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Candidate surname					Other names									
Pearson Edexcel					Centre Number					Candidate Number				
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Advanced Level														
Monday 7 January 2019														
Morning (Time: 3 hours)							Paper Reference WAC11/01							
Accounting														
International Advanced Subsidiary														
Paper 1: The Accounting System and Costing														
You must have: Source Booklet (enclosed)										Total Marks				

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **both** questions in Section A and **three** questions from Section B.
- All calculations must be shown.
- Answer the questions in the spaces provided
– *there may be more space than you need.*
- Do not return the Source Booklet with the question paper.

Information

- The total mark for this paper is 200.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.
- The source material for use with Questions 1 to 6 is in the enclosed source booklet.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ►

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SECTION A

Answer BOTH questions in this section.

1 Rach and Saada are in partnership as accountants sharing profits and losses equally.

On 1 January 2018 the following were the partners' balances:

		£
Capital accounts	Rach	25 000
	Saada	30 000
Current accounts	Rach	2 600 Cr
	Saada	4 100 Cr

On 1 January 2018 Rach and Saada admitted Galenia as a partner. Galenia introduced capital of £15 000 by cheque into the partnership.

The new partnership agreement stated:

- goodwill was valued on 1 January 2018 at £50 000. This would **not** be retained in the books
- interest would be paid on the capital balances at the end of each year at the rate of 10%
- interest would be charged on the total drawings made during the year at the rate of 4%
- no salaries would be paid to the partners
- profits and losses would be shared by Rach, Saada and Galenia in the ratio 2:2:1

On 31 December 2018, after the first year of trading of the new partnership, the following balances, **excluding capital and current accounts**, were in the books.

	£
Accountancy fees received	246 400
Non-current assets (at cost)	
Leasehold premises	160 000
Motor vehicles	62 000
Fixtures and computers	48 000
Provisions for depreciation	
Leasehold premises	86 900
Motor vehicles	32 000
Fixtures and computers	14 000
Motor vehicles running expenses	24 350
Telephone and broadband expenses	6 200
Trade receivables	38 000
Trade payables	17 000
Computer maintenance	17 950
Insurance	30 000
Electricity and water	8 550
Marketing	15 000
Wages and salaries	75 500
6% bank loan (repayable 2022)	40 000
Drawings – Rach	10 000
Saada	7 500
Galenia	7 500
Cash and bank	2 450 Dr

Additional information at 31 December 2018

- (1) Accountancy fee income of £7 000 in November 2018 had not been invoiced, and no entries had been recorded in the books.
- (2) Prepaid marketing £2 100
- (3) Accrued expenses: telephone and broadband expenses £300, wages and salaries £4 600
- (4) The 6% bank loan was taken out on 1 April 2018. No interest had been paid on the loan.
- (5) A computer costing £4 000, and with a carrying value of £1 400, was sold for £250 cash on 15 December 2018. No record of the transaction had been recorded in the books.
- (6) Depreciation is charged on all non-current assets owned at the end of the year as follows:
 - the leasehold on the premises is for 20 years. The appropriate amount is to be written off the leasehold
 - motor vehicles at the rate of 20% per annum using the reducing balance method
 - fixtures and computers at the rate of 25% per annum using the straight line method.
- (7) Trade receivables of £3 000 are considered irrecoverable.
- (8) An allowance for doubtful debts of 5% is to be created.

Required

- (a) Prepare, for the year ended 31 December 2018, the:
 - (i) capital accounts of the partners (4)
 - (ii) Statement of Profit or Loss and Other Comprehensive Income (including the appropriation section) (19)
 - (iii) current accounts of the partners. (4)
- (b) Prepare the Statement of Financial Position at 31 December 2018. (16)
- (c) Evaluate the use of accounting concepts and conventions in the preparation of the financial statements of a business. (12)

(Total for Question 1 = 55 marks)

Question Number	Answer	Mark
1 (a)(i)	<p>AO1(2), AO2(2) AO1: Two marks for balances and introducing capital. AO2: Two marks for goodwill calculation and posting.</p>	(4)

Capital Account

Date	Details	Rach	Saada	Galenia	Date	Details	Rach	Saada	Galenia
2018		£	£	£	2018		£	£	£
1 Jan	Goodwill	20 000	20 000	10 000	1 Jan	Balance	25 000	30 000	
		All	balances	1 AO2		Introduced			15 000
									1 AO1
31 Dec	Balance	30 000	35 000	5 000		Goodwill	25 000	25 000	
		<u> </u>	<u> </u>	<u> </u>			1 AO2	<u>Both</u>	<u> </u>
		<u>50 000</u>	<u>55 000</u>	<u>15 000</u>			<u>50 000</u>	<u>55 000</u>	<u>15 000</u>
					2019				
					1 Jan	Balance b/d	30 000	35 000	5 000
							All	balances	1 AO1

Question Number	Answer	Mark
1 (a)(ii)	<p>AO1 (5), AO2(12), AO3(2)</p> <p>AO1: Five marks for transferring balances to the income statement.</p> <p>AO2: Twelve marks for calculating or adjusting balances in the income statement.</p> <p>AO3: Two marks for balances requiring two levels of adjustment.</p>	(19)

Rach, Saada and Galenia

**Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2018**

	£	£	£
Revenue		246 400 + 7 000	253 400(1) AO2
Less			
Telephone and broadband expenses		6 200 +300	6 500 (1) AO1
Depreciation –Leasehold premises			8 000 (1) AO2
Motor vehicles			6 000 (1) AO2
Fixtures and computers			11 000 (1) AO2
Loss on sale of computer			1 150 (1) AO3
Motor vehicle running expenses			24 350 (1) AO1
Computer maintenance			17 950 (1) AO1
Insurance			30 000 (1) AO1
Electricity and water			8 550 (1) AO1
Marketing		15 000 - 2 100	12 900 (1) AO2
Wages and salaries		75 500 +4 600	80 100 (1) AO2
Bank loan interest			1 800 (1) AO2
Bad debt			3 000 (1) AO2
Allowance for doubtful debts			<u>2 100 (1) AO3</u>
			(213 400)
Profit for the year			40 000
Plus			
Interest on drawings- Rach			400 (1) AO2
Saada			300 (1) AO2
Galenia			<u>300</u>
			<u>1 000</u>
			41 000
Less			
Interest on capital Rach			3 000 (1of) AO2 All
Saada			3 500
Galenia			<u>500</u>

		(7 000)
		34 000
Share of profit	Rach	13 600 (1of) AO2 All
	Saada	13 600 Correct split
	Galenia	<u>6 800</u>
		<u>(34 000)</u>

Question Number	Answer	Mark
1 (a)(iii)	AO1 (4) AO1: Four marks for posting balances.	(4)

Current Account

Date	Details	Rach	Saada	Galenia	Date	Details	Rach	Saada	Galenia
2018		£	£	£	2018		£	£	£
31 Dec	Drawings	10 000	7 500	7 500	1 Jan	Balance	2 600	4 100	-
		All	balances	1 AO1	31 Dec	In't on cap	3 000	3 500	500
	Dr'gs int	400	300	300			All	balances	1 AO1
		All	balances	1 AO1					
						Profit	13 600	13 600	6 800
							All	balances	1 AO1
	Balance	<u>8 800</u>	<u>13 400</u>	<u> </u>		Balance	<u> </u>	<u> </u>	<u>500</u>
		<u>19 200</u>	<u>21 200</u>	<u>7 800</u>			<u>19 200</u>	<u>21 200</u>	<u>7 800</u>
2019					2019				
1 Jan	Balance			500	1 Jan	Balance b/d	8 800	13 400	

Question Number	Answer	Mark
1 (b)	<p>AO1 (5), AO2 (9), AO3(2)</p> <p>AO1: Five marks for transferring balances to the position statement.</p> <p>AO2: Nine marks for calculating or adjusting balances in the position statement.</p> <p>AO3: Two marks for balances requiring two levels of adjustment.</p>	(16)

Statement of Financial Position at 31 December 2018

Non-current Assets

	Cost	Accumulated depreciation	Carrying value
	£	£	£
Leasehold premise	160 000	94 900	65 100 (1)of AO2
Motor vehicles	62 000	38 000	24 000(1)of AO2
Fixtures and computers	<u>44 000(1) AO2</u>	<u>22 400(1)of AO3</u>	<u>21 600</u>
	<u>266 000</u>	<u>155 300</u>	<u>110 700(1)of AO2</u>

Current Assets

Trade receivables	38 000-3 000+7 000	42 000(1)of AO2
Less Allowance for doubtful debts		<u>(2 100)</u>
		39 900(1) AO3
Other receivables:		2 100(1) AO2
Cash and bank	2 450 + 250	<u>2 700 (1) AO2</u>
		<u>44 700</u>
Total Assets		<u>155 400</u>

CapitalAccounts

Rach	30 000	
Saada	35 000	
Gallenia	<u>5 000</u>	
		70 000 (1)of AO2

Current Accounts

Rach	8 800	
Saada	13 400	
Gallenia	<u>(500)</u>	
		21 700 (1of) AO2

Non-current Liabilities

6% Bank loan (repayable 2022)	40 000 (1) AO1
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Current Liabilities

Trade payables

17 000 **(1) AO1**

Other payables:

(300+4 600+1 800)

6 700

(1) AO1 (1) AO1 (1) AO1

23 700

Total Capital and Liabilities

155 400

Question Number	Indicative Content	Mark
<p>1 (c)</p>	<p>AO1 (1), AO2 (1), AO3 (5), AO4 (5)</p> <p>Positive points for concepts and conventions</p> <p>Enables the financial statements of different businesses to be prepared using the same approach. Enables different periods and businesses to be ompared. Trust on the reliability of the information by stakeholders.</p> <p>Negative points for concepts and conventions</p> <p>Requires professional input to apply the concepts and conventions. Concepts and conventions can contradict each other. Interpretation of concepts and conventions can vary.</p> <p>Decision Candidates may conclude concepts and conventions are critical for accounting or not critical for accounting. Candidates should support that decision with an appropriate rationale.</p> <p>NOTE Candidates are required to evaluate the use NOT to describe particular concepts or conventions. No marks will be awarded for descriptions of concepts and conventions.</p>	<p>(12)</p>

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-3	Isolated elements of knowledge and understanding recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
Level 2	4 - 6	Elements of knowledge and understanding, which are applied to the scenario. Chains of reasoning are present, but may be incomplete or invalid. A generic or superficial assessment is present.
Level 3	7 - 9	Accurate and thorough understanding, supported throughout by relevant application to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects. An attempt at an assessment is presented, using financial and non-financial information, in an appropriate format and communicates reasoned explanations.
Level 4	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and non-financial information and makes informed recommendations and decisions.

- 2 Abhra sells sandwiches to local businesses, which he purchases ready-made from Quality Catering.

Abhra does not maintain full accounting records but the following information is available for the year ended 31 December 2018.

(1)

Bank Summary

	£		£
Balance b/d	18 000	Paid to Quality Catering	115 000
Cash sales banked	180 000	Wages	23 450
Sale of fixtures	2 400	Motor vehicle expenses	14 100
Commission received	9 100	Purchase of motor vehicle	11 500
Rent received	5 900	Premises rent	10 000
		Bank loan repaid and interest	7 300
		General expenses	15 800
		Balance c/d	<u>18 250</u>
	<u>215 400</u>		<u>215 400</u>
Balance b/d	18 250		

- (2) Abhra banked all cash from sales **after** paying the following:

	£
Wages	3 250 per month
Drawings	1 500 per month
Motor vehicle expenses	1 700

- (3) Balances at:

1 January 2018 31 December 2018

	£	£
Motor vehicles (carrying value)	30 000	35 000
Fixtures and fittings (carrying value)	12 000	8 800
Trade receivables	4 900	5 700
Trade payable (Quality Catering)	12 350	17 800
5% bank loan	30 000	24 000
Motor vehicle expenses	600 Cr	350 Dr
General expenses	750 Cr	1 300 Cr

- (4) There was no inventory of sandwiches at the beginning or end of the year.
- (5) There was no interest outstanding on the bank loan.

Required

- (a) Prepare the Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018. **Show all workings.** (16)

Abhra does not maintain full accounting records, but is considering preparing full accounting records in the future. To assist Abhra to make a decision he wishes to see an example of double entry accounting.

- (b) Prepare the Quality Catering Account for the year ended 31 December 2018 as it would have appeared if Abhra had maintained full accounting records. (5)

- (c) State **four** advantages for Abhra of preparing full accounting records. (4)

Abhra sells two types of sandwich, the basic and the superior, which he purchases from Quality Catering. The following information is available.

	Basic	Superior
Purchase price from Quality Catering	£2.50 per sandwich	£3.25 per sandwich
Abhra selling price	£3.50 per sandwich	£5.00 per sandwich

Abhra is considering setting up his own sandwich production facility rather than purchasing sandwiches from Quality Catering. He has prepared the following annual cost estimates of producing his own sandwiches.

Sandwich type	Basic	Superior
Production required per week	800	300
Raw materials		
Bread – two slices per sandwich	£1.50 for 24 slice loaf	£2.40 for 24 slice loaf
Fillings	£5.00 for 10 sandwiches	£4.00 for 5 sandwiches
Labour		
Production time @ £7.20 per hour	10 sandwiches per hour	6 sandwiches per hour
Direct expenses		
Packaging	£15.50 for 100 boxes	£30 for 100 boxes
Overheads		
Total additional production overheads	£27 500 per annum	

Additional information

- Each sandwich is packaged in one box for sale.
- Abhra would absorb the total additional production overheads on the basis of the number of sandwiches produced.
- Production will be for 50 weeks of the year.

Required

(d) Complete the table in your Question Paper to show the **total weekly** cost of producing **each** type of sandwich. (12)

(e) Calculate the production cost of:

- one basic sandwich
- one superior sandwich. (2)

Abhra intends to sell the sandwiches at a profit margin of 40%.

(f) Calculate the price that Abhra would need to charge for:

- one basic sandwich
- one superior sandwich. (4)

(g) Evaluate whether Abhra should continue to purchase the sandwiches from Quality Catering or set up his own sandwich production facility. (12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

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(d) Complete the table to show the **total weekly** cost of producing **each** type of sandwich.

(12)

Sandwich type	Basic	Superior
Production required per week	800	300
	£	£
Raw materials		
Bread – two slices per sandwich		
Fillings		
Labour		
Production time @ £7.20 per hour		
Direct expenses		
Packaging		
Overheads		
Total additional production overheads		
Total weekly production cost (£)		

Workings

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Question Number	Answer	Mark
2 (a)	<p>AO1 (3), AO2 (9), AO3 (4)</p> <p>AO1: Three marks for transferring balances to the position statement.</p> <p>AO2: Nine marks for calculating or adjusting balances in the position statement.</p> <p>AO3: Four marks for balances requiring two levels of adjustment.</p>	(16)

Abhra Sandwiches

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018.

	£	£
Revenue		
	180 000 + 39 000 + 18 000 + 1 700 – 4 900 + 5 700	239 500 (4) AO2
Cost of sales	115 000 – 12 350 + 17 800	(120 450) (2) AO2
Gross profit		119 050
Other income		
Commission received		9 100 (1) AO1
Rent received		<u>5 900</u> (1) AO1
		134 050
Expenses		
Wages	23 450 + 39 000	62 450 (1) AO2
Motor vehicle expenses	14 100 + 1 700 – 600 – 350	14 850 (2) AO3
Premises rent		10 000 (1) AO1
Bank loan interest	7 300 – 6 000	1 300 (1) AO2
General expenses	15 800 – 750 + 1 300	16 350 (1) AO2
Depreciation – Motor vehicles		6 500 (1) AO3
Fixtures and fittings	-	<u>800</u> (1) AO3
		112 250
Profit for the year		<u>21 800</u>

Note:

Revenue adjustment to 180 000, 1 mark for two correct, 2 marks for three correct. 3 marks for four correct.

Cost of sales adjustment to 135 000, 1 mark for one correct.

Question Number	Answer	Mark
2 (b)	<p>AO1 (4), AO2 (1) AO1: Four marks for transferring balances given in resource booklet. AO2: One mark for correctly recording purchases.</p>	(5)

Quality Catering Account

Date	Details	£	Date	Details	£
2018			2018		
	Bank	115 000 (1) AO1	1 Jan	Balance b/d	12 350 (1) AO1
31 Dec	Balance c/d	<u>17 800 (1) AO1</u>		Purchases	<u>120 450 (1of) AO2</u>
		<u>132 800</u>			<u>132 800</u>
			2019		
			1 Jan	Balance b/d	17 800 (1) AO1

Question Number	Answer	Mark
2 (c)	<p>AO1 (4) AO1: Four marks for identifying advantages.</p> <p>Valid answers may include:</p> <ul style="list-style-type: none"> • Running balance in accounts such as Quality Catering • Queries about account balances can be discussed with reference to the account • Statements of account can be sent out each month • The existence of errors can be identified by a trial balance • Financial statements can be prepared at regular intervals and profit ascertained <p>4 x 1 mark</p>	(4)

Question Number	Answer	Mark
2 (d)	AO1 (2), AO2 (8), AO3 (2) AO1: Two marks for arriving at a total cost. AO2: Eight marks for calculating raw material, labour and direct expenses. AO3: Two marks for arriving at the overhead cost.	(12)

Sandwich type	Basic	Superior
Production required per week	800	300
	£	£
Raw materials		
Bread – 2 slices per sandwich	100 (1) AO2	60 (1) AO2
Fillings	400 (1) AO2	240 (1) AO2
Labour		
Production time @ £7.20 per hour	576 (1) AO2	360 (1) AO2
Direct expenses		
Packaging	124 (1) AO2	90 (1) AO2
Overheads		
Total additional overheads	400 (1) AO3	150 (1) AO3
Total production cost (£)	1600 (1) AO1	900 (1) AO1

Question Number	Answer	Mark
2 (e)	<p>AO1 (2) A01: Two marks for calculating the production cost.</p> <p>Production cost per sandwich</p> <p>$\frac{1600}{800} = \text{£}2$ per (1of) A01 $\frac{900}{300} = \text{£}3$ per (1of) A01</p>	(2)

Question Number	Answer	Mark
2 (f)	<p>AO2 (4) A02: Four marks for calculating the selling price.</p> <p>Selling price</p> <p>$\frac{\text{£}2 \times 100}{60} = \text{£}3.33$ (1of) A02 $\frac{\text{£}3 \times 100}{60} = \text{£}5$ (1of) A02</p>	(4)

Question Number	Indicative Content	Mark
2 (g)	<p>AO1 (1), AO2 (1), AO3 (5), AO4 (5)</p> <p>Own figure rule applies.g vtdrv</p> <p>Potential positive points for production of sandwiches</p> <p>Production will be secure and within his control. The sandwiches can be made cheaper than the current purchase arrangements.</p> <p>Quality control can be assured.</p> <p>Potential negative points against production of sandwiches</p> <p>Production problems will now be for Abhra to resolve. There will be more calls on his management time in the business. He could not really reduce the selling prices so there is no advantage in increased sales potential. Extra staff required to carry out work. Hygiene requirements for production which might be costly.</p> <p>Decision)</p> <p>Candidates may conclude that the production in house is advantageous or not advantageous. The candidate's decision should be supported by an appropriate rationale.</p>	(12)
Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-3	Isolated elements of knowledge and understanding recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
Level 2	4 - 6	Elements of knowledge and understanding, which are applied to the scenario. Chains of reasoning are present, but may be incomplete or invalid.

		A generic or superficial assessment is present.
Level 3	7 - 9	<p>Accurate and thorough understanding, supported throughout by relevant application to the scenario.</p> <p>Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects.</p> <p>An attempt at an assessment is presented, using financial and non-financial information, in an appropriate format and communicates reasoned explanations.</p>
Level 4	10 - 12	<p>Accurate and thorough knowledge and understanding, supported throughout by relevant and effective application to the scenario.</p> <p>A coherent and logical chain of reasoning, showing causes and effects.</p> <p>Assessment is balanced, wide ranging and well contextualised using financial and non-financial information and makes informed recommendations and decisions.</p>

SECTION B

Answer THREE questions from this section.

- 3 The following draft Statement of Profit or Loss and Other Comprehensive Income was prepared from the books of Cassia for the year ended 31 December 2018.

	£
Revenue	84 000
Cost of sales	<u>(47 000)</u>
Gross profit	37 000
General expenses	(8 000)
Motor vehicle expenses (including depreciation)	<u>(18 000)</u>
Advertising	(12 000)
Loss for the year	<u>(1 000)</u>

After completion of the statement above, Cassia found that the following errors had been made.

- (1) A sale of goods had been made to Johns for £2 800. Johns had returned £600 of the goods as defective. No entries have been recorded in the books for the sale or the return.
- (2) The closing inventory had been overvalued by £1 300
- (3) General expenses included £800 for insurance on the motor vehicles.
- (4) A full year's depreciation, £3 000, had been charged on a new motor vehicle purchased on 1 August 2018. Cassia has the policy that depreciation is charged on non-current assets in proportion to the months of ownership in a year.
- (5) The advertising figure of £12 000 in the Statement of Profit or Loss and Other Comprehensive Income included £4 500 for a campaign from 1 September 2018 to 31 May 2019.

Required

- (a) Explain the difference between an **error of compensation** and an **error of reversal**. (4)
- (b) Prepare the journal entries to record the correction of errors (1) to (5) in the books. Narratives are **not** required. (12)
- (c) Complete the table in the question paper showing the revised profit for the year ended 31 December 2018 after the correction of all errors. **You should show all workings**. (8)

Cassia has been advised that the use of information communication technology (ICT) would remove all chance of errors occurring in her books.

- (d) Evaluate this advice. (6)

(Total for Question 3 = 30 marks)

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DO NOT WRITE IN THIS AREA

(c) Complete the table showing the revised profit for the year ended 31 December 2018 after the correction of all errors. **You should show all workings.**

(8)

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018

	Draft	Workings	Revised
	£	£	£
Revenue	84 000		
Cost of sales	<u>(47 000)</u>		
Gross profit	37 000		
General expenses	(8 000)		
Motor vehicle expenses (including depreciation)	(18 000)		
Advertising	<u>(12 000)</u>		
Profit/(Loss) for the year	(1 000)		



Question Number	Answer	Mark
3 (a)	<p>AO1 (4) AO1: Four marks for describing the difference.</p> <p>Error of compensation</p> <p>More than one error (1) AO1 which cancel each other out (1) AO1</p> <p>Error of reversal</p> <p>A single error (1) AO1 where the debiting and crediting are reversed (1) AO1</p>	(4)

Question Number	Answer	Mark
3 (b)	<p>AO1 (4), AO2 (8) AO1: Four marks for correct description of account. AO2: Eight marks for correct description of account and numeric entry.</p>	(12)

General Journal

	Debit	Credit
	£	£
Johns (1) AO1	2 800	
Revenue/Sales		2 800 (1) AO2
Sales returns	600 (1) AO2	
Johns		600 (1) AO2
Income statement (1) AO1	1 300	
Inventory		1 300 (1) AO2
Motor vehicle expenses (1) AO1	800	
General expenses		800 (1) AO2
Provision for depreciation (1) AO1	1 750	
Income statement		1 750 (1) AO2
Advertising	2 500 (1) AO2	
Income statement		2 500 (1) AO2

Question Number	Answer	Mark
3 (c)	<p>AO1 (3), AO2 (3), AO3 (2) AO1: Three marks for arriving at profits. AO2: Three marks for calculating adjusted balances. AO3: Two marks for arriving at adjusted balances where two errors have occurred.</p>	(8)

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018

	Draft	Workings	Revised
	£	£	£
Revenue	84 000	+ 2 800 - 600	86 200 (1) AO3
Cost of sales	<u>(47 000)</u>	+1 300	<u>(48 300)</u> (1) AO2
Gross profit	37 000		37 900 (1of) AO1
General expenses	(8 000)	-800	(7 200) (1) AO2
Motor vehicle expenses (including depreciation)	(18 000)	-1 750 +800	(17 050) (1) AO3
Advertising	<u>(12 000)</u>	- 2 500	<u>(9 500)</u> (1) AO2
Profit/(loss) for the year	(1 000)		4 150 (2/1of) AO1

Question Number	Indicative Content		Mark
3 (d)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Positive points for ICT</p> <p>Errors will be reduced because many of the functions of the software are automated. The software will ensure that for every debit there is a credit so single entry errors will not occur. Regular reconciliations are available to minimise errors.</p> <p>Negative points ICT</p> <p>Requires professional input. Expenses and incomes can still be incorrectly categorised.</p> <p>Decision Candidates may conclude that errors would be significantly reduced but not eliminated. Candidates should support that decision with an appropriate rationale.</p>		(6)
Level	Mark	Descriptor	
	0	A completely incorrect response.	
Level 1	1-2	<p>Isolated elements of knowledge and understanding which are recall based.</p> <p>Generic assertions may be present.</p> <p>Weak or no relevant application to the scenario set.</p>	
Level 2	3-4	<p>Elements of knowledge and understanding, which are applied to the scenario.</p> <p>Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid.</p> <p>An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.</p>	
Level 3	5-6	<p>Accurate and thorough knowledge and understanding.</p> <p>Application to the scenario is relevant and effective.</p> <p>A coherent and logical chain of reasoning, showing causes and effects is present.</p> <p>Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.</p>	

- 4 The following information was available for the Winston Tennis Club for the year ended 31 December 2018.

(1) Summary of receipts and payments

Receipts	£	Payments	£
Annual subscriptions	18 900	General expenses	9 000
Life subscriptions	6 000	Payment to refreshments supplier	1 875
Competition fees	1 475	Competition expenses	430
Sale of fixtures	450	Purchase of equipment	3 850
Donations	700	Competition prizes	910
Sales of refreshments	2 050	Ground staff wages	10 930

(2) Balances

	1 January 2018	31 December 2018
	£	£
Receipts and payments account	800 Dr	3 380 Dr
Equipment and fixtures (carrying value)	12 400	13 300
Trade payables (refreshment supplier)	110	125
Annual subscriptions in- advance	1 250	250
arrears	500	To be calculated
Life subscriptions account	11 500	To be calculated
Competition expenses accrued	-	75
Inventory of refreshments	85	160

- (3) Competition fees of £30 had **not** been recorded in the books.
- (4) There were 80 annual subscription members in 2018 **each** paying £250 per annum. There were no bad debts in the year.
- (5) There were an additional four life subscription members in the year, **each** having paid £1 500
- (6) 10% of the Life Subscriptions Account balance at the end of the year is recorded as income for the year.

Required

- (a) State **two** differences between a receipts and payments account and an income and expenditure account. (4)
- (b) Calculate the:
- (i) accumulated fund at 1 January 2018 (2)
 - (ii) annual subscriptions in arrears at 31 December 2018 (3)
 - (iii) profit or loss on competitions for the year ended 31 December 2018 (3)
 - (iv) profit or loss on the sale of refreshments for the year ended 31 December 2018. (3)
- (c) Prepare, for the year ended 31 December 2018, the:
- (i) Life Subscriptions Account (4)
 - (ii) Income and Expenditure Account. (5)
- (d) Evaluate the use of life membership subscriptions by clubs. (6)

(Total for Question 4 = 30 marks)

Question Number	Answer	Mark								
4 (a)	<p>AO1 (4) AO1: Four marks for explaining differences.</p> <table border="1"> <thead> <tr> <th>Receipts and payments</th> <th>Income and expenditure</th> </tr> </thead> <tbody> <tr> <td>The cash book of the club</td> <td>Establishes the surplus/deficit for a period</td> </tr> <tr> <td>Cash payments and receipts unadjusted</td> <td>Incomes/expenses adjusted for prepayments and accruals</td> </tr> <tr> <td>Only records non-current assets when purchased or sold</td> <td>Annual depreciation set against income.</td> </tr> </tbody> </table> <p>2 x (1) AO1 from Receipts and payments section</p> <p>2 x (1) AO1 from Income and expenditure section</p>	Receipts and payments	Income and expenditure	The cash book of the club	Establishes the surplus/deficit for a period	Cash payments and receipts unadjusted	Incomes/expenses adjusted for prepayments and accruals	Only records non-current assets when purchased or sold	Annual depreciation set against income.	(4)
Receipts and payments	Income and expenditure									
The cash book of the club	Establishes the surplus/deficit for a period									
Cash payments and receipts unadjusted	Incomes/expenses adjusted for prepayments and accruals									
Only records non-current assets when purchased or sold	Annual depreciation set against income.									

Question Number	Answer	Mark
4 (b)(i)	<p>AO2 (2) AO2: Two marks for calculating the accumulated fund.</p>	(2)

Accumulated fund			
Asset	£	liabilities	£
Receipts and payments	800	Trade payables	110
Equipment and fixtures	12 400	Subs in advance	1 250
Subs in arrears	500	Life subscriptions	<u>11 500</u>
Inventory	<u>85</u>		12 860 (1)AO2
	13 785		
Accumulated fund		13 785 – 12 860 =	925 (1of) AO2

Question Number	Answer	Mark
4 (b)(ii)	<p>AO2 (2), AO3 (1) AO2: Two marks for calculating annual subscriptions and those in arrears. AO3: One mark for arriving at subscriptions paid involving multiple calculation.</p>	(3)

Annual subscriptions in arrears

	£	
Subscriptions 18 900 + 1 250 - 500 - 250 = 19 400		(1) AO3
Annual subscription = <u>20 000</u>		(1) AO2
Subscriptions in arrears	600	(1of) AO2

Question Number	Answer	Mark
4 (b)(iii)	<p>AO1 (1), AO2 (1), AO3 (1) AO1: One mark for arriving at profits. AO2: One mark for calculating income. AO3: One mark for arriving at expenses involving multiple calculation.</p>	(3)

Profit from competitions

Income	£	£	
Competition fees 1475 +30		1 505	(1) AO2
Expenditure			
Expenses 430 + 75	505		
Prizes	<u>910</u>		
		<u>(1 415)</u>	(1) AO3
Profit on competitions		<u>90</u> +w	(1of) AO1

Question Number	Answer	Mark
4 (b)(iv)	<p>AO1 (1), AO2 (2) AO1: One mark for arriving at profits. AO2: Two marks for calculating adjusted cost of sales.</p>	(3)

Profit on refreshments

	£	£
Income	2 050	
Sales		
Opening inventory	85	
Purchases 1875 -110 +125	<u>1 890</u> (1) AO2	
	1 975	
Closing inventory	<u>(160)</u>	
Cost of sales		(1 815) +w (1) AO2
Profit on refreshments		<u>235</u> + w (1) AO1

Question Number	Answer	Mark
4 (c)(i)	<p>AO1 (3), AO2 (1) AO1: Three marks for transferring balances and balancing account. AO2: One mark for calculating transfer to income and expenditure account.</p>	(4)

Life Subscriptions Account

Date	Details	£	Date	Details	£
2018			2018		
31 Dec	Income & Exp'ure	1 750 (1) AO2	1 Jan	Balance b/d	11 500 (1) AO1
	Balance c/d	<u>15 750</u>		Receipts & paym't	<u>6 000</u> (1) AO1
		<u>17 500</u>			<u>17 500</u>
			2019		
			1 Jan	Balance b/d	15 750 (1of) AO1

Question Number	Answer	Mark
4 (c)(ii)	<p>AO1 (1), AO2 (3), AO3(1)</p> <p>AO1: One mark for transferring balances and balancing account.</p> <p>AO2: Three marks for calculating adjusted balances.</p> <p>AO3: One mark for arriving at correct depreciation.</p>	(5)

Income and Expenditure Account for the year ended 31 December 2018

	£	£
Income		
Subscriptions–Annual 80 x £250	20 000 (1)AO2	
Life members	1 750	
Profit from competitions	90	
Profit on refreshments	235	
Donations	<u>700 (1)AO1</u>	
		22 775
Expenditure		
General expenses	9 000	
Wages	10 930	
Depreciation –equipment and fixtures		
12 400 + 3 850 – 450 – 13 300	<u>2 500 (1) AO3</u>	
		<u>22 430 (1of)AO2</u>
		(three entries)
Surplus		<u>345 +w(1of)AO2</u>

Question Number	Indicative Content		Mark
4 (d)	<p>A02 (1), A03 (2), A04 (3)</p> <p>Positive points for Life membership</p> <p>Initial inflow of cash. 'Locks in' members to the club. Eliminates chance of bad debts or late payment. Less administration in collecting subscriptions.</p> <p>Negative points for life membership</p> <p>Life memberships will be at a heavy discount so loss of income. Service must now be supplied for an extended period.</p> <p>Decision Candidates may conclude that life membership is positive or negative for a club. Candidates should support that decision with an appropriate rationale.</p>		(6)
Level	Mark	Descriptor	
	0	A completely incorrect response.	
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.	
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.	
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.	

5 Fix-it is a business that repairs double glazing in customers' homes.

The business employs **five** technicians who carry out the repairs in customers' homes.

Fix-it is preparing estimates for the next financial year ended 31 December 2019. The following information is available.

(1) Materials and parts

All materials and parts used will be charged to customer jobs at cost plus £15 per job.

(2) Labour

- Each technician works 50 hours per week for 48 weeks per year.
- Each technician spends 75% of their time on jobs chargeable to the customer, the remainder of their time is travelling and administration.
- Technicians are paid £7 per hour for the first 40 hours per week and time and a half for the remaining hours.
- A bonus of £32 per working week is also paid to **each** technician.

(3) Overheads

- Total budgeted overhead cost £135 000
- Overheads are recovered on the basis of **total direct labour hours** for all technicians hours chargeable to customers.

(4) The mark-up on all jobs will be 25%.

Required

- (a) Explain the accounting term **job costing**. (2)
- (b) Calculate the:
- (i) number of labour hours for **each** technician chargeable to the customer **per year** (2)
- (ii) labour rate **per hour** that customers must be charged to recover the total labour cost (3)
- (iii) overhead recovery rate to be charged **per direct labour hour**. (2)
- (c) Prepare a quotation for a customer where it is estimated that the materials and parts will cost £103 and the job will take 7 direct labour hours to complete. (5)
- (d) State **two** reasons why overheads might be **over-absorbed** in a year. (2)

Fix-it has a total budgeted overhead cost of £135 000 for the year ended 31 December 2019.

Fix-it has three departments: administration, stores and repairs.

The owner has provided the following information.

(1) Budgeted overheads

	£
Allocated-	
administration	9 800
stores	2 700
repairs	4 500
Motor vehicle expenses	35 000
Rent and rates	25 000
Management salaries	48 000
Premises insurance	10 000

(2) Other information

	Administration	Stores	Repairs
Motor vehicle (number)	1	1	5
Floor area (Sq m)	4 000	1 000	-
Employees (number)	4	1	5

Required

- (e) (i) Explain the difference between **allocation of overheads** and **apportionment of overheads** (2)
- (ii) Calculate, by completing the table in the Question Paper, the total budgeted overheads for **each** department for the year ended 31 December 2019. (6)
- (f) Evaluate the use of overhead apportionment. (6)

(Total for Question 5 = 30 marks)

Question Number	Answer	Mark
5 (a)	<p>AO1 (2) AO1: Two marks for explaining the accounting terms.</p> <p>Job costing – Used where jobs are unique (1) AO1 and to meet the specific order requirements (1) AO1 of the customer.</p>	(2)

Question Number	Answer	Mark
5 (b)(i)	<p>AO1 (1), A02 (1) A01: One mark for calculating rates. A02: One mark for total budgeted labour.</p>	(2)

Chargeable hours $50 \times 48 = 2\,400$ **(1) AO1** $\times 75\% = 1\,800$ hours **(1) AO2**

Question Number	Answer	Mark
5 (b)(ii)	<p>A02 (2), A03 (1) A02: Two marks for calculating rate to be charged. A03: One mark for total budgeted labour cost.</p>	(3)

Labour rate per hour

$$\frac{((40 \times £7) + (10 \times £10.5) + £32) \times 48}{1\,800} = \underline{20\,016} \text{ (1) AO3} = £11.12 \text{ per hour (1of) AO2}$$

Or

$$\frac{100\,080}{9\,000} \text{ (1) AO3} = £11.12 \text{ per hour (1of) AO2}$$

Question Number	Answer	Mark
5 (b)(iii)	A02 (2) A02: Two marks for calculating overhead recovery rate.	(2)

Overhead recovery rate

$\frac{135\,000}{9\,000} = \text{£}15$ (1of) **A02** per direct labour hour

9 000 (1of) **A02**

Question Number	Answer	Mark
5 (c)	A01 (1), A02 (4) A01: One mark for calculating total price. A02: Four marks for calculating quotation components.	(5)

	Quotation	
	£	£
Raw materials 103 + 15	118	(1of) A02
Direct labour 7 x £11.12	77.84	(1of) A02
Overheads 7 x £15	<u>105</u>	(1of) A02
		<u>300.84</u>
Profit		<u>75.21</u> (1of) A02
Price to customer		<u>376.05</u> (1of) A01

Question Number	Answer	Mark
5 (d)	<p>AO1 (2) AO1: Two marks for stating reasons.</p> <ul style="list-style-type: none"> • Workers worked more hours on productive work than planned • Less overtime was worked than planned • Actual overheads were lower than budgeted. <p>2 x (1) AO1</p>	(2)

Question Number	Answer	Mark
5 (e)(i)	<p>AO1(2) AO1: Two marks for explaining the difference between terms.</p> <p>Allocated costs are those which are wholly identifiable to one cost centre. (1) AO1 Apportioned costs are shared between cost centres on some equitable basis. (1) AO1</p>	(2)

Question Number	Answer	Mark																																
5 (e)(ii)	<p>AO1 (1), AO2 (3), A03 (2) AO1: One mark for calculating totals AO2: Three marks for allocated overheads and two way apportionment. A03: Two marks for overheads requiring three way apportionment.</p> <table border="1" data-bbox="384 566 1121 1211"> <thead> <tr> <th></th> <th>Administration</th> <th>Stores</th> <th>Repairs</th> </tr> <tr> <th></th> <th>£</th> <th>£</th> <th>£</th> </tr> </thead> <tbody> <tr> <td>Allocated</td> <td>9 800</td> <td>2 700 (1)</td> <td>4 500</td> </tr> <tr> <td>Motor vehicle expenses</td> <td>5 000</td> <td>5 000 (1)</td> <td>25 000</td> </tr> <tr> <td>Rent and rates</td> <td>20 000</td> <td>5 000 (1)</td> <td>-</td> </tr> <tr> <td>Management salaries</td> <td>19 200</td> <td>4 800 (1)</td> <td>24 000</td> </tr> <tr> <td>Premises insurance</td> <td><u>8 000</u></td> <td><u>2 000</u> (1)</td> <td>-</td> </tr> <tr> <td></td> <td>62 000</td> <td>19 500 (1)</td> <td>53 500</td> </tr> </tbody> </table> <p>(1) AO1 x 1 (2) AO2 x 2 (3) AO3 x 3</p>		Administration	Stores	Repairs		£	£	£	Allocated	9 800	2 700 (1)	4 500	Motor vehicle expenses	5 000	5 000 (1)	25 000	Rent and rates	20 000	5 000 (1)	-	Management salaries	19 200	4 800 (1)	24 000	Premises insurance	<u>8 000</u>	<u>2 000</u> (1)	-		62 000	19 500 (1)	53 500	(6)
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	62 000	19 500 (1)	53 500																															

Question Number	Indicative Content		Mark
5 (f)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Positive points for apportionment</p> <p>Uses the most appropriate 'cost driver' to divide the overhead into departments. Enables costs of departments etc to be calculated and used for management purposes.</p> <p>Negative points for apportionment</p> <p>Lacks precision, only the best cost driver available can be used. Only an estimate of cost of a department or activity.</p> <p>Decision Candidates may conclude that apportionment of overheads is positive or negative. Candidates should support that decision with an appropriate rationale.</p>		(6)
Level	Mark	Descriptor	
	0	A completely incorrect response.	
Level 1	1-2	<p>Isolated elements of knowledge and understanding which are recall based.</p> <p>Generic assertions may be present.</p> <p>Weak or no relevant application to the scenario set.</p>	
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Level 3	5-6	<p>Accurate and thorough knowledge and understanding.</p> <p>Application to the scenario is relevant and effective.</p> <p>A coherent and logical chain of reasoning, showing causes and effects is present.</p> <p>Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.</p>	

- 6 Maban started business on 1 November 2018 buying and selling goods on credit.

The following balances were available after the first month of trading on 30 November 2018.

	£
Trade receivables	9 000
Trade payables	4 000
Inventory	15 000
Bank overdraft	12 000
Accrued expenses	2 000

Required

- (a) Calculate the liquid (acid test) ratio for Maban at 30 November 2018. (2)

Maban started his business with £5 000 in the bank and is concerned that after only one month's trading he has a £12 000 bank overdraft.

- (b) State **four** possible reasons why Maban's bank balance has fallen from £5 000 to a £12 000 overdraft. (4)

During December 2018 the following was a summary of transactions.

- (1) On 5 December, Fowler, a trade receivable was declared bankrupt paying £500 of his debt of £2 000. The balance was irrecoverable.
- (2) The remaining trade receivables paid £7 000 by cheque.
- (3) Trade payables were paid £3 500 by cheque.
- (4) Sales were £15 000 and purchases £6 000. All sales and purchases were on credit.
- (5) Maban marks up purchases by 50%.
- (6) Expenses were £2 500 on credit of which £2 000 was paid by cheque.
- (7) Maban introduced additional capital of £3 000 into the bank.

Required

- (c) Calculate, at 31 December 2018, by completing the table, the value of the:
- trade receivables
 - trade payables
 - inventory
 - bank (overdraft)
 - accrued expenses.
- (14)
- (d) (i) Calculate the liquid (acid test) ratio for Maban at 31 December 2018
- (2)
- (ii) Comment on the movement in liquidity during December 2018.
- (2)
- (e) Evaluate the use of credit control in reducing irrecoverable debts.
- (6)

(Total for Question 6 = 30 marks)

TOTAL FOR SECTION B = 90 MARKS
TOTAL FOR PAPER = 200 MARKS

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(c) Calculate, at 31 December 2018, by completing the table, the value of the:

- trade receivables
- trade payables
- inventory
- bank (overdraft)
- accrued expenses.

(14)

Balances 30 November 2018	Workings	Balances 31 December 2018
trade receivables £9 000		
trade payables £4 000		
inventory £15 000		
bank overdraft £12 000		
accrued expenses £2 000		



Question Number	Answer	Mark
6 (a)	<p>AO2 (2) A02: Two marks for calculating ratio.</p> $\frac{9\,000}{4\,000 + 12\,000 + 2\,000} = \frac{9\,000}{18\,000} = 0.5:1 \text{ (1) AO2}$ <p style="text-align: right;">(2)</p>	

Question Number	Answer	Mark
6 (b)	<p>AO1 (4) A01: Four marks for stating reasons.</p> <ul style="list-style-type: none"> • Suppliers will probably limit credit to a new business • Sales will take time to grow • Customers will take time to pay debts • Expenses such as wages will need to be paid in cash • Non-current assets must be purchased. <p style="text-align: right;">(4)</p>	

Question Number	Answer	Mark
6 (c)	<p>AO1 (2), AO2 (10), AO3 (2)</p> <p>AO1: Two marks for calculating accrued expenses.</p> <p>AO2: Ten marks for calculating trade receivables, trade payables and bank.</p> <p>AO3: Two marks for calculating inventory.</p>	(14)

Balances 30 November 2018	Workings	Balances 31 December 2018
trade receivables £9 000	-2 000 (1) – 7 000 (1) +15 000 (1)	15 000
trade payables £4 000	-3 500 (1) +6 000 (1)	6 500
inventory £15 000	+6 000 (1) -10 000 (1)	11 000
bank overdraft £12 000	+500 (1) + 7 000(1) -3 500 (1) – 2000 (1) +3 000 (1)	7 000
accrued expenses £2 000	+2 500 (1) -2 000 (1)	2 500

2 x (1) **AO1**

10 x (1) **AO2**

2 x (1) **AO3**

(1) mark for each correct adjustment

Question Number	Answer	Mark
6 (d)(i)	<p>AO1(1): AO2 (1) AO1: One mark for final answer. AO2: One mark for calculating component costs.</p>	(2)

$$\frac{15\,000}{6\,500 + 7\,000 + 2\,500}$$

$$= \frac{15\,000}{16\,000} = 0.94:1 \text{ (1of) AO1}$$

$$16\,000 \text{ (1of) AO2}$$

Question Number	Answer	Mark
6 (d)(ii)	<p>AO1 (1), AO2 (1) AO1: One mark for identifying liquidity changes. AO2: One mark for development of possible reason.</p>	(2)

The bank overdraft has reduced by £5 000. **(1) AO1**

The acid test ratio at 0.94:1 is close to the guide of 1:1 **(1) AO1**

Sales are increasing and with good credit control cash will flow into the business. **(1) AO2**

Expenses and inventory are controlled.

(1) AO2

Trade payables have increased but not out of proportion to the inventory required to meet increased sales. **(1) AO2**

Max 2 x (1)

Question Number	Indicative Content		Mark
6 (e)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Positive points for credit control</p> <p>If the customer Fowler had been 'vetted' correctly the bad debt. may not have occurred and Mabon would not have incurred that expense of the bad debt.</p> <p>Credit control will limit the risk of debtors over extending their debt with Mabon and then being unable to pay.</p> <p>Negative points for credit control</p> <p>Sales could be lost if debtors can obtain better terms with another seller.</p> <p>It does require resources to constantly monitor and 'chase' debtors.</p> <p>Decision</p> <p>Candidates may conclude that credit control is positive or negative for a club. Candidates should support that decision with an appropriate rationale.</p>		(6)
Level	Mark	Descriptor	
	0	A completely incorrect response.	
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.	
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.	
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present.	

		Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.
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