
A-level
ACCOUNTING
7127/1

PAPER 1 FINANCIAL ACCOUNTING

Mark scheme

Specimen

V1.1

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 Assessment Writer.

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, 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.

Examiners are required to assign each of the students' responses to the most appropriate level according to its overall quality, then allocate a single mark within the level. When deciding upon a mark in a level examiners should bear in mind the relative weightings of the assessment objectives and be careful not to over/under credit a particular skill. For example, in questions 14.2, 15.3, 16 and 17 more weight should be given to AO3 than to AO2. This will be exemplified and reinforced as part of examiner training.

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**

AO1 – 10 marks

Question Number	Answer
1	B
2	C
3	C
4	C
5	D
6	C
7	A
8	B
9	C
10	C

(1 mark for each correct answer)

SHORTER ANSWER QUESTIONS

Qu	Part	Marking guidance	Total marks
11	1	Record the information given in the ledger accounts shown below. The accounts should be balanced at 31 December 2015.	9

AO1 – 9 marks

GENERAL LEDGER

Dr				Insurance account				Cr			
Date		Details	£	Date		Details	£				
2015				2015							
Dec	31	Balance b/d	3730 (1)	Dec	31	Income statement	3240 (1) OF				
					31	Balance c/d	490				
			<u>3730</u>				<u>3730</u>				
2016											
Jan	1	Balance b/d	490 (1)								

Marker note

Award 1 mark for recording the opening balance as a debit entry.

Award 1 mark for the transfer to the income statement, this could be **OF** if prepayment treated incorrectly. There must be a label stating income statement or equivalent (accept abbreviations).

Dr				Provision for doubtful debts account				Cr			
Date		Details	£	Date		Details	£				
2015				2015							
Dec	31	Income statement W1	45 (1)	Dec	31	Balance b/d	382 (1)				
	31	Balance c/d	337								
			<u>382</u>				<u>382</u>				
				2016							
				Jan	1	Balance b/d	337 (1) OF				

Workings:

W1 Provision adjustment: £382 – (5% x £6 740) = £45 (1)

Marker note

Award 1 mark for recording the opening balance as a credit entry.

Award 1 mark for the debit entry of £45 this must be labelled income statement or equivalent (accept abbreviations).

Award 1 mark for the balancing process, the balance could be **OF** if the student has not calculated the change in provision correctly.

Dr				Rent received account				Cr			
Date		Details	£	Date		Details	£				
2015				2015							
Dec	31	Income statement	6550 (1) OF	Dec	31	Balance b/d	5810 (1)				
					31	Balance c/d	740				
			<u>6550</u>				<u>6550</u>				
2016											
Jan	1	Balance b/d W2	740 (1)								

Workings:

W2 The closing balance due is $\frac{1}{3} \times £2220 = £740$ (1)

Marker note

Award 1 mark for recording the opening balance as a credit entry.

Award 1 mark for the debit entry of £6550, this could be OF if student has not treated the unpaid rent correctly, this must be labelled income statement or equivalent (accept abbreviations).

Award 1 mark for the balance b/d this must be on the debit side of the account.

12	1	Prepare the machinery disposal account.	4
----	---	---	---

AO1 – 4 marks

Machinery Disposal Account			
Dr		Cr	
	£		£
Machinery	29 000 (1)	Provision for depreciation	16 000 (1)
		Bank (proceeds)	9 000 (1)
		Loss on sale	4 000 (1)
	<u>29 000</u>		<u>29 000</u>

13	1	Complete the partnership capital accounts after all these transactions have taken place.	7
-----------	----------	--	----------

AO1 – 7 marks

Capital Accounts							
Dr							Cr
	Mike	Nora	Oliver		Mike	Nora	Oliver
	£	£	£		£	£	£
Goodwill	30 000	30 000		Balances b/d	70 000	60 000	30 000
	(1) W2 Goodwill written off				(1) for capital balances		
Bank			42 500 (1) OF	Revaluation	7 500	5 000	2 500
					(1) W1 Revaluation surplus		
Bank	2 500 (1) OF			Goodwill	30 000	20 000	10 000
					(1) W2 Goodwill adjustment		
Balances c/d	75 000	75 000		Bank		20 000 (1) OF	
	107 500	105 000	42 500		107 500	105 000	42 500
				Balances b/d	75 000	75 000	

Working:

W1 Revaluation surplus: shared £15 000 in ratio 3:2:1, ie Mike $\frac{1}{2} \times £15\,000 = £7500$;
Nora $\frac{1}{3} \times £15\,000 = £5000$; Oliver $\frac{1}{6} \times £15\,000 = £2500$ Award 1 mark for all 3 figures **(1)**

W2 Goodwill adjustment:

	Mike	Nora	Oliver	
	£	£	£	
Goodwill shared 3:2:1	30 000	20 000	10 000	(1)
Good will written off	(30 000)	(30 000)	-	(1)

Alternative answer (below) if students net-off goodwill

Net	-	(10 000) (1)	10 000 (1)	
-----	---	---------------------	-------------------	--

Marker note

The bank entries are for correctly calculating the amount due to Oliver and for ensuring that Mike and Nora have capital balances of £75 000 each.

Alternative answer if students net-off the goodwill adjustment

Capital Accounts							
Dr							Cr
	Mike	Nora	Oliver		Mike	Nora	Oliver
	£	£	£		£	£	£
Goodwill		10 000 (1) W2		Balances b/d (1) for all 3 entries	70 000	60 000	30 000
	(1) W2 Net				(1) for capital balances		
Bank			42 500 (1) OF	Revaluation (1) W1	7 500	5 000	2 500
					(1) W1 Revaluation surplus		

Bank	2 500 (1) OF			Goodwill			10 000 (1) W2
						(1) W2 Net	
Balances c/d	75 000	75 000		Bank		20 000 (1) OF	
	77 500	85 000	42 500		77 500	85 000	42 500
				Balances b/d	75 000	75 000	

SECTION B

14	1	Prepare a statement of cash flows for the year ended 30 June 2016. The statement should conform to the requirements of IAS7.	14
----	---	---	----

AO2 – 14 marks

HQV plc

Statement of cash flows for the year ended 30 June 2016

	£000	£000	
Profit from operations	2868		(4) OF W1
Depreciation	1217		
Loss on asset disposal	549		(5) OF W2
Decrease in inventories	26		(1) for all entries
Increase in trade receivables	(97)		
Decrease in trade payables	<u>(307)</u>		
Cash from operating activities	4256		
Interest paid	(402)		
Income tax paid	<u>(398)</u>		
Net cash from operating activities		3456	(1) OF
Investing activities			
Purchase of non-current assets	(6600)		(1) for all entries
Proceeds from sale of non-current assets	<u>830</u>		
Net cash used in investing activities		(5770)	
Financing activities			
Receipts from the issue of share capital	3150		(1) for all entries
Proceeds from long-term borrowings	350		
Dividends paid	<u>(1334)</u>		
Net cash from financing activities		<u>2166</u>	
Net decrease in cash and cash equivalents		(148)	(1) for all entries
Cash and cash equivalents at start of the year		<u>87</u>	
Cash and cash equivalents at end of the year		<u>(61)</u>	

Workings:**W1 Profit from operations**

	£000	£000	
Increase in retained earnings			
Retained earnings at 30 June 2016	4332		
Less retained earnings at 30 June 2015	<u>(3712)</u>		
		<u>620</u>	(1)
Add back:			
Dividends paid		<u>1334</u>	(1)
Taxation provision		<u>512</u>	(1) for both entries
Finance costs		<u>402</u>	
Profit from operations		<u>2868</u>	(1) OF

W2 Profit or loss on disposal of non-current asset

	£000	
Non-current assets at 30 June 2016	21 450	
less revaluation	(1 830)	(1)
less addition	(6 600)	(1)
less non-current assets at 30 June 2015	<u>(14 884)</u>	
Cost of asset sold during year	1 864	(1) OF
Less depreciation on asset sold	<u>(485)</u>	(1)
Net book value of asset sold	<u>1 379</u>	
Proceeds of sale	830	
Loss on sale	(549)	(1) OF

14	2	Assess the liquidity of HQV plc and the extent to which you agree with the director's concerns.	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:

- In agreement with the director's concerns:
 - Current ratio: although the current ratio has increased, it was already higher than the industry average. The implication is that the company has tied up resources unnecessarily.
 - Liquid capital ratio: although the ratio has improved it is still below the industry average, so the company may still have difficulties in meeting its short-term obligations.
 - The statement of cash flows shows a net outflow of cash and cash equivalents of £148 000
- Disagreeing with the director's concerns:
 - Current ratio: has increased since 30 June 2015 which would mean the company will find it easier to meet its medium to long-term obligations.
 - Liquid capital ratio: has increased since 30 June 2015 and has moved nearer to the industry average, so the company will find it easier to meet its short-term obligations.

General points

The industry average has been used as the basis of the judgement, it is possible that special factors affecting HQV plc may mean that the industry average may not be an entirely appropriate benchmark to use.

The industry average ratios may be distorted by one or two atypical businesses.

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

15	1	Prepare the trading section of the business's income statement for the year ended 31 December 2015 to show the value of goods taken for own use by Serena.	8
-----------	----------	--	----------

AO2 – 8 marks

LOOKING SHARP
Income statement for the year 31 December 2015

	£	£	
Revenue		230 690	(2) W1
Less: Opening inventory	18 940		
Purchases	<u>182 290</u>		(3) W2
	201 230		
Less goods for own use (missing figure)	<u>(1 958)</u>		(1) OF
	199 272		
Less closing inventory	<u>(14 720)</u>		(1) both inventories
		<u>(184 552)</u>	
Gross profit (20% of revenue)		<u>46 138</u>	(1) W3

Workings:

W1 Total sales

	£	
Uncredited takings	1 960	(1)
Takings banked	<u>228 730</u>	
	230 690	(1)

W2 Credit purchases

		Trade payables			
Payments*	180 630	(1)	Balance b/d **	14 730	(1)
Balance c/d**	16 390		Purchases	182 290	(1)
	<u>197 020</u>			<u>197 020</u>	
			Balance b/d	<u>16 390</u>	

*Payments: £178 300 + un-presented cheques £2 330 = £180 630 (1)

**Mark is for correctly recording both opening and closing balances

W3 Mark-up to margin

If mark-up is 25%, then margin = $25 \div (100 + 25) \times 100 = 20\%$

15	2	Complete the income statement for the year ended 31 December 2015 to show the business's profit or loss for the year.	6
-----------	----------	---	----------

AO2 – 6 marks

Looking Sharp
Income statement for the year ended 31 December 2015

	£	£	
Gross profit (OF from 15.1)		46 138	
Less: loss on disposal of shop fittings	360		(1) W1
Rent of shop premises	16 130		(2) W2
General expenses	9470		
Depreciation of shop fittings and equipment	2 050		(2) W3
		(28 010)	
Profit for year*		<u>18 128</u>	(1) OF

*Mark for OF only awarded if no alien items within calculation of profit for year

Working:

W1 Loss on disposal of fittings

Book value £750 less receipts £390 = £360 (1)

W2 Rent of shop premises

Rent			
Balance prepaid b/d*	830	Income statement	16 130 (1)
Payments	14 350		
Balance c/d (1)*	950		
	16 130		16 130
	Balance b/d		950

* Mark is for correctly recording both opening and closing balances (or recording both as an addition to payments)

W3 Depreciation of shop fittings and equipment

	£	
Opening book value	32 400	
Less sale book value	750	
	31 650	(1)
Less closing book value	<u>29 600</u>	
Depreciation	<u>2 050</u>	(1)

15	3	Assess the actions that Serena could take to overcome the weaknesses highlighted by the accountant.	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:

Actions to improve revenue – Serena could consider:

- increasing mark-up but must consider effect on demand of increasing prices
- increased or more effective marketing, but must consider impact on profits of increase budget for marketing
- reducing the selling price to encourage more sales – this will increase revenue if percentage increased volume is greater than percentage reduction in selling price. This would also improve inventory turnover
- offering credit to customers to encourage increased sales, however this could increase the costs of the business in terms of administration and possible bad debts. It would also affect the cash flows.

Actions to improve rate of inventory turnover – Serena could consider:

- reducing her average inventory – this may restrict what is on offer to customers and may reduce demand
- finding cheaper supplies to reduce the cost of sales, perhaps negotiating larger trade discounts – but she will need to avoid compromising the quality of what is on offer to avoid deterring customers
- reducing the selling price to encourage more sales. However this may affect the profitability of the business.

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

SECTION C

16	1	Evaluate both businesses from an investor's point of view and advise Laura which company would be best for her to buy shares in.	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.

Answers may include:

A02 - Application

Quantify the investment and return by calculating the number of shares that could be purchased and the actual dividend that would have been paid (based on historical data)

- S** Shares purchased at current market price = $50\,000 \div 2.4 = 20\,833$
 Dividends (at current rate) $20\,833 \times .096 = \text{£}2\,000$ (approx.) per year
 Alternative calculation $\text{£}50\,000 \times 4\% = \text{£}2\,000$
- G** Shares purchased at current market price = $50\,000 \div 1.4 = 35\,714$
 Dividends (at current rate) $35\,714 \times .105 = \text{£}3\,750$ (approx.) per year
 Alternative calculation $\text{£}50\,000 \times 7.5\% = \text{£}3\,750$

Comparing the ratios for the two businesses for example:

Investor ratios

The following ratios for Gogro are better than Stabilo

Dividend yield

Dividend per share

P/E ratio

However, Stabilo performs better in:

Dividend cover

EPS

Comparison of other data

Stabilo appears to be a larger business based on the value of property, plant and equipment, with a more stable share price.

Stabilo's gearing is lower

A03 – Analysis and Evaluation

Consider the objectives of the investor as well as the performance of the businesses and also assess the additional information that would be needed before making a decision.

Assessment of data

Gogro appears to be a less stable investment as share price is more volatile

Gogro share price is close to highest point for the year – this could be good if it is anticipated that it will rise – or bad as it could possibly fall

Gogro gearing is higher than Stabilo and this could mean that it is a riskier investment

Gogro ROCE is better than Stabilo but this could be the result of lower capital employed

Other factors to consider

Laura's attitude to risk

The principal activities of the business

Historical data to try to identify trends.

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 as appropriate.

17	1	Assess the risks to Hassell & Co of the issues identified and suggest the course of action that the partners should take.	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.

Answers may include:

<p>A02 - Application</p> <p>What is at risk? Expected behaviour – integrity, objectivity, professional competence, confidentiality, professional behaviour may be at risk in the given situations.</p> <p>Explanation of risks Audit fee may be too large and endanger objectivity Conflict of interest with partner's wife – also confidentiality Audit report – threat to professional competence Drug company – public interest requirement of professional accountant.</p> <p>Relating the codes of practice and regulatory guidelines to the scenario.</p>
<p>A03 – Analysis and Evaluation</p> <p>Procedure/assessment Assess whether there is a real problem and is it their problem Is more information required? For example: Audit fee – could the business afford to lose 30% of income? Does the partner deal with the firm that wife is MD? Audit report – how sure are they that standards not applied and how likely are directors to appoint new auditors – will they be supported by shareholders? How confident are they that price fixing has taken place?</p> <p>Which fundamental principles threatened? Self-interest threats Self-review threats Advocacy threats Familiarity threats Intimidation threats.</p> <p>What safeguards can be put in place to reduce risk? What course of action? For example: Audit – if objectivity threatened consider sharing audit with other firms to reduce fee income; increase fee income – potential for merger or new partner.</p> <p>Wife – if confidentiality threatened Ensure partner involved does not work with that client Require confidentiality agreement from partner If threat significant then may have to refuse work from that client.</p> <p>Audit report – if professional competence called into question Possibly present report to shareholders with explanation of situation Other firms may refuse to take on audit in these circumstances.</p> <p>Price fixing – if proven Report to regulatory body.</p>

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 as appropriate.

