



A-level
ACCOUNTING
7127/1

Paper 1 Financial Accounting

Mark scheme

June 2019

Version: 1.0 Final



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.

Further copies of this mark scheme are available from aqa.org.uk

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, i.e. if the response is predominantly level 3 with a small amount of level 4 material it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

Step 2 Determine a mark

Once you have assigned a level you need to decide on the mark. The descriptors on how to allocate marks can help with this. The exemplar materials used during standardisation will help. There will be an answer in the standardising materials which will correspond with each level of the mark scheme. This answer will have been awarded a mark by the Lead Examiner. You can compare the student's answer with the example to determine if it is the same standard, better or worse than the example. You can then use this to allocate a mark for the answer based on the Lead Examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

Indicative content in the mark scheme is provided as a guide for examiners. It is not intended to be exhaustive and you must credit other valid points. Students do not have to cover all of the points mentioned in the Indicative content to reach the highest level of the mark scheme.

An answer which contains nothing of relevance to the question must be awarded no marks.

Marking guidance question 11

This question is only testing Assessment Objective 1.

You should apply the level of response mark scheme to the explanation.

Read the explanation as a whole and decide if it is clear, partial, fragmented or nothing worthy of credit.

When you have made your decision; award the appropriate level by using L3, L2, L1 or L0 for the explanation by using the drop down comment box.

Then put the total marks 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 e.g. 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 e.g. 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 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	D
2	A
3	D
4	B
5	D
6	B
7	B
8	C
9	D
10	A

[1 mark for each correct answer]

Qu	Part	Marking Guidance	Total marks
11		<p>Many businesses sell goods on credit to their customers.</p> <p>Explain one reason why it is important for these businesses to make a provision for doubtful debts.</p>	3

AO1 – 3 marks

Apply levels of response mark scheme to explanation

Level	Marks	Description
3	3	A clear and thorough explanation showing knowledge of a reason for creating a provision for doubtful debts.
2	2	A partial explanation showing knowledge of a reason, but lacking detail and/or minor inaccuracies.
1	1	Fragmented points made.
0	0	Nothing written worthy of credit.

Answers may include

Definition of a provision for doubtful debts.

Explanations could include:

Prudence concept

- anticipating the loss due to some trade receivables not meeting their future obligations.
- prevent overstating profits.
- prevent overstating the value of their assets.

Accruals concept

- matching the anticipated future expense for irrecoverable debts with the revenue to which they relate.

Qu	Part	Marking Guidance	Total marks
12	1	Prepare a purchases ledger control account for the month of March 2019 in the books of D Lewin. Balance the account and bring the balance down on 1 April 2019. Dates are not required.	5

AO1 – 5 marks

Dr		Purchases Ledger Control Account		Cr	
Details	£	Details	£		
		Balance b/d	46 115	(1)	
Payments to suppliers /Bank	26 282	Credit Purchases / Purchases Journal	18 456	#	
Purchase Returns / Purchase Returns Journal	645			(1)	
Discount Received	200			(1)	
Balance c/d	37 444*				
	<u>64 571</u>		<u>64 571</u>		
		Balance b/d	37 444	(1)OF*	

Marker note

Award 1 mark for both entries on the correct side of the account.

To award marks the entries must be on the correct side (except closing Balance c/d and b/d) and supported by an appropriate label (recognisable abbreviations are acceptable e.g. Bal b/d, c/d; Bal b/fwd, c/fwd). Abbreviations are accepted as long as the meaning is clear e.g. RODB for Returns Outward Day Book.

* This mark is OF – the answer must be numerically correct but could be either on the debit or credit side of the account depending on the student answer.

Qu	Part	Marking Guidance	Total marks
12	2	Prepare a sales ledger control account for the month of March 2019 in the books of D Lewin. Balance the account and bring the balance down on 1 April 2019. Dates are not required.	5

AO1 – 5 marks

Dr		Sales Ledger Control Account		Cr	
Details	£	Details	£		
Balance b/d	32 144 (1)				
Credit Sales / SDB	38 625 (1) #	Receipts from credit customers/Bank	37 540 #		
		Discounts Allowed	435 (1)		
Dishonoured cheque/Bank	300 (1)	Balance c/d	33 094		
	<u>71 069</u>		<u>71 069</u>		
Balance b/d	33 094 (1) OF*				

Award 1 mark for both entries on the correct side of the account.

Marker note

To award marks the entries must be on the correct side (except closing Balance c/d and b/d) and supported by an appropriate label (recognisable abbreviations are acceptable e.g. Bal b/d, c/d; Bal b/fwd, c/fwd). Abbreviations are accepted as long as the meaning is clear.

* This mark is OF – the answer must be numerically correct but could be either on the debit or credit side of the account depending on the student answer.

Qu	Part	Marking Guidance	Total marks
13		Prepare the Fixtures and Fittings Cost Account and the Fixtures and Fittings Disposal Account for the year ended 30 April 2019. Bring any balances down on 1 May 2019.	7

AO1 – 7 marks

Dr		Fixtures and Fittings Cost Account				Cr	
Date	Details	£		Date	Details	£	
1 May 2018	Balance b/d	80 000	(1)	23 April 2019	Disposal	24 000	(1)
				30 April 2019	Balance c/d	56 000	
		<u>80 000</u>				<u>80 000</u>	
1 May 2019	Balance b/d	56 000	(1) OF*				

* Must not contain any extraneous items to receive balancing mark but this could be on either Dr or Cr side.

Dr		Fixtures and Fittings Disposal Account				Cr	
Date	Details	£		Date	Details	£	
23 April 2019	Fixtures and Fittings at Cost	24 000	(1)	23 April 2019	Bank	14 000	(1)
				23 April 2019	Provision for Depreciation of Fixtures and Fittings	9 600	(1)
		<u>24 000</u>		30 April 2019	Income Statement	400	(1)OF*
						<u>24 000</u>	

* To award OF mark the account must not contain any extraneous items, or, have a balance c/d..

Marker note:

To award marks the entries must be on the correct side (except Balance c/d and b/d; and Income Statement) and supported by an appropriate label (recognisable abbreviations are acceptable e.g. Bal b/d, c/d; Bal b/fwd, c/fwd).

Label for Income Statement could be - IS, Profit and Loss A/c, P&L A/c, but do not accept just Loss or Profit on Disposal.

Label for Provision for Depreciation of Fixtures and Fittings could be – Dep F&F.

Label for Fixtures and Fittings at Cost could be – F&F Cost, Fixtures and Fittings, Cost.

Label for Bank could be Cash Book, but do not accept Proceeds or Sale.

Dates are not essential to award marks.

Section B

Qu	Part	Marking Guidance	Total marks
14	1	Prepare an income statement for Charlotte for the year ended 31 January 2019.	14

AO2 – 14 marks

Charlotte			
Income Statement for the year ended 31 January 2019			
	£		£
Revenue			172 000
<u>Cost of sales:</u>			
Opening Inventory	25 183		
Purchases	104 125	2 W2	
Closing Inventory	<u>(21 808)</u>	1* (OF)	
Cost of sales			<u>107 500</u>
Gross profit			64 500 1 CF W1
<u>Less expenses:</u>			
Loss on disposal	2 W3	500	
General expenses	2 W4	9 815	
Wages		15 000	
Stolen cash	3 W5	300	
Depreciation of F&F	2 W6	<u>16 000</u>	
			41 615
Profit for the year			<u><u>22 885</u></u> 1 (OF) #

* Closing inventory must be mathematically correct based upon student's purchases and cost of sales.

Profit for the year must have an appropriate label to be awarded and wages £15 000 must be included.

Accept: Net profit (net loss); loss for year – do not accept abbreviations or just "profit" or "loss".

Marker note

When applying the own figure rule the mark will not be awarded if there are extraneous (alien) items present – see page 6 of mark scheme for clarification.

W1 Calculation of gross profit

$$£172\,000 \times \frac{60}{100+60} = £64\,500$$

W2 Purchases

	£	
Bank	103 000	(1)
Opening balance	(27 629)	(1) for both
Closing balance	<u>28 754</u>	balances
Purchases	<u>104 125</u>	OF

Marker note

If the working is shown but the answer is not used in the Income Statement award 1 mark.

W3 Disposal of fixtures and fitting

	£	
Cost	13 500	
Depreciation	<u>(7 500)</u>	
NBV	6 000	(1)
Proceeds	<u>5 500</u>	
Loss	<u>(500)</u>	(1)

Marker note

If the working is shown but the answer is not used in the Income Statement award 1 mark.

W4 General expenses

	£	
Bank	10 365	(1)
Other payable	(400)	(1) for both
Other receivable	<u>(150)</u>	
	<u>9 815</u>	OF

Marker note

If the working is shown but the answer is not used in the Income Statement award 1 mark.

W5 Cash stolen

	£	
Cash sales	50 400	
Opening balance	200*	
Cash drawings	(2 500)	} (1) for both
Cash banked	(47 650)	
Closing balance	<u>(150)*</u>	*(1) for both balances
	<u>300</u>	(1) OF must include £50 400

Marker note

If the working is shown but the answer is not used in the Income Statement award up to 2 marks.

W5 Depreciation

	£	
Original NBV	40 000	
Disposal	(6 000)	
Purchase	14 000	
	48 000	(1)
x 33 ¹ / ₃ %		(1)*
Depreciation for year	16 000	OF

* To award the mark for using 33¹/₃% this must be applied to a non-current asset figure and must be arithmetically correct.

Marker note

If the working is shown but the answer is not used in the Income Statement award 1 mark.

Alternative layout where the workings are shown in a T account.

W2 Purchases Ledger Control Account

Details	£		Details	£	
Bank	103 000	(1)	Balance b/d	27 629	#
Balance c/d	28 754	(1) #	Credit purchases	104 125	OF
	131 754			131 754	

award 1 mark for both balances.

Marker note

If the working is shown but the answer is not used in the Income Statement award 1 mark.

W3 General Expenses Account

Details	£		Details	£	
Bank	10 365	(1)	Balance b/d	400	#
			Income Statement	9 815	OF
	10 365		Balance c/d	150	(1)#
				10 365	

Award 1 mark for both balances.

Marker note

If the working is shown but the answer is not used in the Income Statement award 1 mark.

W4 Cash Account

Details	£		Details	£	
Balance b/d	200	#	Drawings	2 500	(1) both
Cash sales	50 400	OF	Bank	47 650	
			Stolen cash	300	(1)OF*
	50 600		Balance c/d	150	(1) #
				50 600	

award 1 mark for both balances.

* to award the OF mark for cash stolen the cash sales of £54 000 must be included.

Marker note

If the working is shown but the answer is not used in the Income Statement award up to 2 marks.

Qu	Part	Marking Guidance	Total marks
14	2	Assess whether Charlotte should purchase the new computerised system.	6

AO2 - 2 marks, AO3 - 4 marks

Level	Marks	Description
3	5 – 6	Judgements are fully supported by a wide range of evidence. A clear and balanced analysis of data/information/issues is provided, showing a logical chain of reasoning.
2	3 – 4	Judgements are partially supported by evidence. A reasoned, but unbalanced, analysis of data/information/issues is provided; starts to develop a chain of reasoning. Comprehensive and relevant knowledge and understanding of principles/concepts/techniques has been applied to the context.
1	1 – 2	Judgements may be asserted but are unsupported by evidence. An analysis of discrete points of data/information/issues provided; no chain of reasoning is attempted. Limited but relevant knowledge and understanding of principles/concepts/techniques has been applied to the context.
0	0	Nothing written worthy of credit.

Answers may include:

Arguments for:

Improves efficiency of business:

Reduce costs – wage, inventory wastage, storage costs.

Reduce pricing errors.

Improve inventory control.

Improve cash management – will not prevent theft but help to identify it.

Modernisation of business practices.

Arguments against:

Cost compared with level of profit; cash/bank balances; cash stolen; inventory level.

Staff issues – possible resistance to change; training.

Security of data – possible hacking – but could be password protected.

Potential legal implications e.g. compliance with data protection.

Initial set-up issues e.g. input of data; stock-take.

Qu	Part	Marking Guidance	Total marks
15	1	Prepare the revaluation account for the partnership at 30 November 2018	11

AO2 – 11 marks

Dr		Revaluation Account		Cr	
Details	£	Details	£		
Fixtures and Fittings	2 775	(4)W1	Property	21 400	4 (W2)
Trade Receivables	1 395	(1)			
Capital S	6 892				
Capital H	6 892	(1)OF*			
Capital N	3 446	(1)#			
	<u>21 400</u>			<u>21 400</u>	

* Award 1 mark for split of OF surplus in ratio 2:2:1; provided there are no extraneous items e.g. bank. This could be recorded on either side of the account provided this makes the account balance correctly.
1 mark for no balancing figure carried down e.g. the share of surplus is used to balance the account.

Marker note:

If depreciation of non-current assets has not been calculated award the following marks:
Fixtures and Fittings £34 975 (£46 000-£11 025) on debit side = 2 marks (on credit side = 1 mark).
Property £7 000 (£127 000-£120 000) on credit side = 2 marks (on debit side = 1 mark).
If student then includes further entries for Fixtures and Fittings and/or Property these will be extraneous items and this will result in loss of OF mark for profit split.
Award marks where labels are understandable.

W1 Fixtures and fittings

	£	£	
Cost		46 000	
Depreciation pa (46 000*20%)	9 200		(1)
Years	x3.5		(1)
Total depreciation		<u>32 200</u>	
NBV		13 800	(1)OF
Revaluation		11 025	
Deficit on revaluation		<u>(2 775)</u>	OF*

*Plus 1 mark - Award an additional mark for the deficit on revaluation being posted to correct side of the account.

W2 Property

	£	£	
Cost		120 000	
Depreciation pa (120 000 x20%)	2 400		(1)
Years	x6		(1)
Total depreciation		<u>14 400</u>	
NBV		105 600	(1)OF
Revaluation		127 000	
Surplus on revaluation		<u>21 400</u>	(OF)*

***Plus 1 mark** - Award an additional mark for the surplus on revaluation being posted to correct side of the account.

Alternative version where NBV and agreed valuations are both entered.

Dr		Revaluation Account		Cr	
Details	£		Details	£	
Fixtures and Fittings	13 800	(3)W1	Fixtures and fittings	11 025	(1)~
Property	105 600	(3)W2	Property	127 000	(1)~
Trade Receivables	15 567	(1) both	Trade Receivables	14 172	
Capital S	6 892				
Capital H	6 892	(1)OF*			
Capital N	3 446	(1)#			
	<u>152 197</u>			<u>152 197</u>	

~ Award mark if corresponding entries for NBV and revaluation are on the correct side of the account.

* Award 1 mark for split of OF surplus in ratio 2:2:1; provided there are no extraneous items e.g. bank. This could be recorded on either side of the account provided this makes the account balance correctly.

1 mark provided there is no balancing figure carried down i.e. the share of surplus is to be used to balance off the account.

Alternative version where cost and depreciation are entered.

Dr		Revaluation Account		Cr	
Details	£		Details	£	
Fixtures and Fittings- cost	46 000		Fixtures and fittings - depreciation	32 200	(3) for both cost & depreciation
Property- cost	120 000		Fixtures and fittings revalued	11 025	(1)~
Trade Receivables	15 567		Property - depreciation	14 400	(3) for both cost & depreciation
Capital S	6 892		Property revaluation	127 000	(1)~
Capital H	6 892	(1)OF*	Trade Receivables	14 172	(1) both
Capital N	3 446	(1)#			
	<u>198 597</u>			<u>198 597</u>	

~ Award mark if entries for cost, depreciation and revaluation are on correct side of the account.

* Award 1 mark for split of OF surplus in ratio 2:2:1; provided there are no extraneous items e.g. bank. This could be recorded on either side of the account provided this makes the account balance.

1 mark provided there is no balancing figure carried down i.e. the share of surplus is to be used to balance off the account.

Marker note:

Award marks where labels are understandable.

Qu	Part	Marking Guidance	Total marks
15	2	Prepare the capital account for Nando at 30 November 2018.	3

AO2 – 3 marks

Dr		Capital Account - Nando		Cr	
Details	£	Details	£		
Current account	2 300	(1)	Balance b/d	18 000	
Bank/Cash book	19 146	(1)OF#	Revaluation account	3 446	(1)OF*
	<u>21 446</u>			<u>21 446</u>	

* Mark for revaluation must be from candidates own answer from 15.1.

Bank OF mark can only be rewarded if the balance b/d of £18 000 is included.

Marker note:

To award mark each item must have an appropriate label (Bank entry must relate to bank/cash book, do not accept Nando or payment to partner) and the correct amount (OF for bank must be arithmetically correct) to be rewarded with each individual mark.

To award the Bank figure there must be no balance c/d.

Qu	Part	Marking Guidance	Total marks
15	3	Assess the ethics of why it might not be appropriate for Nando's personal accountant to have been involved in the valuation of the partnership's assets.	6

AO2 – 2 marks, AO3 – 4 marks

Level	Marks	Description
3	5 – 6	Judgements are fully supported by a wide range of evidence. A clear and balanced analysis of data/information/issues is provided, showing a logical chain of reasoning.
2	3 – 4	Judgements are partially supported by evidence. A reasoned, but unbalanced, analysis of data/information/issues is provided; starts to develop a chain of reasoning. Comprehensive and relevant knowledge and understanding of principles/concepts/techniques has been applied to the context.
1	1 – 2	Judgements may be asserted but are unsupported by evidence. An analysis of discrete points of data/information/issues provided; no chain of reasoning is attempted. Limited but relevant knowledge and understanding of principles/concepts/techniques has been applied to the context.
0	0	Nothing written worthy of credit.

Answers may include:

A professional accountant should:

- Be straightforward and honest in their dealing with all clients.
- Not allow bias or conflict of interest in their work for clients.
- Not be unduly influenced by others in exercising judgement.

The accountant may be accused of compromising the professional ethics of integrity, objectivity and confidentiality if:

- The advice is biased.
- They have given incorrect valuations.

He may have not compromised the professional ethics of integrity, objectivity and confidentiality if:

- Advice given is unbiased e.g. valuations are reasonable.
- The other partners are happy with the valuations.
- The other partners have sought independent advice and/or agreed the valuations.

Has Nando explained the relationship with the accountant to the other partners?

In this case some of the assets have been decreased in value perhaps indicating that there was no bias.

Section C

Qu	Part	Marking Guidance	Total marks
16		Evaluate trends in the current profitability of the business and make recommendations on which option should be chosen to improve future profitability.	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.

Indicative content may include:

Trends in profitability

AO2 – Application

Calculation of profit:

	2018 £	2017 £	2016 £
Gross profit	455 000	469 000	480 390
Profit for the year	52 000	67 000	83 390

Calculation of ratios:

	2018	2017	2016
Gross profit margin	31.49%	34.74%	39.18%
Mark up	45.96%	53.23%	64.43%
Profit in relation to revenue	3.59%	4.96%	6.8%
Expenses in relation to revenue	27.9%	29.78%	32.38%

Gross profit margin and mark up are both declining (from 39.18% to 31.49% and 64.43% to 45.96% respectively).

The profit in relation to revenue ratio has also fallen (from 6.8% to 3.59%).

Expenses are being controlled and are rising more slowly than sales proportionally.

Inventory turnover has improved.

The data is historical and the current trading position may be significantly different.

AO3 - Analysis and Evaluation

Overall profitability has declined:

The decline is significant as profit for the year has fallen by 37.65% over the period.

The profit in relation to revenue has fallen by 47.21%.

However, the expenses in relation to revenue, has improved by 13.87% over the period.

However, revenue has increased by 17.86% over the same period.

However, inventory turnover has improved.

This could have been caused by:

The selling price may have been reduced to gain market share/remain competitive.

The cost of sales has risen – this could be due to increased raw material cost.

Or, the machine waste is leading to increasing amounts of wool being purchased.

The company have been tightly controlling expenses.

The single supplier may have been used because of the extended credit period which may not be the lowest cost.

Other factors:

The data does not show non-financial information.

What is happening in the industry – comparative figures would be useful to make a decision

How significant are transport costs in relation to the overall profitability?

How significant is the waste of wool?

Option 1

Arguments for:

Delivery costs (carriage out) to customers will be reduced.

Possible improved response time.

Possible improved efficiency from a modern new factory.

Potential cash flows from sale of existing factory.

Potential to find new local suppliers – may be cheaper.

Arguments against:

Relocation costs.

Redundancy costs.

Impact of redundancies on the local community.

Training costs for new staff.

Disruption of production when relocating.

Recruitment of skilled workers may be difficult and costly.

Increased transport costs (carriage in) from supplier.

Potential issues with quality of product.

Potential issue with image/branding – Highland link may be important.

Option 2

Arguments for:

Cost saving from reduced wastage.
Potential cost savings from more efficient vehicles.
Customer delivery more reliable.
Keep skilled workforce – maintain quality of product.
Possible reduction in workforce due to new machinery.
Avoid relocation costs.

Arguments against:

Costs involved – initial capital investment and ongoing depreciation charges.
Retraining staff to work on new machinery.
Staff resentment of decision.
Initial teething problems with new machinery – could impact on quality.

Overall other factors to consider:

No details on capital costs of options.
No details on comparative costs of options.
No information on how much finance available.
No information on the personal views/objectives of the directors.

Qu	Part	Marking Guidance	Total marks
17		Evaluate which of the options Jasmeen should choose. Justify your answer.	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.

Indicative content may include:

AO2 Application

Calculation of future profits

30% increase = £44 850

60% increase = £55 200

Option 1 Partnership

AO2 Application

Profits will be shared equally.

She will then have to consider Depaks' opinions in making decisions.

Jasmeen would still have unlimited liability and would be jointly liable for all the debts of the partnership.

Changing to a partnership should not prove too costly in terms of setting up and annual paperwork.

AO3 Analysis and Evaluation

Jasmeen's share of profit would be:

30% increase = £22 425

60% increase = £27 600

Arguments for:

Depak may have contacts which can reduce cost or bring in new clients.

Depak could share workload.

Depak could bring in new ideas/expertise.

Arguments against:

Her current drawings are £26 000 – this is greater than the increase in profit at 30% and slightly less than the 60% increase.

Current retained profit is £8 500 p.a. and it would be difficult to maintain this with profit increase.

Jasmeen (and her clients) may not like the ideas that Depak is suggesting such as reducing costs. This could upset clients who like the service currently provided.

Other factors:

What are Depak's motives for entering partnership?
 Will Depak want repayment of his capital in the future?
 Does Jasmeen get on with Depak?
 Is Depak a competitor?
 How much time is Depak planning to commit to the business?
 Does Jasmeen have non-current liabilities which have been included in the capital employed?
 Is she intending to invest £231 500 – in which case capital invested is not equal (but profit share is).
 Are there any other terms in the partnership agreement?

Option 2 Private limited company:

AO2 Application

Shares issued*
 Investors £150 000 = 300 000 shares
 Jasmeen invests an equal amount: e.g. £150 000*
 Total shares issued = 600 000
 Total dividend = £30 000
 Jasmeen's share of dividends = £15 000*

Jasmeen would own 50% of shares.
 Voting rights could influence the way the business is run which may not appeal to Jasmeen.
 Set-up/legal expenses to create a company, and the annual administration/paperwork.
 Limited liability will protect shareholders.

Will she find anyone interested in buying shares?

* Students may present alternative calculation based on Jasmeen investing her capital employed into the business – this would result in 736 000 shares being issued and her dividend would be £23 150. This is an acceptable approach.

AO3 Analysis and Evaluation

Arguments for:

Jasmeen may still have control of the business as she owns 50% of the shares.
 Their personal belongings are not at risk which may encourage investment.
 Limited company status could lead to more favourable terms and higher trade discounts.
 Shares are non-redeemable and do not need to be repaid.

Arguments against:

Her dividend is lower than current drawings – but dividends can be varied.
 Arranging meetings and appointing any directors may also cost them time and money.
 The cost of finding someone to invest may be expensive.
 Shares may not be sold.

Other factors:

Will she be paid a salary?

Overall other factors:

Information is dated and may not reflect current trading conditions.

Could she fund the investment by alternative means and stay as a sole trader?

How reliable are her estimates of increased profit?

Is this sufficient to warrant the risk of expansion?