



A-level
ACCOUNTING
7127/2

Paper 2 Accounting for Analysis and Decision-Making

Mark scheme

June 2020

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 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 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 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
2	A
3	A
4	C
5	C
6	D
7	C
8	C
9	B
10	B

[1 mark for each correct answer]

Qu	Part	Marking Guidance	Total marks
11	1	<p>Calculate the profit or loss on the disposal of the non-current asset to be included in the accounts of Lee Ming for the year ending 31 March 2020.</p> <p>Your answer must clearly state if the disposal results in a profit or loss.</p>	6

AO1 – 6 marks

Loss on disposal £1 125 **(6) OF W1**

W1

Depreciation on disposal – year ended 31 March 2018:

Asset cost x depreciation rate x time asset owned

(£16 000 x 25% x 9/12 **(1)**) = £3 000 **OF**

Depreciation on disposal – year ended 31 March 2019:

Reduced balance x depreciation rate x asset owned

£16 000 – £3 000 = £13 000 x 25% **(1)** = £3 250 **OF**

Depreciation on disposal – year ending 31 March 2020:

Reduced balance x depreciation rate x asset owned

£13 000 – £3 250 = £9750 x 25% x 8/12 **(1)** = £1 625 **OF**

Net Book Value at time of disposal:

Asset cost – total depreciation

£9 750 – £1 625 = £8 125 **(1) OF**

Loss on disposal:

Disposal proceeds – Net Book Value

£7 000 – £8 125 = £(1 125) Loss **(1) OF must be labelled correctly for mark to be awarded**

Marker note:

An additional (1) OF is to be awarded for the application of the reducing balance technique over the three years, ie if the candidate has miscalculated the months but used their own figure to calculate a reduced balance, then mark can be awarded provided a rate of 25% has been used for all years. If the straight-line method has been applied this mark cannot be awarded.

Qu	Part	Marking Guidance	Total marks
11	2	Complete the capital section extract from the statement of financial position of Lee Ming at 31 March 2020.	2

AO1 – 2 marks

Lee Ming
Statement of Financial Position (extract) at 31 March 2020

Capital	£	
Opening capital	168 950	
Profit for the year	41 692	1 W2
Drawings	(30 000)	
Closing capital	180 642	(1)OF

W2

Profit for the year:

Draft profit – loss on disposal

£42 817 – £1 125 (**1OF**) = £41 692 **OF**

Marker notes:

Loss on disposal must be adjusted against the original profit for the year and not shown separately in the extract.

An OF profit would instead be added to the original profit for the year.

Mark for closing capital can only be awarded if arithmetically correct for values used and appropriate labels are used for each row.

Qu	Part	Marking Guidance	Total marks
12	1	Calculate the capital gearing ratio and state the formula used.	2

AO1 – 2 marks

Formula:

$$\frac{\text{Non-current liabilities}}{\text{Issued share capital} + \text{Reserves} + \text{Non-current liabilities}} \times 100 = \% \text{ (1)}$$

Ratio:

$$\frac{\text{£200 000} + \text{75 000}}{\text{£740 000} + \text{85 000} + \text{275 000}} \times 100 = 25\% \text{ (1)}$$

Marker notes:

Accept formula and ratio of 33.33% where non-current liabilities is not included in the denominator. For the formula accept the terms 'Debt' and 'Equity' as alternatives. Accept abbreviations in the formula. The answer must clearly be expressed as a %.

Qu	Part	Marking Guidance	Total marks
12	2	Calculate the profit from operations (profit before interest and tax) of Scica plc for the year ending 31 December 2019.	4

AO1 – 4 marks

Total interest paid x interest cover = operating profit (profit before interest and tax)
 £21 500 (3 W1) x 4.75 (1) = £102 125 OF

W1 Total interest paid
 £15 000 (W2) + £4 500 (W3) + £2 000 (W4) = £21 500 OF

W2 Interest on 6% debenture issued 1/3/19
 0.06 x £300 000 x 10/12 = £15 000 1CF

W3 Interest on 9% debenture repaid 31/3/19
 0.09 x £200 000 x 3/12 = £4 500 1CF

W4 Interest on 8% debenture repaid 30/4/19
 0.08 x £75 000 x 4/12 = £2 000 1CF

Qu	Part	Marking Guidance	Total marks
13		Calculate the net cash flow for each year.	6

AO1 – 6 marks

Year	Profit	Depreciation		Cashflow	
2021	-	-	2 W1	(72 000)	
2022	38 500	16 000	2 W2	54 500	1OF*
2023	48 125	16 000		64 125	*
2024	57 750	16 000		73 750	*
2024	-	-		24 500	1

Workings

W1

Capital cost = 61 625 + 7 250 **(1)** + (3 625 – 500) **(1)** = 72 000 **OF**

W2

Depreciation per annum = (72 000 **OF** + 500 **(1)** – 24 500 **(1)**) / 3 = 16 000 **OF**

Marker notes:

(*) 1 mark for all three cashflows (years 2022 to 2024). OF depreciation must have been added to profit to calculate the cashflow figures for each year.

Disposal proceeds can be combined with the other cashflows in 2024.

Section B

Qu	Part	Marking Guidance	Total marks
14	1	Prepare statements to show revenue, contribution and profit or loss per week for each type of product, X and Y.	14

AO2 – 14 marks

	X		Y	
	£		£	
Revenue	137 250	2 W3	140 400	2 W3
Materials	(33 750)		(22 750)	
Labour	(42 500)		(55 250)	
Contribution	61 000		62 400	1*OF
Machinery preparation	(28 800)	2 W1	(15 360)	2 W1
Quality control procedures	(37 950)	2 W2	(30 360)	2 W2
Profit or loss	(5 750)		16 680	1*OF

(W1) Machinery preparation:

Number of batches per week:

X: $4\,500/50 = 90$ Y: $3\,600/75 = 48$

Total batches = $90 + 48 = 138$

X: $(44\,160/138) \times 90$ **(1)** = 28 800 **(1)**

Y: $(44\,160/138) \times 48$ **(1)** = 15 360 **(1)**

(W2) Quality control procedures:

Number of inspections per week:

X: $4\,500/300 = 15$ Y: $3\,600/300 = 12$

Total batches = $15 + 12 = 27$

X: $(68\,310/27) \times 15$ **(1)** = 37 950 **(1)**

Y: $(68\,310/27) \times 12$ **(1)** = 30 360 **(1)**

(W3) Revenue:

X: $33\,750 + 42\,500 = 76\,250$ **(1)** $\times 1.8 = 137\,250$ **(1)OF**

Y: $22\,750 + 55\,250 = 78\,000$ **(1)** $\times 1.8 = 140\,400$ **(1)OF**

*** Award 1 mark for both figures**

Marker note:

A mark for revenue, contribution and profit or loss will only be awarded if they are labelled correctly.

Qu	Part	Marking Guidance	Total marks
14	2	Advise the directors of Ekin plc whether they should change back to absorption costing.	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 staying with ABC (drawbacks of converting back to absorption):

Loss-making product has been identified (X making a loss of £5 750). Corrective action could be taken to improve product profitability.

Business is still making a profit overall (£10 930).

Areas of waste or inefficiency can be better identified (relating to machinery preparation and quality control procedures).

Fixed costs are assigned to product based on usage (per batch) and not an arbitrary allocation.

But: cost drivers and cost pools are expensive to set up and maintain.

Qu	Part	Marking Guidance	Total marks
15	1	Prepare a cash budget for Webster for the month of January.	14

AO2 – 14 marks

	£	
Receipts:		
Cash sales	11 640	2OF W1
1 month credit sales	33 000	1 W2
2 months credit sales	7 200	1 W3
Total receipts	51 840	
Payments:		
Cash purchases	18 000	1 W4
1 month credit purchases	15 000	1 W5
Wages	6 150	1 W6
Loan	750	1 W7
Loan interest	75	1 W8
Expenses	14 200	2OF W9
Drawings	4 800	1 W10
Total payments	58 975	
Opening balance	1 250	
Net cash in/out flow	(7 135)	1OF
Closing balance	(5 885)	1OF

W1: $(60\,000 \times 20\% (1)) \times 97\% (1) = \text{£}11\,640 (OF)$

W2: $55\,000 \times 60\% = \text{£}33\,000 (1)$

W3: $48\,000 \times 15\% = \text{£}7\,200 (1)$

W4: $36\,000 \times 50\% = \text{£}18\,000 (1)$

W5: $30\,000 \times 50\% = \text{£}15\,000 (1)$

W6: $6\,000 \times 1.025 = \text{£}6\,150 (1)$

W7: $45\,000/60 = \text{£}750 (1)$

W8: $(18\,000 \times 5\%) \times 1/12 = \text{£}75 (1)$

W9: $60\,000 - 12\,000 = (48\,000 \times 20\%) \times 1/12 = \text{£}800$

$15\,000 (1) - 800 (1) = \text{£}14\,200 (OF)$

W10: $60\,000 \times 8\% = \text{£}4\,800 (1)$

Marker note:

OF for net cash in/outflow will only be awarded if there are no aliens in the cash budget.

Qu	Part	Marking Guidance	Total marks
15	2	Assess whether this would be the most appropriate way to improve the cash flow of Webster's business.	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:

Delaying paying suppliers:

No cash discount would be lost by paying for all purchases on a credit basis (no prompt payment discount appears to exist).

Suppliers may be dissatisfied about delaying paying for all purchases and so may stop supply or charge interest for late payment beyond credit period (eg 30-day term). Could impact on reputation and ability to find alternative suppliers.

Alternative ways to improve cash flow:

Try and get more customers to pay on cash terms – 75% are on credit currently. This could also reduce the risk of irrecoverable bad debts (currently 5%). However, more cash inflows would be lost via the 3% discount for prompt payment.

Not pay the 2.5% wage increase but this may lead to employee dissatisfaction.

Owner take less cash drawings than the current 8% of sales.

Business could review other expenses to see if any could be cut to reduce cash outflows.

Section C

Qu	Part	Marking Guidance	Total marks
16		Evaluate whether or not the management of Keltarf Ltd should accept this additional work. Consider both financial and non-financial factors.	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</p>

		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:

- current break-even units: 28 800 units ($180\,000/6.25$)
- break-even units to meet profit target: 36 800 units ($180\,000 + 50\,000/6.25$)
- current loss: **£23 750** ($25\,000 \times 6.25 - 180\,000$).

AO3 analysis and evaluation:

- extra sales needed to break-even: 3 800 units
- extra sales needed to meet target profit: 11 800 units
- can sales be achieved in a competitive market?
- business may need to downsize or close if profit cannot be made
- potential order (12 000 units) would exceed target needed at current price
- positive contribution of new order: £54 000 ($31.25 \times 0.944 = 29.5 - 25 = 4.5 \times 12\,000$)
- profit is accept new order: £30 250 ($-23\,750 + 54\,000$).

Limitations may include:

- what is the production capacity? Have Keltarf Ltd got enough spare capacity to accommodate an order of 12 000 units (if capacity utilisation is less than 100% currently)? If not, then they may have to either offer overtime pay or subcontract the work to another supplier
- will other customers expect a similar price reduction/discount if they became aware of the deal made?
- would this potential customer also expect the same deal on another occasion? – this could lead to a permanent reduction in the price and the expected norm
- will this customer even come back for another sale? (they have high demands in terms of quality and tight deadlines being met)? If not, then may have made a concession to attract a new customer for repeat purchasing unnecessarily
- would other customers materialise who would perhaps have paid the full price for these 12 000 units?
- a cheaper supplier may mean lower quality raw materials and possible other problems such as unreliable delivery. This could damage the reputation of the business
- would existing orders be displaced?

Evaluation:

- decision reached about whether to accept the proposed order or not
- both financial and non-financial factors considered to reach decision
- summary justification given to support decision.

Note:

Not all content needs to be covered to gain full marks. The indicative content is not exhaustive; other creditworthy material should be awarded marks if appropriate.

Qu	Part	Marking Guidance	Total marks
17		Evaluate the impact that the proposed changes might have on Sekips Ltd.	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, which 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.

Answers may include:

AO2 Application:

- a manual system is likely to be less efficient or cost effective to operate
- an incremental system could compound a problem if the previous budgets were inaccurate
- variances could be favourable or adverse but both types require investigation to identify causes with corrective action taken where necessary
- low staff turnover of experienced staff is a key strength.

AO3 Analysis and evaluation:

- conversion to a plc requires listing on the stock exchange. This could make the business at risk of a future hostile takeover bid
- potential investors will be attracted by the profitable track record – share prices may be higher of floatation in anticipation of future dividends and increase in share prices/capital growth
- monthly reports should provide enough information to be able to assess profitability and cashflow performance (actual against budgeted)
- existing staff would need to be retrained – cost implications and risk of resistance to change – staff leaving, impact on motivation/morale
- computerised system has efficiency gains but there are set up costs and other drawbacks to consider, eg data loss.

Limitations may include:

- no information has been provided about what budgets are currently prepared (functional budget and or master budgets)
- no data has been provided about the variances – magnitude and whether they are adverse or favourable
- no data about how established the business is (when they started trading) or trends in profitability
- is that implication that some staff are not happy with the current systems and if so, why are they unhappy?

Evaluation:

- argument has considered both the positive and negative impacts.
- both the conversion to a plc and the modernisation of the finance function have been addressed.

Note:

Not all content needs to be covered to gain full marks. The indicative content is not exhaustive; other creditworthy material should be awarded marks if appropriate.