



A-level ACCOUNTING 7127/1

Paper 1 Financial Accounting

Mark scheme

June 2025

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.

No student should be disadvantaged on the basis of their gender identity and/or how they refer to the gender identity of others in their exam responses.

A consistent use of 'they/them' as a singular and pronouns beyond 'she/her' or 'he/him' will be credited in exam responses in line with existing mark scheme criteria.

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Level of response marking instructions

Level of response mark schemes are broken down into levels, each of which has a descriptor. The descriptor for the level shows the average performance for the level. There are marks in each level.

Before you apply the mark scheme to a student's answer read through the answer and annotate it (as instructed) to show the qualities that are being looked for. You can then apply the mark scheme.

Step 1 Determine a level

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptor for that level. The descriptor for the level indicates the different qualities that might be seen in the student's answer for that level. If it meets the lowest level then go to the next one and decide if it meets this level, and so on, until you have a match between the level descriptor and the answer. With practice and familiarity you will find that for better answers you will be able to quickly skip through the lower levels of the mark scheme.

When assigning a level you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best fit approach for defining the level and then use the variability of the response to help decide the mark within the level, ie if the response is predominantly level 3 with a small amount of level 4 material it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

Step 2 Determine a mark

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

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

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

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

Marking guidance question 11

This question is only testing Assessment Objective 1.

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

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

When you have made your decision, award the appropriate level by using L3, L2, L1 or L0 and show this on the answer by using the drop-down comment box.

Then put the appropriate mark for the question in the mark box.

Marking guidance for questions 14.2 & 15.3

These questions are testing Assessment Objectives 2 and 3.

Be clear on the focus of the question.

Read the whole question and decide which level should be awarded, then add the appropriate level to the script from the comment box, eg L3, L2, L1 or L0.

Then put the marks awarded for the question in the mark box.

Remember that the indicative content provides possible answers but there may be others that are equally valid, and you should give credit to other lines of argument.

A good response does not need to include all the indicative content.

Marking guidance for questions 16 & 17

Be clear on the focus of the question.

When you have decided on the level to be awarded add the appropriate comment which best describes the response to the end of the answer.

- L5** Convincing judgement/recommendation fully supported by evaluation and analysis of a wide range of evidence with a strong chain of reasoning.
- L5** Astute judgement/recommendation which takes limitations of evidence into account.
- L4** Judgement/recommendation is supported by evaluation and analysis of a range of evidence.
- L4** Judgement/recommendation is supported after some consideration of limitations of evidence.
- L3** Judgement/recommendation is incomplete but supported by analysis of a range of evidence.
- L3** Judgement/recommendation is developed but analysis and application are limited.
- L2** Judgement/recommendation is given but with limited analysis and weak application.
- L2** Limited range of evidence is analysed and limited chain of reasoning.
- L1** Fragmented points of little/unclear relevance.
- L1** No conclusion/recommendation/judgement with poor application.
- L1** Conclusion unsupported.
- L0** Has not attempted the question.
- L0** Has not produced an answer of any value.

Then review the script and annotate using the following comments:

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

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

Remember that the indicative content provides possible answers but there may be others that are equally valid and you should give credit to other lines of argument.

A good response does not need to include all the indicative content.

Consider the question as a whole, together with the annotations made, and decide on the level to be awarded.

Show the Level awarded, eg L2 using the relevant comment from the drop-down list and then enter the mark in the total box reflecting where in the level the answer sits.

If in doubt about an answer or if you are unsure of the validity of the content then contact your Team Leader. Please make sure that you follow the guidance in the standardisation scripts as we need to have a 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	Credit purchase of goods for resale
02	C	$\frac{\text{Gross profit}}{\text{Revenue}} \times 100$
03	D	Realisation
04	C	$\frac{\text{Trade receivables}}{\text{Credit sales}} \times 365$
05	C	Mortgage
06	A	Gross profit overstated
07	C	£78 000
08	B	£180 debit
09	D	£28 900
10	D	£300 debit

[1 mark for each correct answer]

Qu	Part	Marking Guidance	Total marks
11		Explain two reasons why a new business may offer a customer a trade discount.	6

AO1 – 6 marks

Apply the levels of response mark scheme to each reason. Award a maximum of 3 marks for each reason.

Level	Marks	Description
3	3	A clear and thorough explanation showing a benefit to a new business of offering a customer a trade discount
2	2	A partial explanation showing a benefit to a new business of offering a customer a trade discount.
1	1	Fragmented points made.
0	0	Nothing worthy of credit.

Answers may include:

- To encourage customers to buy in bulk, which they may not do when it is a new business as they have no track record of trading. This will increase sales volume and value and improve profit for the first year of trading.
- To reward customers for their loyalty which should increase customer satisfaction which is important for a new business in encouraging customers to return in future years.
- To gain new customers which can be difficult for a new business and should ensure that they have a wide range of customers reducing the risk that one may be unable to pay.

Qu	Part	Marking Guidance	Total marks
12		Prepare an extract from the statement of financial position for Demelza at 31 March 2025, showing the non-current assets section only.	7

AO1 – 7 marks

Demelza
Statement of financial position (extract) at 31 March 2025

Non-current assets	Cost £	Accumulated depreciation £	Net book value £
Plant and machinery	97 900 (1) W1	58 065 (2) W3	39 835
Motor vehicles	144 000 (1) W2	73 520 (2) W4	<u>70 480</u>
			110 315 (1) OF #

Workings**W1 Cost of plant and machinery**

$$£96\,400 + £1\,500 = £97\,900 \text{ (1)}$$

W2 Cost of motor vehicles

$$£162\,000 - £18\,000 = £144\,000 \text{ (1)}$$

W3 Accumulated depreciation - plant and machinery

$$£97\,900 \text{ OF W1} \times 15\% = £14\,685 \text{ (1)} + £43\,380 = £58\,065 \text{ (1) OF}$$

W4 Accumulated depreciation - motor vehicles

$$£64\,684 - £8\,784 = £55\,900 + £17\,620 \text{ (1) W5} = £73\,520 \text{ (1) OF}$$

W5 Depreciation charge for year - motor vehicles

$$£144\,000 \text{ (OF)} - £55\,900 = £88\,100 \text{ (OF)} \times 20\% = £17\,620 \text{ (OF)}$$

Marker note:

To award the total mark for net book value the total must be arithmetically correct and have appropriate labels (not abbreviated) for both Plant and Machinery and Motor Vehicles.

Calculations where the workings are not transferred or are transferred but in the wrong direction into the extract will not be fully rewarded.

For example, a figure for motor vehicles – accumulated depreciation of £73 520 would be awarded 1 mark if not transferred into the extract or if the £73 520 is shown as an addition in the extract.

Award 3 marks for £39 835 where only the net book value is shown for Plant and machinery.

Award 3 marks for £70 480 where only the net book value is shown for Motor vehicles.

Qu	Part	Marking Guidance	Total marks
13	1	Prepare the sales ledger control account for the year ended 31 March 2025. Balance the account and bring the balance down on 1 April 2025.	5

AO1 – 5 marks

Dr			Sales Ledger Control Account			Cr		
Date	Details	£	Date	Details	£			
31 March 2025	Sales journal	197 285 (1)	31 March 2025	Sales returns journal	360 (1)			
				Cash book / bank / cash	170 280 (1)			
				Cash book/Discount allowed	1 170 (1)			
				Balance c/d	25 475			
		<u>197 285</u>			<u>197 285</u>			
1 April 2025	Balance b/d	25 475 (1) OF*						

Marker note:

To award marks:

The entries must be on the correct side (except balance c/d and b/d) and have an appropriate label. Accept reasonable abbreviations, e.g. for balance entries accept bal b/d, bal b/fwd, b/d, sales day book, returns inwards journal, returns in day book.

Where a date is not given for either the sales journal, sales return journal, cash book, bal c/d or bal b/d do not reward this entry. If other dates are missing the learner should be rewarded if the rest of the entry is correct. A learner with no dates but an otherwise correct answer can therefore achieve 4 marks.

* Award the OF mark for the balancing process – this can be awarded as long as the account is arithmetically correct.

Qu	Part	Marking Guidance	Total marks
13	2	Prepare the sales account for the year ended 31 March 2025. Show clearly the amount to be transferred to the income statement.	2

AO1 – 2 marks

Dr		Sales Account		Cr	
Date	Details	£	Date	Details	£
31 March 2025	Income statement	<u>197 285</u> (1)	31 March 2025	Sales journal	<u>197 285</u> (1)

Marker note:

To award marks:

The entries must be on the correct side and have an appropriate label e.g. Inc Stat or sales day book

Where a date is not given for either the income statement and sales journal do not reward the first entry but reward the second entry.

Section B

Qu	Part	Marking Guidance	Total marks
14	1	Prepare the income statement for P Ltd for the year ended 31 May 2025.	14

AO2 – 14 marks

P Ltd
Income statement for the year ended 31 May 2025

	£	£
Revenue		5 800 600 (1)
Cost of sales		<u>(3 524 360)</u> (1) W1
Gross profit		2 276 240 (1) OF
Expenses		
Administration	413 750	(2) W2
Marketing	810 750	(1) W3
Warehouse	<u>911 740</u>	(1) W4
		<u>(2 136 240)</u>
Profit from operations		140 000 (1) OF*
Finance costs		<u>(84 000)</u> (2) W5
Profit for the year before tax		56 000 (1) OF
Taxation		<u>(12 000)</u> (2) W6
Profit for the year after tax		<u>44 000</u> (1) OF*

Marker note:

* To award the marks for the profit figures the figures must be arithmetically correct and labels must be correct, do not accept abbreviations.

To reward profit from operations there should be no extraneous items e.g. debenture £1 000 000

Where a student treats the insurance claim as other income of £7 500 and does not change the warehouse expense £919 240 award 1 mark for the other income.

W1 Cost of sales

Inventory	£	£
Cost		75 500
Realisable value	35 000	
Costs	3 500	
Net realisable value		31 500
Difference		44 000

Cost of sales = £3 480 360 + £44 000 = £3 524 360 **(1)**

Alternative answer

	£
Cost of sales	3 480 360
Add cost	75 500
Less net realisable value	(31 500)
Revised cost of sales	3 524 360 (1)

W2 Administration expenses

Debt to be paid = £20 000 × 10p = £2 000

Irrecoverable debt = £20 000 – £2 000 = £18 000 **(1)**

Administration expenses = £395 750 + £18 000 = £413 750 **(1)OF**

W3 Marketing expenses

£808 250 + £2 500 = £810 750 **(1)**

W4 Warehouse expenses

£919 240 – £7 500 = £911 740 **(1)**

W5 Finance costs

	£		£
8% Debenture	1 000 000	$\times 8\% \times 9/12 =$	60 000 (1)
6% Debenture	1 200 000	$\times 6\% \times 4/12 =$	24 000 (1)
			<u>84 000</u>

W6 Taxation

	£
Tax owed at 1 June 2024	(3 600) (1) for both
Tax owed at 31 May 2025	6 800
Tax paid	<u>8 800</u> (1)
Taxation charge for year	<u>12 000</u> OF

Alternative answer

Taxation			
	£		£
Bank	8 800 (1)	Bal b/d	3 600
Bal c/d	<u>6 800</u> (1) for both balances	Income statement	<u>12 000</u> OF
	<u>15 600</u>		<u>15 600</u>
		Bal b/d	6 800

Marker note:

Ignore labels as this is a working.

Qu	Part	Marking Guidance	Total marks
14	2	Assess the usefulness of the income statement for the year ended 31 May 2025 to the employees of P Ltd.	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:

- Employees would be able to see if the business has made a profit or loss.
- The amount of profit or loss could help them to decide:
 - if their jobs are safe;
 - whether they could ask for higher wages.
- In this case the profit is very small £44 000 **OF** compared with the turnover of £5 800 600 **OF** (profit in relation to revenue of 0.76% **OF**) and may suggest that a pay rise is unlikely or that the business may be in danger and their jobs may not be safe.
- However the ability to pay the wages and salaries is based on cash and bank balances which are not shown on the income statement.
- Job security may be the result of other factors apart from profit e.g. overall financial position of the business.
- The income statement is from historical data and in summary format both of which may mean they are of limited use.
- The income statement will not identify the non-financial impact on employees, such as motivation/morale, working conditions, effective management.
- Employees may not understand the income statement.
- Accounts could be window dressed to reduce the profit and avoid giving staff a pay rise.

Qu	Part	Marking Guidance	Total marks
15	1	Prepare the capital accounts of Jodie and Katie at 31 December 2024. Balance the accounts and bring the balances down on 1 January 2025.	6

AO2 – 6 marks

Dr				Capital Accounts				Cr	
Date	Details	Jodie £	Katie £	Date	Details	Jodie £	Katie £		
31 Dec	Goodwill	18 000	12 000 (1)*	1 Apr	Balance b/d	22 000	24 000 (1)*		
31 Dec	Balance c/d	20 000	25 000	31 Dec	Goodwill	10 000	10 000 (1)*		
				31 Dec	Bank	6 000 (1)OF #	3 000 (1)OF #		
		<u>38 000</u>	<u>37 000</u>			<u>38 000</u>	<u>37 000</u>		
				1 Jan	Balance b/d	20 000	25 000 (1)*		

Marker note:

* award mark for row or both correct figures as appropriate.

To award the mark the item should have an appropriate label e.g. Goodwill, Bank (not capital introduced), bal b/d, bal b/fwd, b/d.

Where the label for bank is incorrect do not reward the first entry but reward the second entry.

Where one or more dates are missing / incorrect do not reward the first missing entry but reward all subsequent entries.

Award 2 marks where a student has netted off the goodwill entries as Dr £8 000 for Jodie and Dr £2 000 for Katie.

To award the **OF** for bank there should be no extraneous items e.g. Drawings.

Qu	Part	Marking Guidance	Total marks
15	2	Prepare the partnership profit and loss appropriation account for the year ended 31 March 2025.	8

AO2 – 8 marks

**Jodie, Katie & Li partnership
Profit and loss appropriation account for the year ended 31 March 2025**

	1 April 2024 – 31 December 2024	1 January 2025 – 31 March 2025
	£	£
Profit	54 000	18 000 (1) for both
Add interest on drawings		
Jodie		125 (1) W1
Katie		<u>200</u> (1) W1
		18 325
Less		
Salary – Katie		<u>(2 500)</u> (1) W2
		15 825
Interest on capital		
Jodie		(300) (1) W3
Katie		<u>(375)</u> (1) W3
		15 150
Share of profits		
Jodie	18 000	9 090 (1) OF for both ~
Katie	18 000	6 060
Li	18 000	

Marker note:

All appropriation account entries must be treated in the correct direction to be awarded full marks.

An appropriate label should be provided. Where a student writes IOD and / or IOC do not reward the first entry (i.e. Jodie) for each item.

Must split their own profit (OF) for the period 1 April 2024 to 31 December 2024 equally. To award the OF for profit there should be no extraneous items e.g. Drawings.

~ Must split their remaining profit (OF) on a 3:2 basis. To award the OF for profit there should be no extraneous items e.g. Drawings.

W1 Interest on drawings

Jodie ($\pounds 5\,000 \times 10\% \times 3/12$) = $\pounds 125$ **(1)**

Katie ($\pounds 8\,000 \times 10\% \times 3/12$) = $\pounds 200$ **(1)**

W2 Salary

Katie $\pounds 10\,000 \times 3/12$ = $\pounds 2500$ **(1)**

W3 Interest on capital

Jodie ($\pounds 20\,000 \times 6\% \times 3/12$) = $\pounds 300$ **(1)**

Katie ($\pounds 25\,000 \times 6\% \times 3/12$) = $\pounds 375$ **(1)**

Qu	Part	Marking Guidance	Total marks
15	3	The preparation of the partnership agreement involved a lot of time and money which Katie now thinks was unnecessary. Assess Katie's view that the formal partnership agreement was unnecessary.	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:

Katie is incorrect / argument for a partnership agreement

- The agreement should result in a fair distribution of the profit.
- The agreement may encourage partners to invest capital by paying interest on capital for example Katie has been credited with £375 **OF** which is more than Jodie as she has more capital invested.
- The agreement may discourage drawings by charging interest on drawings Jodie is charged £125 **OF** for the quarter which is less than Katie as she has lower drawings.
- In this case, Katie may not have understood that she is also getting a partner's salary of £10 000 pa (£2 500 for the period) as share of the profit.
- It may avoid disputes, which could lead to the breakup of the partnership as happened when Li left.

Katie is correct / argument against a partnership agreement

- The agreement may be too complicated for the partnership and may result in unnecessary accountancy costs.
- The partners may not need a formal agreement to be able to make decisions and avoid disputes; Li may be the only one who had problems.
- The costs involved may outweigh the benefits.

Section C

Qu	Part	Marking Guidance	Total marks
16		Advise Mike and Tom whether they should: 1. keep the current system 2. employ a bookkeeper 3. employ an accountant. Consider both financial and non-financial considerations.	25

AO2 – 5 marks, AO3 – 20 marks

Level	Marks	Description
5	21–25	A clear and balanced response that presents a coherent and logically reasoned judgement and conclusion/solution that is supported by an astute consideration of a wide range of evidence including other factors relevant to the wider context. There is an insightful assessment of the significance and limitations of the evidence used to support the judgement.
4	16–20	A reasoned, but in places unbalanced, judgement and conclusion/solution is presented that is supported by an evaluation of a wide range of evidence, including a narrow consideration of other factors relevant to the wider context. There is a partial assessment of the significance and limitations of the evidence used to support the judgement.
3	11–15	An underdeveloped judgement and conclusion/solution is presented that is supported by an evaluation of a range of evidence provided in the question; however there may be inconsistencies and the reasoning may contain inaccuracies. A comprehensive and relevant selection of information is analysed, showing a developed logical chain of reasoning. The results of any appropriate calculation/s are integrated into the analysis and evaluations offered on most. Comprehensive and relevant knowledge and understanding of principles/concepts/techniques is drawn together and applied successfully to the context. Where appropriate, a thorough selection of relevant calculations is attempted; these may include minor errors.
2	6–10	A basic judgement and conclusion/solution is presented, it is supported by a limited evaluation of evidence provided in the question, containing significant inaccuracies. A limited but relevant selection of information is analysed, starting to develop a logical chain of reasoning. The results of the calculation/s are integrated into the analysis but with weak evaluations. Limited but relevant knowledge and understanding of principles/concepts/techniques is drawn together and applied successfully to the context. Where appropriate, a limited selection of relevant calculations is attempted; these may include minor errors.

1	1–5	A judgement and conclusion/solution may be asserted, but it is unsupported by any evidence. 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. 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.
0	0	Nothing written worthy of credit.

Indicative content may include:

AO2 Application

Calculation of the costs of alternatives:

Current system: Salary + accountancy fees = £12 500 + £5 000 = £17 500

Bookkeeper: Salary package + accountancy fees = £30 000 + £1 000 = £31 000

Accountant: Salary package £50 000.

The role of the accountant is usually to oversee bookkeepers as well as introduce accounting systems.

Double entry bookkeeping system will not:

- prevent errors, but should mean they can be found;
- prevent irrecoverable debts;
- necessarily provide management information – this may require additional information systems.

AO3 Analysis and evaluation

- If Mike's estimates of losses are correct then the cost to the business of the current system would be: Salary + accountancy fees + irrecoverable debt + losses + lost profit i.e. £12 500 + £5 000 + £6 500 + £3 000 + £10 000 = £37 000 This is higher than the cost of employing the bookkeeper – but still less than the cost of the accountant.
- What is the basis of Mike's estimates regarding contract losses and new work lost? How correct are the estimates – they could be too high or too low?
- To prevent irrecoverable debts they may need to introduce a credit control system in addition to the bookkeeping system.
- Would the accountant want to be involved in maintaining the books of account, or would they expect this be done by a bookkeeper – in which case there would be additional cost?
- Will the accountant be sufficiently experienced?
- If the accountant's background is financial accounting, will they have the expertise to introduce management information systems to provide the information that Mike wants?
- What will be the cost of introducing accounting information systems – will extra staff need to be employed?
- Will providing the information for the management systems mean that Mike and Tom are not able to carry out their current roles as effectively. Will it disrupt work if workers are completing time sheets rather than working?

Astute evaluation

- How significant are the costs involved to the business?
- Could they afford the bookkeeper or the accountant?
- Will the extra cost of the accountant actually result in the savings needed to make them worthwhile? Or it is possible that the accountant could bring added value to the business by identifying waste and enabling them to cut costs.
- The bookkeeper's role is usually focused on financial records and so may not be able to provide the management information required to cost and monitor profitability of contracts.
- Is the business considering manual or computerised accounting systems?

Costs

- Have they looked at alternative firms of accountants to see if the accounting firms fees could be reduced?
- Would employing either the bookkeeper or accountant result in a family split and possibly the end of the business?

Limitations

- How confident are they that the costs quoted are accurate?
- Will any other costs be involved in employing the bookkeeper/accountant e.g. training costs?
- What is the form of business ownership? If it is a limited company then they would have legal responsibility to maintain adequate accounting records.
- If it's a partnership, then it is responsibility of partners to decide on what records to keep – but they may then have unlimited liability if the business fails.
- Will the newly qualified accountant be able to introduce the information systems?

Marker note:

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

Qu	Part	Marking Guidance	Total marks
17		Advise Aisha whether she should sell the shares in E plc. Consider both financial and non-financial factors.	25

AO2 – 5 marks, AO3 – 20 marks

Level	Marks	Description
5	21–25	A clear and balanced response that presents a coherent and logically reasoned judgement and conclusion/solution that is supported by an astute consideration of a wide range of evidence including other factors relevant to the wider context. There is an insightful assessment of the significance and limitations of the evidence used to support the judgement.
4	16–20	A reasoned, but in places unbalanced, judgement and conclusion/solution is presented that is supported by an evaluation of a wide range of evidence, including a narrow consideration of other factors relevant to the wider context. There is a partial assessment of the significance and limitations of the evidence used to support the judgement.
3	11–15	An underdeveloped judgement and conclusion/solution is presented that is supported by an evaluation of a range of evidence provided in the question; however there may be inconsistencies and the reasoning may contain inaccuracies. A comprehensive and relevant selection of information is analysed, showing a developed logical chain of reasoning. The results of any appropriate calculation/s are integrated into the analysis and evaluations offered on most. Comprehensive and relevant knowledge and understanding of principles/concepts/techniques is drawn together and applied successfully to the context. Where appropriate, a thorough selection of relevant calculations is attempted; these may include minor errors.
2	6–10	A basic judgement and conclusion/solution is presented, it is supported by a limited evaluation of evidence provided in the question, containing significant inaccuracies. A limited but relevant selection of information is analysed, starting to develop a logical chain of reasoning. The results of the calculation/s are integrated into the analysis but with weak evaluations. Limited but relevant knowledge and understanding of principles/concepts/techniques is drawn together and applied successfully to the context. Where appropriate, a limited selection of relevant calculations is attempted; these may include minor errors.

1	1–5	A judgement and conclusion/solution may be asserted, but it is unsupported by any evidence. 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. 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.
0	0	Nothing written worthy of credit.

Indicative content may include:

AO2 Application

Calculation of:

Dividend per share

Aisha ($\pounds 300 \div 10\,000$) = 3p per share

Previous years ($\pounds 2\,000 \div 10\,000$) = 20p per share

Dividend yield

Current year ($\pounds 0.03 \div \pounds 4.00 \times 100$) = 0.75%

Price earnings ratio

Share price $\div$ EPS ($\pounds 4.00 \div 0.25$) = 16 times

Value of Aisha's shares:

31 March 2024 ($10\,000 \times 460\text{p} \div 100$) = $\pounds 46\,000$

31 March 2025 ($12\,000 \times 400\text{p} \div 100$) = $\pounds 48\,000$

Dividend cover

Profit after interest and tax $\div$ Ordinary dividends paid ($\pounds 30\text{m} \div \pounds 3\text{m}$) = 10 times

Explanation of bonus issue:

A free issue of shares.

Which would distribute reserves e.g. use capital reserves.

Usually reduce the market price of shares.

It is sometimes used when the business is unable to pay dividends, perhaps due to a lack of cash.

AO3 Analysis and evaluation

Financial

- Aisha's capital value has increased despite the fall in the share price – she is $\pounds 2\,000$ richer than a year ago.
- The share price would be expected to fall as a result of the bonus issue (by about 1/5 to approx. 383p per share but only fell to 400p), so the market must view the company favourably as it has not fallen as far it should as the market capitalisation of the company has increased.
- The dividends per share are lower than the best performing company in the sector: 3p compared to 22p.

- The dividend yield are significantly lower than “best” in industry: 0.75% (**OF**) compared to 4%. They are also lower than previous years – this could support the view that the directors are retaining earnings to invest for the future; or it could indicate that the company was unable to pay dividends perhaps due to cash flow problems.
- The dividend yield can be compared with other rates of interest and appears to be very low, especially if inflation is taken into account.
- The P/E ratio is significantly better than the “best”: 16 times (**OF**) compared to 8 times – this may indicate that the market believes that this company is a good investment. Alternatively it could mean that the share may appear overpriced.
- The revaluation of non-current assets will make the company appear larger and perhaps make it easier to raise finance.

Other factors

- Comparing E plc with the “best” may not be valid – the “best” could be significantly better than all other businesses. It may be better to compare with industry averages.
- It would be helpful to see the statement of cash flows to see E plc’s cash position.
- If the director’s predictions are correct Aisha could see increased dividends in the future and with her additional shares she will have increased income – for example if the dividend returns to previous level e.g. 20p per share then she will receive $12\,000 \times 20p = £2\,400$ a year.
- Is the revaluation of non-current assets justified – will they be able to exploit the additional sources discovered?
- Has Aisha considered selling the additional shares received from the bonus issue, rather than all the shares?

Non-financial

- What is the environmental impact of the expansion of coal and gas production?
- What is Aisha’s attitude towards environmental concerns – she may not want to continue investing in a business that may be seen as environmentally unfriendly, or she may be happy if she gets a good return?
- Will demand for coal and gas continue into the future?
- Would her grandparents be unhappy if she sells?
- There may be other factors to consider for example the amount of tax to be paid.
- Has Aisha considered any alternatives e.g. other investments or savings accounts?

Astute evaluation

- How reliable is the information presented from the pressure groups, are the sources in areas where natural habitat is under threat?
- What are Aisha’s attitudes to risk?
- Does Aisha need an income, or would she be happy with capital growth?

Limitations

- How reliable are the forecasts from the board of directors?
- Will the shortage of coal and gas continue in the future or would they be better investing in “green” energy?

Marker note:

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