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A-level  
**ACCOUNTING**  
**7127/1**

Paper 1 Financial Accounting

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**Mark scheme**

June 2022

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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 each advantage.

Read the advantage 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 & 15.2**

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:

<b>Where you identify:</b>	<b>Situation</b>	<b>Comment to use</b>
<b>Application</b> knowledge of principles/concepts/techniques	Application is fragmented or descriptive or not adequately applied to the context	<b>Weak application</b>
	Application is relevant and applied fully to the context	<b>Clear application</b>
<b>Analysis</b>	A limited attempt at analysis	<b>Weak analysis</b>
	Analysis is logical/considered	<b>Reasoned analysis</b>

<b>Evaluation</b>	An attempt at assessment/evaluation with little or no supporting evidence	<b>Weak evaluation</b>
	Evaluation/assessment is logical and supported by evidence	<b>Supported evaluation</b>
	Evaluation/assessment considers the relative significance and limitations of the evidence	<b>Astute evaluation</b>
<b>Judgement or Conclusion or Recommendation</b>	An attempt at judgement is made but unsupported by evidence or argument	<b>Judgement/conclusion – unsupported</b>
	A judgement is made and is supported but the support is weak or evidence used is limited	<b>Judgement/conclusion – limited/weak support</b>
	The judgement is supported by evidence and argument but may not be fully balanced	<b>Judgement/conclusion – supported</b>
	Judgement is supported by evidence and considers the limitations of the evidence in context	<b>Judgement/conclusion – fully justified</b>

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.

## Financial Statements

Where questions require students to prepare financial statements (or extracts of these), the indicative mark schemes will include the standard wording that we have suggested in our statements resource. Students may use slightly different wording for entries in statements, which should not be penalised if it is clear that the meaning is the same.

## Section A

## Multiple Choice Questions

Question Number	Answer	
01	D	Neither statement is true.
02	A	Income and expenditure are matched to the period they belong to.
03	D	$\frac{\text{Current assets – closing inventory}}{\text{Current liabilities}}$
04	C	Interest on drawings, partner salaries, share of residual profits
05	C	£16 900
06	C	£1 879
07	B	£525 Dr
08	C	£37 800
09	C	£245
10	B	Partial omission

[1 mark for each correct answer]



Qu	Part	Marking Guidance	Total marks
11		Explain <b>two</b> advantages of using a bank overdraft as a source of finance for a business.	<b>6</b>

**AO1 – 6 marks**

Apply the levels of response mark scheme to each advantage – maximum three marks for each advantage.

Level	Marks	Description
3	3	A clear and thorough explanation showing understanding of an advantage of using a bank overdraft as a source of finance.
2	2	A partial explanation showing understanding, but lacking detail and/or minor inaccuracies.
1	1	Fragmented points made.
0	0	Nothing worthy of credit.

**Answers may include:**

- Flexibility – can change the amount borrowed at any time as long as the business are within the overdraft limit set by the bank.
- Cost – interest is only paid on amounts borrowed so it is cost effective in that if the business pay it off quickly it will reduce the overall cost and there is not normally a charge for early payment.
- Speed – overdrafts can usually be arranged / amended quickly so that the business can access the money when needed to meet short-term obligations eg wages, trade payables.
- Risk – overdrafts are not usually secured against non- current assets so the business should not be at risk of losing their non-current assets.

**Marker note:**

Do not reward disadvantages.

Not all content needs to be covered to gain full marks.

The indicative content is not exhaustive other credit worthy material should be awarded marks as appropriate.

Qu	Part	Marking Guidance	Total marks
12		Prepare the rent receivable account for the year ended 31 March 2022. Show clearly the amount to be transferred to the income statement and the balance brought down 1 April 2022.	5

**AO1 – 5 marks**

Dr		Rent receivable		Cr	
Details	Amount £	Details	Amount £		
Balance b/d	860 (1)	Bank	13 900 *		
Bank	500 (1)* both				
Income Statement	10 720 (1)** OF				
Balance c/d	1 820 ***				
	<u>13 900</u>				<u>13 900</u>
		Balance b/d		1 820 (2) W1 ***	

**W1**

$$£2\,730 / 3 \times 2 = £1\,820 \text{ (1)}$$

**Marker note:**

\* Award 1 mark for both entries. Do not award where the student has netted the figures off ie £13 400

\*\* Award 1 mark for the income statement figure being used to balance the account – this could be on the debit or the credit side. This must be arithmetically correct.

\*\*\* Award 1 mark for the calculation of £1 820. Award 1 further mark for the balance brought down. This must be on the credit side of the account and must use one of the following figures (£1 820, £910 or £2 730) to be awarded.

To award the marks amounts must be supported by an appropriate label (recognisable abbreviations are acceptable for Balance, eg Bal c/d, b/d, Bal c/fwd., b/fwd. For the income statement label accept profit and loss account, I+S and P+L. For the bank label accept refund.

Qu	Part	Marking Guidance	Total marks
13	1	Prepare Ross's suspense account to correct the errors, clearly showing the opening balance.	5

**AO1 – 5 marks**

Dr		Suspense		Cr	
Details	Amount £	Details	Amount £		
Balance b/d	19 800 (1) OF *	Rent payable	15 200 (1)		
Discount received	2 400 (1)	Wages	3 500 (1)		
		Drawings	3 500 (1)		
	<u>22 200</u>		<u>22 200</u>		

**Marker note:**

\* The balance brought down could be on either side but must be numerically correct to be awarded.

To award the marks amounts must be supported by an appropriate label (recognisable abbreviations are acceptable for Balance, eg Bal b/d, Bal b/fwd. For Balance b/d accept trial balance shortfall however do not accept balance c/d as this implies it is carried forward for the next financial period.

Accept a £7 000 credit entry for drawings / wages combined if supported with an appropriate label (ie wages and drawings (it needs to say both) or journal).

Where a learner makes an entry with the label trade receivables and / or trade payables for £2 400 or £4 800 this should be ignored and not treated as an alien item. This could be on either side (or both sides) of the account.

For the OF Balance b/d to be awarded the account must be balanced and arithmetically correct.

Qu	Part	Marking Guidance	Total marks
13	2	Ross had calculated his draft profit to be £86 454 before noticing the errors.  Calculate the revised profit figure, taking into account any adjustments required for correcting the above errors.	4

**AO1 – 4 marks**

	£
Draft profit	86 454
Error 1	(15 200) (1)
Error 2	2 400 (1)
Error 3	(3 500) (1)
Revised profit	70 154 (1) OF *

**Marker note:**

Both amount and direction must be correct for each mark to be awarded for items 1 to 3.

\* The revised profit figure can be awarded as long as the total is arithmetically correct. Any reference to trade payables or trade receivables should be ignored and not treated as an alien item.

**Section B**

Qu	Part	Marking Guidance	Total marks
14	1	Prepare a reconciliation of operating profit to net cash flow from operating activities for the year ended 31 March 2022 to comply with IAS 7. A full statement of cash flows is <b>not</b> required.	14

**AO2 – 14 marks**

	£
Profit from operations	45 667 <b>(5) W1</b>
Profit on disposal	(4 500) <b>(1) W2</b>
Depreciation	95 555 <b>(2) OF W3</b>
Decrease in inventory	2 222 *
Increase in trade receivables	(1 888) * <b>(1) both</b>
Decrease in trade payables	(3 422) <b>(1)</b>
Cash from operations	133 634
Interest paid	(4 700) <b>** (1) OF</b>
Tax paid	(5 834) <b>(2) W4</b>
Net cash flow from operating activities	123 100 <b>(1) OF</b>

**W1** Profit from operations:

	£
Retained earnings c/fwd.	122 030
Retained earnings b/fwd.	(111 597)
	10 433 <b>(1)</b>
Taxation	6 534 <b>(1)</b>
Dividends	24 000 <b>(1)</b>
Interest	4 700 <b>(2)</b>
Profit from operations	45 667 <b>OF</b>

**Workings for interest**

$£70\,000 \times 6\% = £4\,200$  \*  $7/12 = £2\,450$  (1)

$£90\,000 \times 6\% = £5\,400$  \*  $5/12 = £2\,250$  (1)

$£2\,450 + £2\,250 = £4\,700$

Alternative method for calculating the interest

$£70,000 \times 6\% = £4,200$  (1)

$£20,000 \times 6\% \times 5/12 = £500$  (1)

$£4,200 + £500 = £4,700$

**W2** Profit on disposal:

$£39\,500 - £35\,000 = £4\,500$  (1)

**W3** Depreciation:

Provision For Depreciation			
Disposal	27 000 (1)	Balance b/d	339 930* (1)
Balance c/d	408 485*	Depreciation charge	95 555 OF
	435 485		435 485

**Marker note:**

\*Mark is for both items

Alternative:

$£408\,485 - £339\,930 = £68\,555$  (1) +  $£27\,000$  # (1) =  $£95\,555$  OF

# Student may show add  $£62\,000$  and deduct  $£35\,000$  so please reward this instead if direction is correct.

Award **one** mark for the following depreciation figures shown in the reconciliation statement (with or without workings).

£68 555

£27 000

£41 555

All other figures must be checked via the workings

**W4** Tax paid:

Tax			
Bank	5 834 OF	Balance b/d	1 800* (1)
Balance c/d	2 500 (1)	Income statement	6 534*
	8 334		8 334

**Marker note:**

\*Mark is for both items

Alternative:

$£6\,534 + £1\,800 = £8\,334$  (1) –  $£2\,500$  (1) =  $£5\,834$  OF

**Marker notes:**

Calculations where the workings are not transferred or are transferred but in the wrong direction into the reconciliation will not be fully rewarded. For example a depreciation charge of £95 555 would be awarded 1 mark if it is not transferred into the reconciliation or if £95 555 is shown as a negative figure in the reconciliation. A profit on disposal figure of £4 500 would be awarded zero marks if it is not transferred into the reconciliation or if shown as an addition in the reconciliation.

Each entry must have a reasonable narrative (does not have to say increase or decrease as long as the direction is clear).

\*\* Interest paid must agree with their original figure in their profit from operations figure.

Qu	Part	Marking Guidance	Total marks
14	2	Assess the Managing Director’s opinion.	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:**

**Case for preparation of a statement of cashflows**

- Highlights the differences between cash and profit since they are treated differently in the financial statements so that it is known where cash is generated and spent. In this instance the business has generated £123 100 OF from its operating activities, spent £277 500 on non-current assets and received £127 000 from its financing activities. This means cash has reduced by £27 400 overall.
- Knowledge of the cash position is important as a business can fail despite being profitable if it does not have enough cash to meet its obligations.
- Being a public limited company, they should already comply with accounting standards They have to produce a Statement of Cash Flows to comply with these standards and have their accounts signed off by the auditors. If the company’s accounts are not prepared to meet these standards the auditors will have made comments in the accounts or possibly refused to sign them off.
- Stakeholders can see lots of information which is not shown in the Income Statement and Statement of Financial Position such as the amount of the dividends paid and changes to the amount of borrowing more clearly. This will help stakeholders to make more informed decisions.
- Being on the stock exchange will also involve attracting potential shareholders who may want to see all of the financial statements. Potential investors want to make an informed decision based on reliable information that shows a true and fair view. They would be nervous about investing in the business if the accounts do not appear to be reliable. This could result in future shareholders not investing in Grussell plc and existing shareholders selling their shares which would mean the share price falls and damages the company’s reputation.



**Case against preparation of a statement of cashflows**

- For someone with limited accounting knowledge the Statement of Cash Flows can seem confusing and hard to understand compared to an Income Statement and Statement of Financial Position.
- The cost of preparing the accounts and having them audited reduces profitability.
- A lack of understanding of the content of a statement could actually put some investors off investing in shares which might stop the share price rising as much as it could potentially have done.
- The amount of time and / or money spent on the accounts could have been better spent on improving the business in other ways.
- Accounts can be window dressed to some degree to make the business look better / worse than it actually is.

**Marker notes:**

Not all content needs to be covered to gain full marks.

The indicative content is not exhaustive other credit worthy material should be awarded marks as appropriate.

Qu	Part	Marking Guidance	Total marks
15	1	Prepare an income statement for Cluedo Coffee for the year ended 31 March 2022.	14

**AO2 – 14 marks**

**Cluedo Coffee**

**Income statement for the year ended 31 March 2022**

	£	£
Revenue		<u>74 564</u> (1) CF W1
Cost of sales		
Opening inventory	16 276 *	
Purchases	43 451 **	
Less returns outwards	4 200 ** (1) both	
Less closing inventory	<u>12 304</u> * (1) both	
		<u>43 223</u>
Gross profit		31 341 (1) OF
Add other income		
Profit on disposal of vehicle		6 000 (1)
Rent receivable		<u>3 100</u> ***
		40 441
Less expenses		
General expenses	15 043	
Rent paid	9 600 *** (1) both	
Depreciation of vehicles	5 000 (5) W2	
Depreciation of premises	2 400 (1) W3	
Loan interest	<u>4 000</u> (1) W4	
		<u>36 043</u>
Profit for the year		<u>4 398</u> (1) OF

**Marker notes:**

Gross profit must be labelled and mathematically correct based on the students own revenue and cost of sales figures.

Profit for the year must include general expenses, be mathematically correct and contain no extraneous items eg drawings in the expenses.

Accept a net purchases figure of £39 251 **(1)** where a student has not shown purchases and returns outwards separately.

Accept net profit for the label. Do not accept abbreviations eg PFTY or just 'profit'.

**W1 Revenue**

	<b>£</b>
Original revenue	102 564
less sale of vehicle	<u>28 000</u>
Revised revenue figure	<u>74 564</u>

**W2 Depreciation of motor vehicles**

<b>Cost</b>	<b>£</b>
Vehicles at cost	83 000
Less disposal at cost	49 500
New vehicles at cost	33 500

<b>Depreciation</b>	<b>£</b>
Provision at 1 April 2021	46 000
Disposal depreciation (49 500 – 22 000)	27 500 <b>(1)</b>
Provision prior to depreciation charge for the year	18 500

<b>New cost</b>	£33 500 <b>(1)</b>
less new dep	£18 500 <b>(1)</b>
Net book value at 31 March	£15 000 <b>(1) OF</b>
Depreciation rate	33 1/3%
Depreciation charge for the year	£5 000 <b>(1) OF</b>

<b>Alternative</b>	
Cost	£83 000
less provision for depn at 1 April 2021	£46 000
less disposal	<u>£22 000</u>
Net book value at 31 March	£15 000 <b>(4)</b>
Depreciation rate	33 1/3%
Depreciation charge for the year	£5 000 <b>(1) OF</b>

If the working is shown but the answer is not used in the income statement award up to 4 marks

**W3 Depreciation of property**

Property at cost	£120 000
Depreciation rate	2%
Depreciation charge for the year	£2 400

If an answer of £7 400 (ie combining both depreciation of £5 000 and £2 400) and is shown with a reasonable label (eg depreciation of non-current assets, depreciation) this can be awarded all **6** marks.

**W4 Loan interest**

Loan	£50 000
Annual interest rate	8%
Loan interest	£4 000

Qu	Part	Marking Guidance	Total marks
15	2	Assess whether Paulo is correct in his assumption about the profitability of Cluedo Coffee.	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:**

- Gross profit margin is 42% (**OF**) and the profit in relation to revenue is 5.9% (**OF**). Better control of expenses is needed based on this information.
- A loss (**OF**) would have been made were it not for the profit of £6 000 on the disposal of a non-current asset.
- A significant proportion of the profit came from rental income (rent receivable) of £3 100. If this were to fall in the future it could cause losses to occur.
- Drawings are significantly higher than the profit made (**OF**). This will not help Cluedo Coffee in the future as there is less money available to use for any expansion.
- Although revenue has grown by 10% profitability is very low and we do not know if profit grew by a similar amount.
- Loan interest of £4 000 will significantly reduce profit until it is repaid.
- It would be helpful to have ratios from similar business and/or last years figures to make a more informed decision on its profitability trend.

## Section C

Qu	Part	Marking Guidance	Total marks
16		Evaluate which of the two options Otmar should choose. Justify your answer.  Consider <b>both</b> 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.

<b>1</b>	<b>1–5</b>	<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>
<b>0</b>	<b>0</b>	Nothing written worthy of credit.

**Indicative content may include:**

**General comments**

**Application AO2**

- Purchasing the machinery is needed to ensure further orders can be completed – potential for an increase of 25% in output which could improve profit by £875 per month (£10 500 per annum) to £4 375 per month (£52 500 per annum).

**Making Kimmi a partner**

**Application AO2**

- Slight reduction in Kimmi’s salary by £6 000 which reduces the risk to Otmar and gives him a higher profit figure before distribution.
- Current annual profits are £42 000 which all belong to Otmar. If he takes up the partnership it will be £42 000 + £10 500 + £31 000 (no salary to pay Kimmi) = £83 500. After deducting the salaries of £53 500 there could be £30 000 available which would be split 2:1.

**Case for choosing Kimmi**

**Analysis and evaluation AO3**

- Otmar could receive £48 500 which is an improvement on the £42 000 by £6 500.
- Kimmi will receive £35 000 (£25 000 salary + £10 000 profit share) which means Kimmi is better off by £4 000.
- Risk of losses are now shared which spreads risk for Otmar.
- Making Kimmi a partner could help avoid Kimmi leaving and any potential loss of staff that could follow. This helps keep the skills and experience in the business.
- Ideas could increase if Kimmi is now more motivated to try and boost profitability.
- Add in monthly figures

**Case against choosing Kimmi**

**Analysis and Evaluation AO3**

- Profits will now need to be shared.
- Decisions will need to be discussed with Kimmi.
- Kimmi is not putting as much money in so Otmar needs to make a further injection of his own capital.

- Otmar is receiving less investment than with Priya although Kimmi will only own 1/3 of the business.
- Conflict could escalate further now that Kimmi has more power and influence as an owner and her strong influence over the staff.
- Does Kimmi have enough management experience to successfully part own a business?

### **Making Priya a partner**

#### **General comments**

#### **Application AO2**

- No formal partnership agreement means Otmar will not receive a salary for working there
- Partners will share profit equally despite Priya not being involved in the running of the business
- Current annual profits are £42 000 (3500 × 12) which all belong to Otmar. If he takes up the partnership it will be £42 000 + £10 500 = £52 500. Profits are shared equally so Otmar would only receive £26 250 as his share of the profits.

#### **Case for choosing Priya**

#### **Analysis and Evaluation AO3**

- No change to the way the business runs if Priya stays as a silent partner so the business could still be run the way Otmar wishes
- Priya is taking a 50% stake but is putting in proportionally much more than this. The amount could be enough to repay any non-current liabilities / bank overdrafts and / or buy the machinery. It could also be used to boost profits from interest saved and reduce the issues they have with cash flow which might be beneficial if the additional orders are on the usual credit terms
- Priya has experience in the industry and could provide knowledge and industry contracts which could further boost profitability.

#### **Case against choosing Priya**

- Could upset Kimmi as she does not achieve her partner ambition and could leave to set up her own business (possibly taking staff and customer contracts with her potentially)
- Priya may not remain a silent partner
- Otmar will be £15 750 worse off (£42 000 – £26 250).

#### **Limitations of the data**

- Sales increase of 25% – how has this been estimated and is it realistic? Will they be able to sell the additional units they produce?
- Very limited financial data is provided such as sales revenue / profits in recent times which could have helped with a decision
- How would the changing role of Kimmi affect their working relationship?
- Could Otmar work with Priya? Would it affect their friendship?
- Are there other staff who might wish to become owners in other areas of the business?

#### **Marker note:**

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



Qu	Part	Marking Guidance	Total marks
17		<p>Evaluate <b>both</b> businesses from Donna’s perspective as a potential investor. Make a recommendation on how she should invest her savings.</p> <p>Consider <b>both</b> financial and non-financial factors.</p>	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>

<b>1</b>	<b>1–5</b>	<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>
<b>0</b>	<b>0</b>	Nothing written worthy of credit.

**Answers may include:**

### **Case for purchasing shares in Pik plc**

#### **AO2 Application**

- Can purchase 25 000 shares (£50 000 / £2.00).
- Dividend could be (based on 2022)  $(50\,000 \times 2.5\%) = \text{£}1\,250$  per annum.
- Earnings per share is fluctuating.
- Dividend cover appears to be declining.
- Market price appears to fluctuate although the overall trend is an improvement of 60p.
- Pik plc has very little debt so more available for shareholders. Barnard plc has mortgages on a number of properties so has an increased risk for investors and the mortgage interest must be paid before dividends.
- Pik plc has an online business model which may keep costs lower.
- Ethically, Pik plc might face consumer backlash if the users are aware of the rumours whether they are true or not.
- Donna could be left with expensive shares if consumers switch to a new social media app / site as many app's tend to have a short product life.

#### **AO3 Analysis and evaluation**

- A yearly total dividend of £1 250 is significantly higher than Barnard plc (£800) by £450 so regular dividend earnings could be possible each year if this is what Donna is looking for. However an increase in share price might be equally desirable
- Pik plc is predominantly an online only company so it may be able to keep costs lower which boost profitability and thus dividends in the longer term
- Arguably greater risk overall than Barnard plc although the dividend yield also provides a greater reward.
- If found guilty of breaching GDPR / data protection fines could wipe out / reduce their profits considerably
- Earnings per share is very high but fluctuates so hard to ascertain the true performance trend – what direction will it go in next?
- Dividend cover is falling and is lower than Barnard plc. This could suggest a greater return to shareholders which may be good for shareholders in the very short term but could result in a lack of investment in the longer term
- The recent (2022) fall in earning per share suggests profitability is falling unless a share issue has occurred.
- Dividend yield has fluctuated as a result of the fluctuation in share price and dividends. It is unclear to see which direction this is likely to go next.

## Case for Barnard plc

### AO2 Application

- Can purchase 35 714 shares (50 000 / £1.40) which is a bigger quantity of shares than could be purchased in Pik plc.
- Dividends could be (based on 2022)  $50\,000 \times 1.6\% = \text{£}800$  per annum which is less than Pik plc despite Donna owning more shares.
- Earnings per share is high and growing.
- Dividend cover is growing – suggesting lots of profit is being retained.
- Market price has more than doubled suggesting lots of investor confidence in the company's future.
- Established name in an established market for investors wishing for more security.
- Land ownership provides security for the business in the future.
- Good ethical stance which might be appreciated by its shareholders, potential shareholders and customers. The company might be less likely to suffer negative publicity which could harm its share price.

### AO3 Analysis and evaluation

- Dividends could be (based on 2022)  $50\,000 \times 1.6\% = \text{£}800$  per annum which is less than Pik plc despite Donna owning more shares.
- Dividend cover is high and growing each year. This would indicate investment through retained earnings which may be good for investors in the longer term although possibly less so in the short term.
- Earnings per share is very high but fluctuates – what direction will it go in next?
- Dividend yield has stayed broadly the same so the increase in share price must mean an increase in the dividend per share.
- Rising market price suggests stock market confidence in the company which may make it a more attractive deal in the longer term. However she will own fewer shares than if she had bought the shares before the share price increases.
- Barnard plc has lots of land of significant value which could be sold to generate cash to pay future dividends.
- Barnard plc has a strong ethical stance in the way it runs its business. The company might be less likely to suffer negative publicity impacting on its share price as a result. This could mean Donna's investment is safer.

### Limitations could include

- Ratios are all historic data – what is their current trading position? This data is at least 2 months out of date.
- Current market price of shares is unknown so the decision to buy shares could be affected by some more recent share price changes. Depending where the current price is this could have a significant impact on the attractiveness of buying the shares as the figures might need recalculating.
- More data could help the decision. For example we are not told the interest cover. Pik plc has low debt so has less risk attached to repayment of debt.
- Ratios do not provide the actual figures so could be masking a bigger problem that could be seen by looking at the accounts as a whole. The financial statements could have been window dressed. For example the data implies that Pik plc is lowly geared but this ratio is not given.
- Ratios do not take into consideration other non-financial factors such as the company changing its strategic direction, management experience, investment plans, sources of their finance.
- Market conditions of the two companies may be very different since they are in different sectors of business. It is difficult to make a true comparison between them as a result.
- The year 2020 could just be an anomaly in terms of the share price for both companies. What was the share price of each company before? Would be better to have a five-year history.

**Evaluation**

- There could be other better opportunities to invest elsewhere. With such a large amount Donna is likely to want to spread the risk by investing money into both Pik plc and Barnard plc and/or other companies.
- Non-financial factors could be important to decision making – what is Donna’s ethical stance on investment. Would she be prepared to invest in a business who may be using customer data inappropriately?
- Short-term gain vs potential long-term prospects should be considered. Barnard plc appears to be more consistent and less risky. What is Donna’s investment style – is she prepared to take risks for greater gain?

**Marker note:**

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