
Note 5	1 585	(2) W4	3 775	(2) W4
Revised figures	58 598	(1) OF	(14 484)	(1) OF

W1 Discount received

$$£720 \times 100/96 = £750 - £720 = £30 \text{ (1)}$$

* Award additional **(1) OF mark** if added in the profit column. If £30 is subtracted from profit only award **1 mark** in total.

W2 Insurance

$$£2\,325 \times 2/6 = £775$$

W3 Depreciation

$$(£20\,640 \times 30\%) \times 2/12 = £1\,032 \text{ (1)}$$

Repayment

$$£20\,640/48 = £430 \text{ (1)}$$

W4 Profit adjustment

	£	
Credit sales	1 720	(1)
Irrecoverable debt	(135)	(1)
	<u>1 585</u>	OF

Bank balance adjustment

	£	
Receivables paid	3 910	(1)
Irrecoverable debt	(135)	(1)
	<u>3 775</u>	OF

Marker notes

The **OF** for the revised figure of profit and bank balance can only be awarded if the draft figure is included, it is numerically correct, and there are no extraneous items.

A mark can only be awarded if the entry is applied correctly in the relevant column. If an item is included in both columns incorrectly; award marks for the correct entry but do not award the OF mark for the total in the incorrect column.

Qu	Part	Marking Guidance	Total marks
14	2	Advise Karim whether his business can afford this amount of drawings.	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:

Arguments for drawings

Profit is £58 598 **(OF)** so drawings would be £14 649.50 **(OF)** and this would leave £43 948.50 **(OF)** to reinvest in the business.

The business has been successful this year and Karim is entitled to take a share of the profits.

The overdraft situation may be temporary.

Arguments against drawings

The business is currently overdrawn by £14 484 **(OF)** and the drawings would mean an overdraft of £29 133.50 **(OF)**. Will the bank authorise this level of overdraft?

Further withdrawal may lead to an inability to pay debts as they fall due.

Critical that cash flows are maintained to ensure payments can be made as they fall due.

More businesses fail in the short-term due to poor cash flow than profitability.

Sole trader owner is personally liable for the debts of the business and should be wary of putting the business in the position where it becomes insolvent.

Qu	Part	Marking Guidance	Total marks
15	1	Calculate the break-even point in units if 1 450 units are produced and sold using Factory A .	5

AO2 – 5 marks

292 units **(5) W1**

W1

$\frac{\text{Fixed costs}}{\text{Contribution per unit}} = \text{break-even point}$

$\frac{(\pounds 38\,000 + \pounds 27\,295) \text{ (1)} + (4 \times \pounds 1\,475 \times 12) \text{ (1)}}{\pounds 466.24 \text{ (2) OF (W2)}} = 292 \text{ units (1) OF}$

W2 $(\pounds 750 - \pounds 15.40 - \pounds 20) \text{ (1)} - (\pounds 177.40 \times 1.4) \text{ (1)} = \pounds 466.24 \text{ (OF)}$

Qu	Part	Marking Guidance	Total marks
15	2	Prepare a marginal costing statement to show revenue, contribution and profit if 2 000 units are produced and sold using Factory B .	9

AO2 – 9 marks

Marginal costing statement

	£	£	
Revenue		1 350 000	(2) W1
Variable costs			
Materials	496 720		(1) W2
Labour	40 000		(1) W3
Royalties	30 800		(1) W4
		<u>(567 520)</u>	
Contribution		782 480	(1) OF
Fixed costs			
Rent	42 000		*(1) for both
Manager salary	27 295		*
Factory staff salaries	88 500		(1) W5
		<u>(157 795)</u>	
Profit		624 685	(1) OF

W1 $2\,000 \times (\pounds 750 \times 90/100)$ **(1) = £1 350 000 (1) OF**

W2 $\pounds 177.40 \times 1.4 = \pounds 248.36 \times 2\,000 = \pounds 496\,720$ **(1)**

W3 $2\,000 \times \pounds 20 = \pounds 40\,000$ **(1)**

W4 $2\,000 \times \pounds 15.40 = \pounds 30\,800$ **(1)**

W5 $\pounds 1\,475 \times 5 \times 12 = \pounds 88\,500$ **(1)**

Marker note

Only award marks for revenue, contribution and profit if they are clearly labelled.

Alternative method – where revenue not shown award maximum 8 marks

	£	
Selling price per unit	675.00	W1
Variable costs		
Materials	248.36	W2
Labour	20.00	
Royalties	15.40	
Contribution per unit	391.24	(4) OF W3
Total contribution	782 480.00	(1) OF W4
Fixed costs		
Rent	42 000.00	*(1) for both
Manager salary	27 295.00	*
Factory staff salaries	88 500.00	(1) W5
Profit	624 685.00	(1) OF

W1 $£750 \times 90/100 = £675$

W2 $£177.40 \times 1.4 = £248.36$

W3 $£675.00 \text{ (1)} - £248.36 \text{ (1)} - £20.00 \text{ (1)} - £15.40 \text{ (1)} = £391.24$

W4 $£391.24 \text{ (OF)} \times 2\,000 = £782\,480 \text{ (1) OF}$

W5 $£1\,475 \times 5 \times 12 = £88\,500 \text{ (1)}$

Marker note

Only award marks for total contribution and profit if clearly labelled.

Qu	Part	Marking Guidance	Total marks
15	3	Assess the usefulness of break-even analysis in deciding which factory to open.	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:

Benefits of break-even

Measures if a project is potentially profitable – both scenarios are profitable in this case.

What-if analysis can be used to assess different variations, eg the sales price and salaries are different for each of the factories along with factory rental and sales/production output.

Provides a basis for decision-making – the directors can use the break-even points for each factory to decide which option to choose (292 (OF) units for Factory A and 404 (OF) units for Factory B).

Supports finance applications if they are needed to launch the new product.

Limitations of break-even

Assumes all output is sold – what evidence do the company have that sales will be 1 450 at £750 and 2 000 at £675?

Assumes linear behaviour by all costs/revenues – the factory rental costs are stepped.

Only considers quantitative factors – as a planning/decision-making tool that ignores qualitative factors which may be equally as important.

Changes to external factors can limit usefulness of break-even analysis – economic factors, eg rent review.

All figures are estimates.

Section C

Qu	Part	Marking Guidance	Total marks
16		Evaluate the proposed investment and financing method and advise the directors whether they should proceed with the proposal. 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.

Answers may include:

AO2 Application:

A project that has a positive NPV £750 000 would be considered worthwhile.

Calculation of gearing:

	After investment	2021	2020
1 Non-current liabilities ÷ Capital employed	51.43%	40%	41.03%
2 Non-current liabilities ÷ Equity	105.88%	66.67%	69.57%

Interest of £900 000 per year will be payable on the new loan.

Dividends will increase by £300 000.

AO3 Analysis and Evaluation:

Arguments for investing

- The project pays back within the estimated project life, however it is towards the end of the estimated life, so could be risky especially as the project is in a rapidly changing market.
- A positive NPV would mean the project is worthwhile.
- Given the government policy for 2030, Aye plc must invest in an alternative to their current production.

Arguments against investing

- Although a positive NPV, it is small when compared against the initial investment this together with payback not being received until the end of the project makes the project risky.

Analysis of proposed financing method

- The gearing ratio will increase from 40% to 51.43%. The gearing ratio is now considered high risk as above 50%.
- By using a rights issue there will be no dilution of existing shareholder power. Using a rights issue will mean the cost of issuing the shares will be lower than a normal share issue.

- There will be no need to payback the shareholders, and dividends will only need to be paid when the company is able, although the shareholders have a current expectation of receiving 6%.
- The bank loan has to be repaid and is repayable in 5 years – before the project has ‘paid back’.
- The bank loan will require an interest payment of £900 000 each year, which will reduce profits and tax liability.

Other factors to consider/evaluate

- Developing electric cars with lower carbon emissions would be good for the environment and could significantly increase sales, new customer base. Government ban on petrol/diesel cars by 2030 – do not know what market Aye plc sell in – UK/overseas? How long will it take to develop cars as 2030 is only 9 years away.
- Existing staff do not have the skills to produce these cars, staff training needed – financial/non-financial considerations.
- Reliability of the data being used – cash flows are only estimates and over a period of 10 years may not be accurate.

Overall

Other sources of financing.

Is the investment in line with the company’s objectives/ethical stance? Market place it operates in.

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 the managing director's requests and whether he is correct in his view that no one is interested in the financial statements.	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.

AO2 Application:

- if the irrecoverable debt was written off against revenue then revenue would fall to £1 496 000 meaning that the target of exceeding the 2020 revenue (£1 490 000) by 10% (£1 639 000) would not be met and employees would not get their bonus
- risk of breaching professional ethics – need to ensure that comply with ethical standards – professional behaviour, integrity, professional competence
- threats to ethical behaviour – self-interest, self-review, advocacy and intimidation
- relating of codes of practice and regulatory guidelines to the scenario.

AO3 Analysis and Evaluation:

- IAS1 states that there should be no offsetting of assets and liabilities – should not offset the irrecoverable debt against revenue. Offsetting assets and liabilities would also go against the professional ethics that would be expected of an accountant in business. The ethical principle of professional competence and professional standards and integrity would be breached. Professional behaviour protects both the accountants own and the company’s reputation
- the bank is a key external stakeholder as heavily reliant on their overdraft. It is important to communicate with the bank in a timely manner.

The managing director is not correct that no one looks at the accounts, potential users could include:

- employees/Trade unions – employees are entitled to a bonus if turnover has increased from the previous year
- banks/Loan providers – the company has a bank overdraft which is due for review and has other loans (£69 300 finance charges in the accounts) – they would be looking at the accounts to see whether the company can afford to pay interest and repay the overdraft/loan
- shareholders – want to see accounts to see how their investment has been used. They may be concerned about the management of the company as £68 000 of sales were made to a customer who went into liquidation within a month
- customers – will want to see whether the company have the resources to supply them with goods/services
- government – will want financial information.

Users of accounts will want to see full financial statements in a timely manner, so accounts must be published.

Other factors to consider

ZZ plc will not be looking at the current year's accounts in isolation, they would also require non-financial information. Information such as the location of customers is not shown in the financial statements. The exact takeover criteria used by ZZ plc is not known.

Bank will already know how close the company is to their overdraft limit, as they will be reviewing the transactions through the bank account not just looking at the financial statements.

Experience of finance director.

Overall

Irrecoverable debt should not be written off against revenue.

The company should have the meeting with the bank as planned.

Financial statements must be published as a legal requirement.

The managing director is not correct, there are a lot of stakeholders who would be interested in the accounts.

Marker note

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