

Marking guide for Role Simulation Examination March 2022

The Role Simulation exam aims to examine knowledge, skills and behaviours in roughly equal proportions. This is reflected in the marking process where the available marks for each requirement are identified as Knowledge marks (K), Skills marks (S) and Behaviour marks (B).

A set of answers is issued to markers, giving an overview of the K, S and B points that can attract marks for each requirement. The model answers are extensive and contain all the points that could have been made; candidates are not expected to produce such full answers in the exam.

Broadly speaking, the K marks are for demonstration of appropriate and accurate knowledge and understanding from the Learning Materials for the five Certificate syllabuses assessed by the Role Simulation. This knowledge can be explicit or implied (eg where the answer is developed using recognised terminology, not just common sense).

Specifically, the K marks are for knowledge related to:

- Technical
- Business awareness
- Ethics and standards
- Regulation and compliance
- Systems and processes

The S marks are for the following skills:

- Analysis
- Communication
- Leadership
- Planning and prioritisation
- Producing quality and accurate information
- Team working and collaboration
- Using systems and processes

The B marks are for the following behaviours:

- Adaptability
- Adding value
- Ethics and integrity
- Proactivity
- Professional scepticism

For example, if the requirement was to 'analyse the industry using Porter's Five Forces model' then K marks would be available for knowing the meaning of the key headings and the terminology for items commonly seen under these headings, and both S and B marks would be available for applying this knowledge to the scenario and using the information in the scenario to explain how the force works.

For written requirements where the candidate may make many equally valid points using different aspects of knowledge, skills and behaviour, more marks were identified for explanations in the mark scheme than were available in the maximum mark awarded. In these requirements, once the maximum awarded mark was achieved by a candidate, no further marks were given.

The pass mark is 70% across the paper. There is no requirement to score at least 70% in each of the K/S/B pools of marks, nor to score at least 70% in each of the two tasks.

March 2022 marking grid

| | Marks identified in marks scheme | | | | Maximum full marks | Syllabus |
|---------------|----------------------------------|-----------|-----------|------------|--------------------|----------|
| | K | S | B | Total | | |
| Task 1 | | | | | | |
| 1.1a | 3 | 4 | 0 | 7 | 7 | ACC |
| 1.1b | 0 | 2 | 0 | 2 | 2 | ACC |
| 1.1c | 1 | 2 | 1 | 4 | 2 | ACC |
| 1.1d | 1 | 0 | 0 | 1 | 1 | ACC |
| 1.2a | 0 | 1 | 0 | 1 | 1 | ACC |
| 1.2b | 3 | 2 | 0 | 5 | 5 | ACC |
| 1.2c | 1 | 10 | 0 | 11 | 10 | ACC |
| 1.2d | 4 | 0 | 0 | 4 | 2 | ACC |
| 1.3a | 0 | 9 | 0 | 9 | 3 | ASS |
| 1.3b | 6 | 12 | 0 | 18 | 9 | ASS |
| 1.3c | 5 | 4 | 3 | 12 | 8 | ASS |
| 1.4 | 4 | 3 | 6 | 13 | 8 | ASS |
| | 28 | 49 | 10 | 87 | 58 | |
| Task 2 | | | | | | |
| 2.1a | 0 | 5 | 0 | 5 | 5 | MI |
| 2.1b | 0 | 5 | 5 | 10 | 4 | MI |
| 2.1c | 4 | 4 | 0 | 8 | 6 | BTF |
| 2.2a | 0 | 5 | 0 | 5 | 5 | MI |
| 2.2b | 0 | 2 | 0 | 2 | 2 | MI |
| 2.2c | 4 | 4 | 0 | 8 | 4 | MI |
| 2.3a | 8 | 3 | 9 | 20 | 6 | LAW |
| 2.3b | 2 | 0 | 0 | 2 | 2 | LAW |
| 2.3c | 0 | 4 | 4 | 8 | 4 | BTF |
| 2.3d | 0 | 5 | 5 | 10 | 4 | BTF |
| | 18 | 37 | 23 | 78 | 42 | |
| Total | 49 | 86 | 30 | 165 | 100 | |

The marking information set out below is that used to mark the requirements in the December 2021 exam. Markers were encouraged to use discretion and generally to give the benefit of the doubt where it was evident what the candidate was trying to explain even though the explanation could have been expressed more clearly. No partial marks were awarded but the 'own figure' (OF) rule in calculations was applied.

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|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Task 1.1 |
| Examiner's comments |
| Overall performance on this sub-task was very good, especially parts (a) and (b) and candidates were more comfortable with the calculations than the explanations in (c). |

| Task 1.1 (a) | | | | | | Marks | Nature |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|---------------------|--------------------|--------------------------|------------------------|-------|---------------------------------------------------------|
| Item | Quantity | Cost per box | NRV per box | Valuation per box | Valuation total | | |
| | boxes | £ | £ | £ | £ | | |
| Candied fruit | 425 | 190 | 231 | 190 | 80,750 | | |
| Icing flowers | 100 | 90 | 70 | 70 | 7,000 | | |
| Chocolate sprinkles | 250 | 77 | 37 | 37 | <u>9,250</u> | | |
| Total | - | | | | <u>97,000</u> | | |
| <p>3 x 1 for calculating NRV 3 x 1 for selecting correct option of cost or NRV 1 for valuation based on lower of cost and NRV</p> | | | | | | | S-Analysis K-Regulation and compliance S-Analysis |
| Examiner's comments | | | | | | | |
| This requirement was very well answered with almost all candidates presenting completely correct answers and scoring full marks. | | | | | | | |
| Total possible marks | | | | | | 7 | 3K, 4S |
| Maximum full marks | | | | | | 7 | |

| Task 1.1 (b) | | | | Marks | Nature |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|----------------------------|---------------|-------|------------|
| Icing flowers | | $(100 \times (90 - 70)) =$ | 2,000 | | |
| Chocolate sprinkles | | $(250 \times (77 - 37)) =$ | <u>10,000</u> | 1 | S-Analysis |
| Total increase in Cost Of Sales | | | <u>12,000</u> | 1 | S-Analysis |
| Examiner's comments | | | | | |
| Almost all candidates correctly calculated the change in cost of sales as equal to the change in measurement of inventory. Some candidates incorrectly described this as a decrease in cost of sales. | | | | | |
| Total possible marks | | | | 2 | 2S |
| Maximum full marks | | | | 2 | |

| Task 1.1 (c) | Marks | Nature |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|------------------------------------|
| In accordance with IAS 2 Inventories, when a business has many different inventory items on hand, as is the case with Panifica, the comparison of cost and NRV should be carried out for each item or each line of inventory (where a line of inventory consists of identical or interchangeable items). | 1 | K-Regulation and compliance |
| Panifica knows that the amount recoverable from icing flowers and chocolate sprinkles is less than cost, and so should remeasure those inventory items accordingly, even though for inventory in total cost is lower than net realisable value. | 1 | S-Quality and accurate information |
| Otherwise inventory would be overstated and the loss that will be made on sales of those items would be hidden by the profits made on other items (including candied fruit). | 1 | S-Quality and accurate information |
| Separate measurement of the different inventory lines thus improves the quality of the information in the financial statements. | 1 | B-Proactivity |
| Examiner's comments | | |
| Many candidates correctly explained that inventory is measured at cost or net realisable value on a line by line basis so that losses on one line of inventory are not hidden and made the point that this improves the overall quality of information available to users of financial statements. Weaker answers included less clear explanations and repeated the requirement to measure inventory at cost or net realisable value on the line by line basis without explaining why. | | |
| Total possible marks | 4 | 1K, 2S, 1B |
| Maximum full marks | 2 | |

| Task 1.1 (d) | Marks | Nature |
|----------------------------------------------------------------------------------------------------------------------------|-------|-------------|
| A, D | 1 | K-Technical |
| Examiner's comments | | |
| Many candidates answered correctly; the most common error was to exclude import taxes and duties already paid by Pacifica. | | |
| Total possible marks | 1 | 1K |
| Maximum full marks | 1 | |

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| Task 1.2 |
| Examiner's comments |
| Performance on the different requirements within this sub task varied. Requirement (c) was, in general, well answered which shows that candidates are capable of preparing financial statements. However, answers to requirements (a) and (d) were poor. |

| Task 1.2 (a) | Marks | Nature |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|------------|
| £110,300 + £34,200 + £9,000 + £9,500 = £163,000 | 1 | S-Analysis |
| Examiner's comments | | |
| Although this objective test question was similar to an example in the study text many candidates answered incorrectly. The most common mistake was to exclude employer's national insurance and pension contributions from total cost. | | |
| Total possible marks | 1 | 1S |
| Maximum full marks | 1 | |

| Task 1.2 (b) | Marks | Nature |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|---------------------------|
| <u>Insurance policy</u> Dr Prepayments (156,000 x 5/12) 65,000 Cr Administrative expenses 65,000 1 for Dr / Cr 1 for amount | 1 1 | K-Technical S-Analysis |
| <u>Consulting work</u> Dr Administrative expenses (125-95) 30,000 Cr Accruals / Payables 30,000 or: Dr Administrative expenses (125-95) 30,000 Dr Accruals 95,000 Cr Payables 125,000 1 for Dr / Cr 1 for amount Award marks for adjusting accruals / payables by the correct amount ie Dr Expense Cr Liability or for reversing the accrual and recognising £125,000 within payables. | 1 1 | K-Technical S-Analysis |
| <u>Interest expense</u> Dr Finance expense 38,000 Cr Accruals 38,000 1 for Dr / Cr | 1 | K-Technical |

| Examiner's comments | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|--------|
| Performance on this requirement was variable. Some candidates answered completely correctly, obtaining full marks. However many candidates struggled to identify the journal entries needed even for simple adjustments like recognising prepayments. The weakest answers did not even balance debits and credits. | | |
| Total possible marks | 5 | 3K, 2S |
| Maximum full marks | 5 | |

| Task 1.2 (c) | Marks | Nature |
|-----------------------------------------------------------------------------------------------|--------------|--------------------------------------|
| Panifica plc: Statement of profit or loss for the year ended 31 January 2022 | | |
| £ 000 | | |
| Revenue | 78,502,800 | |
| Cost of sales (54,707,100 + 12,000 (Task 1.1 (b))) | (54,719,100) | 1 S-Analysis |
| Gross profit | 23,783,700 | |
| Administrative expenses (10,592,200 – 65,000 (b) + 30,000 (b)) | (10,557,200) | 1 S-Analysis 1 S-Analysis |
| Distribution costs (8,346,200 + 163,000 (a)) | (8,509,200) | 1 S-Analysis |
| Profit from operations | 4,717,300 | |
| Finance costs (426,000 + 38,000 (b)) | (464,000) | 1 S-Analysis |
| Profit before tax | 4,253,300 | |
| Income tax (824,000 + 14,000) | 838,000 | 1 S-Quality and accurate information |
| Profit for the period | 3,415,300 | 1 S-Analysis |
| Give credit for OF from previous calculations | | |
| Revenue and COS b/f | | 1 S-Quality and accurate information |
| Administrative expenses and Distribution costs b/f | | 1 S-Quality and accurate information |
| Finance expense b/f | | 1 S-Quality and accurate information |
| Title, headings and layout | | 1 K-Regulation and compliance |
| Examiner's comments | | |

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| <p>Most candidates produced answers that were mainly or completely correct, showing that they had the key skill of preparing financial statements. Marks were awarded if candidates used their own, incorrect, figures from previous requirements in adjustments to the statement of profit or loss. The best answers included clear workings so that it was obvious what calculations have been done and in those cases it was possible to give full credit for using incorrect figures. Candidates should note that incorrect answers with no supporting workings cannot be awarded marks.</p> | | |
| Total possible marks | 11 | 1K,10S |
| Maximum full marks | 10 | |

| Task 1.2 (d) | Marks | Nature |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|----------------------|
| To understand the overall financial performance of the business ie the return produced on the investment made by shareholders. | 1 | K-Business awareness |
| To assess the directors' stewardship of Panifica's assets. | 1 | K-Business awareness |
| To predict future performance / profits. | 1 | K-Business awareness |
| To make economic decisions such as buying / holding / selling shares in the company | 1 | K-Business awareness |
| Examiner's comments | | |
| <p>Answers to this requirement were varied. The best answers made explicit reference to the conceptual framework, as required by the question. Poorer quality answers made general points about using financial statements or conducting ratio analysis.</p> | | |
| Total possible marks | 4 | 4K |
| Maximum full marks | 2 | |

| Task 1.3 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Examiner's comments |
| <p>Performance on the different parts of this sub task was varied – parts (a) and (b), requiring technical knowledge and analysis were generally well answered; part (c) requiring explanations to David were on average lower quality.</p> |

| Task 1.3 (a) | Marks | Nature |
|-------------------------------------------------------------------------------------|-------|-------------------------------|
| Check a sample of hours paid to original swipe card records. | 1 | S-Using systems and processes |
| Check hourly rate of pay used to employee records. | 1 | S-Using systems and processes |
| Check existence of employees by checking a sample of payments to list of employees. | 1 | S-Using systems and processes |
| Recheck the brought forward figures from the previous payroll. | 1 | S-Using systems and processes |
| Cast a sample of lines in the payroll to ensure it is arithmetically accurate. | 1 | S-Using systems and processes |
| Check the calculations of statutory deductions. | 1 | S-Using |

| | | |
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| Trace postings to ledgers eg by checking from journal sheet and confirm that the postings are correct. | 1 | systems and processes |
| Ensure that Mary's electronic signature appears on the pdf as evidence of authorisation. | 1 | S-Using systems and processes |
| Use analytical procedures involving comparison of eg average wage per employee, total payroll cost etc with budget and/or prior year and investigation of differences. | 1 | S-Using systems and processes |
| Mark first three points only. | | |
| Examiner's comments | | |
| This requirement was generally well answered with candidates successfully identifying three payroll audit procedures. Many candidates scored full marks. | | |
| Total possible marks | 9 | 9S |
| Maximum full marks | 3 | |

| Task 1.3 (b) | | | Marks | Nature |
|----------------------------------------------------------------------------------------|------------------------------------------------------------------------------|------------------------------------|-------|-------------------------------|
| Possible misstatement | Cause | Assertion | | |
| Inventory that belongs to third parties being included in the financial statements. | Third party goods (Alton's inventory) are not segregated. | rights and obligations / existence | 1 | S-Using systems and processes |
| | | | 1 | S-Analysis |
| | | | 1 | K-Systems and processes |
| Inventory which has been sold is included in the financial statements. | In 2021 and 2022 sold goods were mistakenly included in the inventory count. | cut-off / existence | 1 | S-Using systems and processes |
| | Goods are moved during the count. | | 1 | S-Using systems and processes |
| | | | 1 | S-Analysis |
| Inventory which has already been received is not included in the financial statements. | In 2021 goods delivered were not included in inventory. | completeness/ cut-off | 1 | K-Systems and processes |
| | | | 1 | S-Using systems and processes |
| | | | 1 | S-Analysis |
| Inventory being included in the financial statements at full value when it damaged. | Inventory damaged in both years, including during the 2022 count. | valuation | 1 | K-Systems and processes |
| | | | 1 | S-Using systems and processes |

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|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|------------------|----------------------|---------------------------------------------------------------------------------|
| <p>Inventory being included in the financial statements at full value when it is out of date / close to being out of date and planned to be sold in the factory shop at a price less than cost</p> | <p>Inventory close to its use by date is often sold via the factory shop at less than cost.</p> | <p>valuation</p> | <p>1</p> | <p>S-Using systems and processes S-Analysis K-Systems and processes</p> |
| <p>Inventory being included in the financial statements at the wrong value, whether due to miscalculation of cost or the fact that cost has been used although net realisable value is lower than cost.</p> | <p>New products may have greater risk of incorrect cost.</p> | <p>valuation</p> | <p>1 1 1</p> | <p>S-Using systems and processes S-Analysis K-Systems and processes</p> |
| <p>Mark first three points only.</p> | | | | <p>S-Using systems and processes S-Analysis K-Systems and processes</p> |
| <p>Examiner's comments</p> <p>This requirement was also generally well answered with candidates successfully identifying possible misstatements and linking these to financial statement assertions. Many candidates scored full marks.</p> | | | | |
| <p>Total possible marks Maximum full marks</p> | | | <p>18 9</p> | <p>6K, 12S</p> |

| Task 1.3 (c) | Marks | Nature |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|--------------------------------------|
| <p>The purpose of Saskia attending the inventory count</p> | | |
| <p>Reisen needs to be satisfied that the correct amount of inventory is shown in the financial statements.</p> | <p>1</p> | <p>K-Regulation and compliance</p> |
| <p>Reisen might normally be expected to rely on the controls that Panifica has in operation over its inventory count.</p> | <p>1</p> | <p>K-Systems and processes</p> |
| <p>However, at last year's count there were several problems (improper storage, some of Alton's inventory was not segregated, materials delivered but not included in the count and the count starting before inventory movements had been complete).</p> | <p>1</p> | <p>S-Analysis</p> |
| <p>Saskia also observed the same problem of inventory being moved during the count this year.</p> | <p>1</p> | <p>S-Analysis</p> |
| <p>Partly because of these problems, Reisen has assessed that inventory is a high risk area.</p> | <p>1</p> | <p>S-Planning and prioritisation</p> |

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| Attending the inventory count is therefore a way of testing existence, cut-off etc | 1 | B-Adaptability |
| The purpose of Saskia carrying out sample counts | | |
| Carrying out sample counts allows Reisen to conclude whether the count was conducted properly. | 1 | K-Systems and processes |
| Specifically, Saskia was checking to see that the count instructions were being followed. | 1 | B-Adaptability |
| For example that procedures for obsolete and damaged inventory were being followed, and that third party inventory was properly separated and identified. | 1 | B-Adaptability |
| Why Saskia is following up individual items sampled at the inventory count | | |
| Saskia is following up items sampled at the inventory count to ensure that they are included in the final inventory sheets and the financial statements, | 1 | K-Systems and processes |
| and to ensure that the third party inventory is not included in the final inventory sheets and the financial statements. | 1 | K-Systems and processes |
| Communication / Quality of explanations to David | 1 | S-Communication |
| Examiner's comments | | |
| Performance on this part of this sub task was more varied with lower quality answers making general or irrelevant points about auditing inventory with no reference to the scenario. Better answers included relevant specific explanations to David and explained the causal relationship between Saskia attending the inventory counts and carrying out sample counts with previous problems such as movement of inventory during the inventory counts and lack of segregation of third-party inventory. This required integrating the advance information with the information and the requirements in the examination. | | |
| Total possible marks | 12 | 5K,4S, 3B |
| Maximum full marks | 8 | |

| Task 1.4 | Marks | Nature |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-----------------|
| <p><u>EMAIL:</u> From: Assistant Accountant To: Eleanor Friedman</p> <p>Dear Eleanor,</p> <p>I have set out below a summary of the implications for the auditor's independence of the questions you asked me:</p> <p><u>Purchases</u></p> | 1 | S-Communication |

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|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>If the auditor were accepting gifts and hospitality, then this could create a self-interest threat.</p> <p>Even though Aimee purchases Panifica goods regularly, this is done on a normal commercial basis, from a third party.</p> <p>The audit team members are not obtaining gifts or hospitality from Panifica because discounted products in the factory shop are made available to the general public on similar terms.</p> <p>And the likely number and value of the transactions between the audit team members and Panifica means that they are not substantial.</p> <p>Therefore there is no significant benefit to any of the audit team.</p> <p>And so there is no self-interest threat.</p> | <p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p> | <p>K-Ethical standards</p> <p>S-Analysis</p> <p>S-Analysis</p> <p>B-Adding value</p> <p>B-Ethics and integrity</p> <p>B-Ethics and integrity</p> |
| <p>Max: 4</p> <p><u>Recruitment services</u></p> <p>Reisen should not provide recruitment services to Panifica,</p> <p>Because doing so would likely create a familiarity threat,</p> <p>And a management threat if expected to make decisions,</p> <p>And is specifically prohibited by the FRC Ethical Standard.</p> <p>This includes advising on the appointment of a director or employee, or advising on a remuneration package.</p> <p>Although Reisen may be able to give a ballpark salary level within the context of informal advice.</p> | <p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p> | <p>K-Ethical standards</p> <p>B-Ethics and integrity</p> <p>B-Ethics and integrity</p> <p>K-Ethical standards</p> <p>K-Ethical standards</p> <p>B-Adding value</p> |
| <p>Examiner's comments</p> <p>Overall answers to this requirement were reasonable. There were several relevant points that could be made. Higher scoring answers were the ones that gave clear explanations of whether and why accepting invitations from Dan and providing recruitment services were a threat to the auditor's independence.</p> <p>A number of candidates said that the invitations from Dan were a self-interest threat. However these invitations are almost certainly not a threat to the auditor's independence since the auditors are getting no benefit that is not available to any member of the public – the requirements to have an invitation to use the shop being a formality and the value of the discount being very low. Candidates' judgement and ability to apply their technical knowledge is being tested here: because there are no significant benefits to any of the audit team it is likely that there is no self-interest threat.</p> <p>Candidates generally answered the second point, about recruitment services, better with almost all candidates correctly identifying that Reisen could not undertake this work.</p> | | |
| <p>Total possible marks</p> <p>Maximum full marks</p> | <p>13</p> <p>8</p> | <p>4K,3S,6B</p> |

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| Task 2.1 |
| Examiner's comments |
| Performance on part (a) of this task was consistently good, with more variation on part (b) and some very poor answers to (c). |

| Task 2.1 (a) | | | | | | Marks | Nature |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|--------------|---------------|-------------|-------|-----------------------------------------------------------|
| | | | | | | | |
| Month | Feb | Mar | April | May | June | | |
| | £ | £ | £ | £ | £ | | |
| Invoice amount | 92,200 | 93,200 | 90,000 | 87,500 | 88,500 | | |
| Cash payment | | | | | | | |
| - Feb | | | 92,200 | | | | |
| - Mar | | | | 93,200 | | | |
| - Apr x 98% | | | | <u>88,200</u> | | | |
| | | | | 181,400 | | | |
| - May x 98% | | | | | 85,750 | | |
| Updated invoice amounts | | | | | | 1 | S-Analysis S-Quality and accurate information |
| Payments of Feb and Mar invoices (unchanged) | | | | | | 1 | |
| Apr invoice payment (calc) | | | | | | 1 | |
| May invoice payment (calc) | | | | | | 1 | |
| Payment of Apr invoice in May and May invoice in Jun (timing) | | | | | | 1 | |
| Examiner's comments | | | | | | | |
| Most candidates answered this requirement correctly, although standards of presentation were very variable and in some cases it was not always clear how calculations had been done. The most common mistake was in relation to timing: payments of February and March invoices are made two months in arrears (as before); payments of April and May invoices are made one month in arrears, not in the same month that the invoice is issued. | | | | | | | |
| Total possible marks | | | | | | 5 | 5S |
| Maximum full marks | | | | | | 5 | |

| Task 2.1 (b) | Marks | Nature |
|--------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------------------------------|
| <u>Advantages</u> | | |
| Trade credit is generally an easy and convenient source of short-term finance since it is informal. | 1 | S-Using systems and processes |
| It is usually flexible: on a short-term basis Panifica may simply take a longer credit period from its suppliers without asking or telling them. | 1 | B-Adaptability |
| Trade credit is likely to be free or cheap, many suppliers will not charge extra for credit, especially if its normal in the industry. | 1 | S-Using systems and processes |

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| Therefore it will be cheaper than alternative sources of finance such as bank loans or overdrafts. | 1 | B-Adding value |
| It can be used on a very short-term basis to overcome unexpected cash flow problems | 1 | S-Using systems and processes |
| <u>Disadvantages</u> | | |
| However, if Panifica consistently exceeds agreed credit periods suppliers may give lower priority to the buyer's future orders, | 1 | S-Using systems and processes |
| This may cause disruption of activities, especially as Panifica relies on a single supplier for some of its purchases. | 1 | B-Adding value |
| Suppliers may cover the cost of credit in other ways, such as offering less favourable prices, or attempting to raise prices when Panifica renegotiates contracts (it does so regularly) to compensate for the probability of having to offer extended credit periods. | 1 | B-Professional scepticism |
| Suppliers may charge interest, or taking extended credit periods may deprive Panifica of savings available by taking settlement discounts or cash discounts. | 1 | S-Using systems and processes |
| Panifica has already been offered a significant settlement discount by one supplier (Shole Ltd). | 1 | B-Adding value |
| Mark first two advantages and disadvantages only. | | |
| Examiner's comments | | |
| Answers to this requirement were varied. The best answers gave clear explanations of the advantages and disadvantages of trade credit as a short-term source of finance for Panifica and integrated points from the scenario in their answer – for example the cost to Panifica of taking longer credit periods when a supplier is offering settlement discounts. Weaker answers tended to talk in much more general terms about trade credit and sources of finance. | | |
| Total possible marks | 10 | 5S,5B |
| Maximum full marks | 4 | |

| Task 2.1 (c) | Marks | Nature |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|---------------|
| The project could be classified as meeting the environmental objective of pollution prevention and control. | 1 | S-Analysis |
| Since using the electric vehicles will eliminate the particle emissions caused by burning diesel fuel and so local pollution will be significantly reduced. | 1 | S-Analysis |
| The project could be classified as meeting the environmental objective of natural resource conservation. | 1 | S-Analysis |
| Since using the electric vehicles will consume fewer fossil fuels. | 1 | S-Analysis |
| Give credit for reasonable alternative suggestions using: | | |
| <ul style="list-style-type: none"> • climate change mitigation, • climate change adaptation, • natural resource conservation, • biodiversity conservation, | | |

| | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-----------------------------------------------------------------------------|
| <ul style="list-style-type: none"> • pollution prevention and control. <p>Max 4</p> <p>Further actions needed to comply with the Green Bond Principles:</p> <ul style="list-style-type: none"> • Use of Proceeds: it should be stated in the legal documentation for bond that the proceeds will be used for projects that should provide clear environmental benefits. • Process for Project Evaluation and Selection: there should be defined processes in place to determine which projects are eligible. • Management of proceeds: the proceeds of the issue of the bonds should be kept in a separate account or tracked by the issuer. • Reporting: issuer should make and keep readily available information on the use of the proceeds. <p>Max 2</p> | <p>1</p> <p>1</p> <p>1</p> <p>1</p> | <p>K-Technical</p> <p>K-Technical</p> <p>K-Technical</p> <p>K-Technical</p> |
| <p>Examiner's comments</p> <p>Answers to this requirement were very varied in quality. The best answers scored full marks by identifying and explaining the most relevant objectives in the Green Bond Principles issued by the International Capital Markets Association: pollution prevention and control and natural resource conservation. Some answers did not mention the objectives and discussed only the actions needed (e.g. use of proceeds, reporting).</p> | | |
| <p>Total possible marks</p> <p>Maximum full marks</p> | <p>8</p> <p>6</p> | <p>4K,4S</p> |

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| <p>Task 2.2</p> <p>Examiner's comments</p> <p>Answers to this sub task showed that most candidates could correctly complete the calculations in (a) but answers to part (c) which required explanations of the benefits of marginal costing were less consistent.</p> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

| Task 2.2 (a) | Marks | Nature |
|-----------------------------------------------------------|-------------|------------|
| per pack | | |
| £ | | |
| <u>Full cost plus</u> | | |
| Cost of flour | 2.10 | |
| Variable repackaging costs | 1.75 | |
| Fixed overhead costs (2.10 x 30%) | <u>0.63</u> | |
| | 4.48 | |
| Mark up (4.48 x 25%) | <u>1.12</u> | |
| Selling price | <u>5.60</u> | |
| <u>Marginal cost plus</u> | | |
| Cost of flour | 2.10 | |
| Variable repackaging costs | <u>1.75</u> | |
| Marginal cost | 3.85 | |
| Markup (3.85 x 40%) | <u>1.54</u> | |
| Selling price | <u>5.39</u> | |
| Updated costs from exam paper | 1 | S-Analysis |
| Fixed overhead costs included / excluded | 1 | S-Analysis |
| Fixed overhead costs calculation | 1 | S-Analysis |
| Markup and selling price calculation (full cost plus) | 1 | S-Analysis |
| Markup and selling price calculation (marginal cost plus) | 1 | S-Analysis |

| Examiner's comments | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|-----------|
| Most candidates scored full marks on this requirement, presenting completely correct calculations, using updated costs from the examination paper and demonstrating that the key difference between full cost and marginal cost is the inclusion of fixed overhead costs in full cost. | | |
| Total possible marks | 5 | 5S |
| Maximum full marks | 5 | |

| Task 2.2 (b) | Marks | Nature |
|--------------------------------------------------------------|---------------|---------------|
| Total sales volume (15,000 + 25,000 + 30,000) units x 90% | 63,000 | |
| Contribution per unit £ | 1.54 | |
| Total contribution £ | 97,020 | |
| | 1 | S-Analysis |
| | 1 (OF) | S-Analysis |

| Examiner's comments | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|-----------|
| Many candidates answered this requirement correctly. Several candidates used the original sales volumes from the advance information rather than incorporating the new information about sales in the exam paper. Marks were awarded if candidates used an incorrect contribution per unit from part (a). | | |
| Total possible marks | 2 | 2S |
| Maximum full marks | 2 | |

| Task 2.2 (c) | Marks | Nature |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|---------------|
| Marginal cost plus pricing avoids the need to apportion fixed costs, thus avoiding using arbitrary and unrealistic methods of apportionment that might result in inaccurate cost estimates. (The fixed overhead absorption rate used does not really reflect cost behaviour.) | 1 | K-Technical |
| | 1 | S-Analysis |
| Fixed costs will be the same regardless of the volume of output because they relate to a period of time. It is therefore more sensible to recognise those costs in full rather during the period in which they are incurred (rather than on a per unit basis). | 1 | K-Technical |
| | 1 | S-Analysis |
| Marginal costs are more relevant for short-term decision-making because using marginal costs highlights the effect on profit of decisions made. Therefore pricing based on marginal cost plus will be a better reflection of cost behaviour as the cost of purchasing and selling additional units is the variable cost to produce an extra unit. | 1 | K-Technical |
| | 1 | S-Analysis |
| Selling Belobio products is a short-term trial for Panifica so short-term decision-making is appropriate. Although if Panifica sells Belobio products long-term then the price may need to be increased. | 1 | K-Technical |
| | 1 | S-Analysis |
| Max 2 marks per point if fully explained. | | |

| Examiner's comments | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|--------------|
| Answers to this requirement were very variable. Better answers included clear explanations of why marginal cost-plus pricing was suitable for the trial of Belobio flour. Some answers did not score full marks as they identified advantages of marginal cost-plus pricing but did not explain them, and no marks were awarded for simply repeating the point that marginal cost plus pricing is quicker and simpler to calculate. | | |
| Total possible marks | 8 | 4K,4S |
| Maximum full marks | 4 | |

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|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Task 2.3 |
| Examiner's comments |
| Overall this was the worst attempted sub-task. Performance across the four requirements, covering different syllabus areas, was variable, with some surprisingly over-simplistic answers to the challenge in part (a), although generally better answers to the technology-related requirements. |

| Task 2.3 (a) | Marks | Nature |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|----------------------------------|
| <u>How Holly should manage any conflict of interest</u> | | |
| Holly can formally disclose her work for Entrico to the board of directors (she has already told Jo). | 1 | S-Team working and collaboration |
| Holly can ask the directors of Panifica to authorise her continued independent work for Entrico. (Authorisation by the directors means that the duty to avoid conflict of interest is not infringed.) | 1 | K-Regulation and compliance |
| If Holly has an interest in a proposed transaction or arrangement eg between Panifica and Entrico then she should declare that interest at a board meeting, by notice in writing or by a general notice (ie Holly would state that she has an interest in Entrico and is therefore to be regarded as interested in any transaction or arrangement with Entrico). | 1 | K-Regulation and compliance |
| Holly would also need to ensure that she respected commercial confidentiality for both Panifica and Entrico. | 1 | B-Ethics and Integrity |
| It is unlikely that there would be a conflict of interest. | 1 | B-Proactivity |
| Because | | |
| <ul style="list-style-type: none"> Entrico is not obviously in competition with Panifica. | 1 | S-Analysis |
| <ul style="list-style-type: none"> Holly is providing services to Entrico but is not a shareholder in Entrico. | 1 | S-Analysis |
| <ul style="list-style-type: none"> The sales made by Panifica to Entrico are relatively unimportant to Panifica (£115,000 of sales to Entrico vs total revenue of over £78m.) | 1 | B-Adaptability |
| Max 4 | | |
| <u>Duties of directors</u> | | |
| To act within powers (s.171) | 1 | K-Regulation and compliance |
| Holly can only act in accordance with the company's constitution and exercise powers for the purpose for which they were conferred, so she could not use her powers as a director outside the company eg in her own business. | 1 | B-Adaptability |
| To promote the success of the company (s172): | 1 | K-Regulation and compliance |

| | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---------------------------------------|
| As a director of Panifica, Holly would have a duty to promote the success of the company. This means that she must act in the way that she considers likely to promote the success of the company for the benefit of its members as a whole. | 1 | B- Adaptability |
| To exercise independent judgement (s.173) | 1 | K- Regulation and compliance |
| Holly must use her judgement independently of any other position that she holds. | 1 | B- Adaptability |
| To exercise reasonable care, skill and diligence (s.174) | 1 | K- Regulation and compliance |
| Holly will be expected to demonstrate the care, skill and diligence that would be exercised by a reasonably diligent person in a position of director and because of her experience as an IT professional she will be expected to show a higher level of expertise and standard of care in this area. | 1 | B- Adaptability |
| Not to accept benefits from third parties (s.176): | 1 | K- Regulation and compliance |
| This means that Holly would not be able to accept a benefit from a third party by reason of her either being a director or doing, or not doing, anything as director, for example accepting additional remuneration from Entrico because of her position in Panifica. | 1 | B- Adaptability |
| To declare interest in proposed transaction or arrangement (s.177) | 1 | K- Regulation and compliance |
| Holly would be obliged to declare an interest in, for example, transactions between Panifica and Entrico if she stood to benefit personally from such transactions as a supplier to Entrico. | 1 | B- Adaptability |
| Any two of the above are acceptable, mark first two only, max 4 | | |

| | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|-----------------|
| Examiner's comments | | |
| This requirement was quite poorly attempted by a significant number of candidates. The best answers included clear explanations of how Holly could manage or avoid any conflict of interest and concluded that it was unlikely there would be a conflict of interest. But many answers tended to take an overly simplistic approach, identify a conflict of interest, and conclude that Holly could not take on the role. The requirement to explain two other duties of directors was better answered. | | |
| Total possible marks | 20 | 8K,3S,9B |
| Maximum full marks | 6 | |

| Task 2.3 (b) | Marks | Nature |
|---------------------|--------------|---------------------------------------|
| A True | 1 | K- Regulation and compliance |
| B False | 1 | K- Regulation and compliance |

| Examiner's comments | | |
|------------------------------------------------------------------------------------------------|---|----|
| Most candidates correctly answered this objective test question which tested knowledge of law. | | |
| Total possible marks | 2 | 2K |
| Maximum full marks | 2 | |

| Task 2.3 (c) | Marks | Nature |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|----------------|
| As the software is cloud-based, computers are required to be connected to the internet to run the software. | 1 | S-Analysis |
| So as more devices are connected to the internet for longer, so they are more exposed to risk. | 1 | B-Adaptability |
| If wi-fi / other network connections become unavailable users will not be able to access systems or data. | 1 | S-Analysis |
| This will, potentially, cause operational and/or security problems for Panifica if eg systems or data are unavailable to process the payroll or make payments. | 1 | B-Adaptability |
| Panifica is also more reliant on the software provider's security. | 1 | S-Analysis |
| Even though a software provider, as an IT company, would be expected to have good security and backup procedures in place as an integral part its offering to customers, Panifica would still be reliant on a third party and so would have less control. | 1 | B-Adaptability |
| Staff may use more than one device, including personal mobile devices, to access cloud-based software. | 1 | S-Analysis |
| This would increase the exposure to cyber-risk. (This risk could be mitigated to an extent by introducing technical limitations on what devices are trusted.) | 1 | B-Adaptability |
| Max 2 marks per point if fully explained. | | |

| Examiner's comments | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|-------|
| The best answers included clear explanations of how Panifica's exposure to cyber risk had increased as a result of using cloud-based payroll software. Weaker answers identified disadvantages of cloud-based software without explaining them or relating them to Panifica's situation or tended to talk about cyber risk generally without explaining the impact of the move to cloud-based software.. | | |
| Total possible marks | 8 | 4S,4B |
| Maximum full marks | 4 | |

| Task 2.3 (d) | Marks | Nature |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| <p>Controls available to Panifica</p> <p>Use a firewall to secure its internet connection</p> <p>Choose the most secure settings for its devices and software</p> | <p>Technical protections</p> <p>Boundary firewalls and internet gateways – software that intercepts network traffic in and out of a system</p> <p>Secure configuration – ensuring the system is set up with cyber security as a priority</p> | <p>1+1</p> <p>1+1</p> <p>1+1</p> <p>S-Using systems and processes B-Proactivity S-Using systems and processes</p> |

| | | | |
|-----------------------------------------------|---------------------------------------------------------------------------------------------------------------------|-----|----------------------------------------------------|
| Control who has access to data and services | Access control – physical and network procedures to restrict access to a system | | B- Proactivity |
| Protect itself from viruses and other malware | Malware protection – software that prevents and removes unwanted programs from a system such as anti-virus software | 1+1 | S-Using systems and processes B- Proactivity |
| Keep devices and software up to date | Patch management – ensuring the latest updates to software are installed | 1+1 | S-Using systems and processes B- Proactivity |
| Examiner's comments | | | |
| This requirement was generally well answered. | | | |
| Total possible marks | | 10 | 5S,5B |
| Maximum full marks | | 4 | |