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A-Level

# Accounting

ACCN3 Further Aspects of Financial Accounting  
Final Mark Scheme

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2120  
June 2017

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Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Assessment Writer.

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**1 (a)** Complete the relevant sections of the income statement (extract) for the year ended 31 December 2016.

**[5 marks]**

**Veary**  
**Income statement (extract) for the year ended 31 December 2016**

		£	£	
Revenue	<b>W1</b>		560 000	<b>1CF</b>
Cost of sales				
Opening inventory		39 780		
Purchases	<b>W4</b>	483 760		<b>1 OF</b>
Returns outwards		(16 720)		
Goods for own use		(9 000)		
Closing inventory	<b>W3</b>	(49 820)		<b>3 OF</b>
	<b>W2</b>		448 000	
Gross profit			112 000	

**(W1) Revenue**

**Gross profit x mark-up = net sales:**

112 000 x 125/25 = £560 000 **1CF**

**(W2) Cost of sales:**

**Net sales – gross profit = cost of sales:**

560 000 – 112 000 = £448 000 **OF**

**(W3) Closing inventory:**

**Cost of sales/inventory turnover rate x 2 – opening inventory = closing inventory:**

448 000 **OF** /10 **(1)** x 2 **(1)** – 39 780 **(1)** = £49 820 **OF**

**(W4) Purchases:**

**Cost of sales – (opening inventory - goods for own use - returns outwards) + closing inventory = purchases:**

448 000 **OF** – 14060 **CF** + 49820 **OF** = £483 760 **1OF**

**Marker notes:**

**Step 1:** Check the revenue figure: if incorrect (0 marks) then check marker notes (1), (2) and (3) below to see if they are using one of these common alternatives.

**Step 2:** Check workings for closing inventory. If there are no workings award 0 marks for closing inventory (unless it is the correct figure of £49 820).

**Step 3:** Check purchases figure – this can only be awarded 1 mark if it's an arithmetically correct balancing figure based on their own arithmetically correct cost of sales figure shown. This should be checked using (W4). If no cost of sales figure is shown, purchases cannot be rewarded. Purchases cannot be awarded if it results from a calculation involving cash purchases, credit purchases, etc.

- (1) For a revenue figure of £517 600: award no marks for revenue (not CF) but do award closing inventory £41340 **(3)** and purchases £432 880 **(1)** if supported by workings.
- (2) For a revenue figure of £448 000: award no marks for revenue (not CF) but do award closing inventory £27 420 **(3)** and purchases £349 360 **(1)** if supported by workings.
- (3) For a revenue figure of £553 000: award no marks for revenue (not CF) but do award closing inventory £48 420 **(3)** and purchases £475 360 **(1)** if supported by workings.
- (4) Calculations where the workings figure is not transferred correctly to the income statement (extract) will not be fully awarded. For example, a closing inventory of £49 820 not transferred to the income statement would only be awarded 2 marks. A purchase figure of £483 760 would be awarded zero marks if not transferred to the income statement. However, this figure will usually just be the balancing figure within the cost of sales section with no extra workings required.
- (5) Purchases own figure will not be awarded if cost of sales contains alien items (e.g. stolen goods).

**1 (b)** Complete the relevant sections of the balance sheet (extract) at 31 December 2016. **[4 marks]**

**Veary**  
**Balance sheet (extract) at 31 December 2016**

£

**Current assets:**

Trade receivables (W1) 42 400 **2 OF**

**Current liabilities:**

Trade payables (W2) 32 915 **2 OF**

**(W1) Trade receivables:**

Bal b/d	35 400		Receipts	385 000	<b>1</b>
Sales	392 000	<b>1 OF</b>	Bal c/d	42 400	<b>OF</b>
	427 400			427 400	

**Alternative:**

Balance b/d + sales – receipts = balance c/d:  
35 400 + 392 000 (**1OF**) – 385 000 (**1**) = £42 400 **OF**

Sales: 560 000 **OF** – 168 000 **CF** = £392 000 **OF**

**(W2) Trade payables:**

Payments	332 585	<b>*</b>	Bal b/d	19 400	
Returns	16 720	<b>1*</b>	Purchases	362 820	<b>1OF</b>
Bal c/d	32 915	<b>OF</b>		382 220	
	382 220			382 220	

(\*) 1 mark for both payments and returns outwards

**Alternative:**

Balance b/d + purchases – (payments + returns outwards) = balance c/d:  
19 400 + 362 820 (**1OF**) – (332 585 + 16 720) (**1**) = £32 915 **OF**

Purchases: 483 760 **OF** – 120 940 **CF** = £362 820 **OF**

**Marker notes:**

- (1) Calculations where the workings figure is not transferred correctly to the balance sheet (extract) will not be fully awarded. For example, a trade receivables figure of £42 400 or a trade payables figure of £32 915 would only be awarded 1 mark each.
- (2) If the sales and/or purchases figure used is the figure from 1(a) then this will also include cash transactions and so will not be awarded.

**1 (c)** Explain **three** benefits to Veary of keeping full accounting records.

**[6 marks]**

Reduced errors/improved accuracy <b>(1)</b> . Verification techniques including trial balance and control accounts <b>(1)</b>
Assist in the preparation of financial statements <b>(1)</b> . Figures can be readily extracted from the trial balance and control accounts including the amounts for trade receivables and trade payables <b>(1)</b>
Reduces the chances of fraud <b>(1)</b> . Less chance of stolen cash or inventory. Reconciliations can be done between the physical cash/inventory and the accounting records <b>(1)</b>
Supports an application for a loan or potential future investment <b>(1)</b> . More detailed information about liquidity and cash flow position from a cash budget <b>(1)</b>
More detailed information <b>(1)</b> . Leading to improved decision making <b>(1)</b>
Able to assess business's performance <b>(1)</b> . Improved judgement about the management of the business and future planning by comparing with previous results <b>(1)</b>
Assist in tax assessment completion <b>(1)</b> . More timely and validated information to support profit calculations <b>(1)</b>
Improved credit control <b>(1)</b> . More accurate information from the sales ledger and sales ledger control account about balances on customer accounts <b>(1)</b>

**Marker notes:**

- (1) Do not reward repetition of any valid point (for example, improved decision making, measures performance).

**2 (a)** Complete the relevant sections of the schedule of non-current assets for the year ended 31 May 2017.

**[16 marks]**

**[Includes 2 marks for quality of presentation]**

**Bradshaw Ltd**  
**Schedule of non-current assets for the year ended 31 May 2017**

	<b>Land and buildings £</b>		<b>Plant and machinery £</b>		<b>Motor vehicles £</b>	
<b>Cost:</b>						
<b>At 1 June 2016</b>	625 000		320 000		95 000	
Additions			74 000	1		
Disposals					(32 000)	1
Revaluation	180 000	1				
<b>At 31 May 2017</b>	805 000		394 000		63 000	
<b>Depreciation:</b>						
<b>At 1 June 2016</b>	187 500		198 500		46 750	
Charge for the year	23 000	W1 2	35 000	W2 2	8 498	W4 2
Eliminated on disposal					(12 416)	W3 3
Eliminated on revaluation	(187 500)	1				
<b>At 31 May 2017</b>	23 000		233 500		42 832	
<b>Net book values:</b>						
<b>At 31 May 2017</b>	782 000		160 500		20 168	*1OF
<b>At 1 June 2016</b>	437 500		121 500		48 250	

\*mark is for all three net book value totals accompanied by a correct date, ie 31 May 2017 (not abbreviated) (ignore alien items, eg sale proceeds)

**Quality of presentation:**

1 mark for appropriate description for all rows used in cost section (exact wording not required but do not accept abbreviations).

1 mark for appropriate descriptions for all rows used in depreciation section (exact wording not required but do not accept abbreviations).

**(W1) Land and buildings depreciation:**

Description	Working	Answer
Original depreciation charge pa	625 000/50	£12 500
Years depreciated to date	187 500/12 500	15 years
New depreciation charge based on revalued amount	£805 000 <b>(1)</b> /35 <b>(1)</b>	£23 000 <b>OF</b>

**(W2) Plant and machinery depreciation:**

Description	Working	Answer
Depreciation on NBV b/d	$(320\,000 - 198\,500) \times 25\%$	£30 375 <b>(1)</b>
Depreciation on asset purchased	$74\,000 \times 25\% \times 3/12$	£ 4 625 <b>(1)</b>
Total depreciation charge for the year	$30\,375 + 4\,625$	£35 000 <b>OF</b>

**(W3) Motor vehicles depreciation eliminated:**

Description	Working	Answer
Year 1	$32\,000 \times 20\% \times 6/12$	£3 200 <b>(1)</b>
Year 2	$(32\,000 - 3\,200) \times 20\%$	£5 760 <b>(1)</b>
Year 3	$(28\,800 - 5\,760) \times 20\% \times 9/12$	£3 456 <b>(1)</b>
Total charge	$3\,200 + 5\,760 + 3\,456$	£12 416 <b>OF</b>

**(W4) Motor vehicles depreciation charge:**

Description	Working	Answer
Bal b/d NBV	$95\,000 - 46\,750$	£48 250
Bal b/d NBV on disposed asset	$32\,000 - 8\,960$	£23 040
Depreciation charge on assets not disposed	$48\,250 - 23\,040 = 25\,210 \times 20\%$	£5 042 <b>(1)</b>
Total depreciation charge for year	$5\,042 + 3\,456$ <b>(1OF)</b>	£8 498 <b>(OF)</b>

**Marker notes:**

- (1) Calculations where the workings figure is not transferred correctly to the schedule of non-current assets will not be fully awarded. For example, a depreciation charge of £23 000 for land and buildings would only be awarded 1 mark.
- (2) Entries in the schedule of non-current assets treated in the wrong direction will not be fully awarded. For example, an eliminated on disposal depreciation amount of £12 416 for motor vehicles would only be awarded 2 marks if added.
- (3) For land and buildings depreciation charge, award 1 mark for a figure of £16 100.
- (4) For plant and machinery depreciation charge, award 1 mark for a figure of £48 875.
- (5) If negative figures are not shown in brackets, check arithmetical accuracy of the relevant subtotal before awarding marks.



**2 (b)** Complete the relevant sections of the statement of cash flows (extract) to reflect all transactions relating to non-current assets for the year ended 31 May 2017.

**[4 marks]**

**Bradshaw Ltd**  
**Statement of cash flows (extract) for the year ended 31 May 2017**

	£	
<b>Profit from operations</b>		
Depreciation <b>(W1)</b>	66 498	<b>1 OF</b>
Loss on disposal <b>(W2)</b>	3 909	<b>1 OF</b>
 <b>Cash flows from investing activities:</b>		
Purchase non-current assets	(74 000)	<b>1 CF</b>
Proceeds sale non-current assets	15 675	<b>1 CF</b>
 <b>Cash flows from financing activities:</b>		

**(W1)**  $23\,000 + 35\,000 + 8\,498 = £66\,498$  **OF**

**(W2)**  $32\,000 - 12\,416$  **(OF)** =  $19\,584 - 15\,675 = £3\,909$  **OF**

**Marker notes:**

(1) Figures must be entered in the correct section of the extract and in the correct direction to be awarded. Exact wordings are not required.

(2) Purchase non-current assets £74 000 must clearly be shown as a negative figure (brackets or minus sign).

(3) OFs for depreciation and loss on disposal must be those used in task (a).

**3** Complete the following table to show the correct IAS number or name and the impact on retained earnings for each of the items 1 to 7 on page 10. For the impact on retained earnings, show clearly whether the amount to be adjusted is added or deducted, or if there is no effect.

**[14 marks]**

Item	IAS number or name	Impact on retained earnings £	
1	2 Inventories <b>(W1)</b>	(287)	<b>1CF</b>
2	10 Events after the reporting period	nil	<b>1</b>
3	38 Intangible assets	18 500	<b>1CF</b>
4	18 Revenue	(10 500)	<b>1CF</b>
5	37 Provisions, contingent liabilities and contingent assets	(14 600)	<b>1CF</b>
6	36 Impairment of assets	(10 550)	<b>1CF</b>
7	16 Property plant and equipment	18 530	<b>1CF</b>

**(W1):**

Selling price of inventory:	$17\,640 \times 1.2 =$	£21 168
Net realisable value of inventory:	$21\,168 - 3\,815 =$	£17 353
Adjustment to inventory:	$17\,640 - 17\,353 =$	£287

**Marker notes:**

- (1) IAS number **or** name is required for one mark for each item. Accept alternative wordings provided that they are recognisable from the correct IAS and where a number is not also provided.
- (2) Where an IAS number and name do not match, then award 1 mark provided at least one part is correct. For example, in number 1, IAS 2 revenue would still be awarded 1 mark.
- (3) Accept IAS 1 presentation of financial statements as an alternative for items 4 and 7 only.
- (4) Accept IAS16 property plant and equipment as an alternative for item 6.
- (5) The figures must be adjusted in the correct direction for one mark each. The deductions could be shown with a minus sign, in brackets (as shown) or by wording to denote direction eg subtracted.
- (6) Item number 2: there must be some indication that there is no effect, eg nil, 0, no effect, -, x. So a blank box would not be awarded.
- (7) Do not award hedging where a student enters more than one IAS.

**4 (a)** Prepare the partnership appropriation account for the year ended 30 November 2016. **[7 marks]**

**Justine, Meseret and Tirunesh  
Partnership appropriation account for the year ended 30 November 2016**

	9 months			3 months			
	£	£		£	£		
Profit after interest	<b>W1</b>	53 025	*	17 675	<b>3</b>		
Salary Meseret				(3 955)	<b>1</b>		
Interest on capital:							
Justine				<b>W2</b> (7 400)	<b>1</b>		
Meseret				(7 000)			
Tirunesh				(6 600)	(21 000)		
Remaining profit/loss		53 025		(7 280)			
Split of remaining profit/loss:							
Justine	<b>W3</b>	17 675	}	<b>OF W4</b>	(3 640)	}	
Meseret		17 675		<b>OF</b>	(2 184)		<b>OF</b>
Tirunesh		17 675		<b>OF</b>	(1 456)		(7 280)
		-	<b>1</b>	-		<b>1</b>	

**(W1)**

**Loan interest:**

$36\,000 \times 5\% = \text{£}1\,800$  **(1)CF**

**Profit apportionment:**

$72\,500 - 1\,800 = \text{£}70\,700$  **(1)OF**

$70\,700 \times 9/12 = \text{£}53\,025$  OF

$70\,700 \times 3/12 = \text{£}17\,675$  OF

}

**(1 mark for both)**

**(W2)**

**Interest on capital:**

$370\,000 \times 8\% \times 3/12 = \text{£}7\,400$

$350\,000 \times 8\% \times 3/12 = \text{£}7\,000$

$330\,000 \times 8\% \times 3/12 = \text{£}6\,600$  **(1 mark for all 3 figures)**

**(W3)**

**Remaining profit split:**

$53\,025/3 = \text{£}17\,675$

**(W4)**

**Remaining Loss split:**

$7\,280 \times 5/10 = \text{£}3\,640$

$7\,280 \times 3/10 = \text{£}2\,184$

$7\,280 \times 2/10 = \text{£}1\,456$  **(1 mark for all 3 figures)**

**Marker notes:**

- (1) Profit splits for the 9 month period must be done equally and profit splits for the 3 month period must be in the correct 5:3:2 proportions.
- (2) Profit splits marks will only be awarded if there are no aliens in the appropriation accounts. Salaries and interest on capital will be treated as aliens in the 9 month appropriation account period.
- (3) Where there is no adjustment for loan interest, profits for the periods of £54 375 and £18 125 respectively will be awarded 1 mark for both.
- (4) Profit splits for the 9 month period based on a profit of £54 375 will be £18 125 each and will be awarded 1 mark for all 3 figures.
- (5) Loss splits for the 3 month period of £18 125 (and if salary and interest on capital are correct) will be (£3 415) (£2 049) and (£1 366) and will be awarded 1 mark for all 3 figures.
- (6) All appropriation account entries must be treated in the correct direction to be awarded full marks.
- (7) Where loan interest has been correctly calculated but then shown within the appropriation account (rather than an adjustment prior to preparing the appropriation account) award 1 mark for both figures (£1350 and £450).
- (8) The name of the partner must be identified beside each appropriation (accept abbreviations of the partners' names, eg J, M T).

**4 (b)** Prepare the partnership revaluation account at 30 November 2016 taking account of the information in notes (1) to (4) inclusive. **[7 marks]**

**Alternative 1:**

Revaluation account						
Dr	Details				Cr	
	Bad debt written off	5 650	1	<b>W2</b>	Inventory 8 505 <b>1</b>	
	Provision for doubtful debts	1 975	1	<b>W3</b>	Depreciation 11 250 <b>3OF</b>	
	Capital accounts:					
	Justine	6 065	}			
	Meseret	3 639			<b>1OF</b>	
	Tirunesh	2 426				
		19 755			19 755	

**(W1) Provision for doubtful debts:**  
**(Trade receivables – bad debt written off) x %**  
 (84 650 – 5 650) x 2.5% = £1 975 **(1)**

**(W2) Inventory:**  
**Inventory using AVCO – inventory using FIFO**  
 114 755 – 106 250 = £8 505 **(1)**

**(W3) Depreciation:**

Description	Working	Answer
Straight line method	975 000 – 750 000 x 15%	£33 750 <b>(1)CF</b>
Reducing-balance method	225 000 – (146 250 – 33 750) = 112 500 x 20%	£22 500 <b>(1)CF</b>
Change in depreciation	33 750 – 22 500	£11 250 <b>(1)OF*</b>

\* Marker note: if a student calculated an incorrect straight-line and/or reducing balance depreciation figure, award 1 OF mark for the change in depreciation.

Working for a depreciation figure of £18 000 (see marker note 5):

Straight line depreciation: 975 000 – 750 000 x 15% = £33 750 **(1)CF**

Reducing balance depreciation: 225 000 – 146 250 = 78 750 x 20% = £15 750

Change in depreciation: 33 750 – 15 750 = £18 000 **(1OF)**

**Alternative 2:**

Revaluation account			
Dr	Details	Cr	Details
	Trade receivables	84 650	<b>W1</b> Trade receivables
	Inventories	106 250	Inventory
	Non-current assets	828 750	<b>W2</b> Non-current assets
	Capital accounts:		
	Justine	6 065	
	Meseret	3 639	
	Tirunesh	2 426	
	1 031 780		1 031 780

\*Mark for inventory is for both entries as shown.

**(W1)**

$$84\,650 - 5\,650 (1) - 1\,975 (1) = \text{£}77\,025$$

**(W2)**

$$828\,750 (1) + 33\,750 (1) - 22\,500 (1) = \text{£}840\,000$$

**Marker notes:**

- (1) Capital account balance splits must be in the correct 5:3:2 proportion to be awarded 1 mark. It is possible for the capital account splits to appear as credit entries.
- (2) The capital account balance splits mark will only be awarded if there are no aliens in the revaluation account. Goodwill is to be treated as an alien item.
- (3) In Alternative 1: if the figure for depreciation on non-current assets is shown in the Dr side of the revaluation account then this will be awarded a maximum of 2 marks for the correct figure of £11 250.
- (4) In Alternative 2: if trade receivables £77 025 is debited to the account and £84 650 credited to the account award 1 mark; if non-current assets £840 000 is debited to the account and £828 750 credited to the account award 2 marks; if the own balancing figure is split correctly and appears on the credit side award 1 OF mark.
- (5) In Alternative 1: a depreciation figure of £18 000 on the credit side can be awarded 2 marks if supported by workings. If the £18 000 figure is shown on the debit side award 1 mark if supported by workings.
- (6) In Alternative 1: a figure of £7 625 for bad debts / provision for doubtful debts combined to be awarded 2 marks.
- (7) Marks are awarded for figures only and not for narratives.
- (8) Calculations where the workings figure is not transferred correctly to the revaluation account will not be fully awarded. For example, depreciation figure of £11 250 from alternative 1 would be awarded 2 marks.

**4 (c)** Prepare the partnership capital accounts for the year ended 30 November 2016. Show the amount to be paid to, or repaid by, Tirunesh upon her retirement. **[12 marks]**

Capital accounts									
DR				CR					
	£	£	£		£	£	£		
	Justine	Meseret	Tirunesh		Justine	Meseret	Tirunesh		
Drawings	44 400	42 000	39 600	1	Bal b/d	370 000	350 000	330 000	1
Goodwill	12 500	7 500	5 000	1	Loan Int		1 800		1 OF
Bank			310 645	1 OF	Salary		3 955		1 OF
Loss	3 640	2 184	1 456	1 OF	Capital Int	7 400	7 000	6 600	1 OF
Bal c/d	354 350	343 635			Profit	17 675	17 675	17 675	1 OF
					Revaluation	6 065	3 639	2 426	1 OF
					Goodwill	13 750	11 250		1
	414 890	395 319	356 701			414 890	395 319	356 701	
					Bal b/d	354 350	343 635		1 OF

**Workings:**

**Goodwill old ratio:**

25 000 x 5/10 = £12 500; 25 000 x 3/10 = £7 500; 25 000 x 2/10 = £5 000

**Goodwill new ratio:**

25 000 x 55% = £13 750; 25 000 x 45% = £11 250

**Loan interest:**

1 350 + 450 = £1 800

**Marker notes:**

- (1) The bank entry for Tirunesh would also be awarded 1 mark if it was alternatively a balancing figure in the CR side.
- (2) Ignore brackets if used in goodwill entries (but where the figures have still been included on the correct side of the capital account).
- (3) Marks are for figures only and not for narratives.
- (4) Closing balance b/d 1 mark is awarded if there are no alien entries in the capital accounts and where there is no balance shown for Tirunesh. The loan of £36 000 is to be treated as an alien item.
- (5) The entries for salary, interest on capital, loan interest and profit/loss splits must correspond with the same OF entries in the appropriation accounts from 4(a).
- (6) The revaluation figures must correspond to the answer in 4(b).
- (7) The profit and loss can be netted to give figures of £14 035, £15 491 and £16 219 or own figures respectively and will be awarded 2 marks.
- (8) Net figures for the goodwill adjustment are acceptable and would be awarded 2 marks: Justine Cr £1 250, Meseret Cr £3 750, Tirunesh Dr £5 000.

**4 (d)** Discuss the two options available to Justine and Meseret considering both financial and non-financial factors. Recommend the most appropriate source and justify your decision.

**[15 marks]**

**[Includes 2 marks for quality of written communication]**

**New partner:**

<b>Benefits:</b>	
<b>Generic</b>	<b>Applied</b>
Permanent capital with no repayment <b>(1)</b>	-
Shared responsibility and workload <b>(1)</b>	Workload would be 1/3 each as opposed to 50:50 each with no new partner <b>(1)</b>
Potentially more skills, new ideas and expertise <b>(1)</b>	Opportunity for Justine and Meseret to specialise <b>(1)</b> . Likelihood of a new partner having the compatible skills to complement those already in the business <b>(1)</b>
Gearing would not be increased <b>(1)</b>	No external borrowing beyond the existing loan would be used <b>(1)</b>
<b>Drawbacks:</b>	
<b>Generic</b>	<b>Applied</b>
Potential disagreements and conflict <b>(1)</b>	Conflict existed previously with Tirunesh who ended up leaving the business <b>(1)</b> . Likelihood of a new partner being attracted if they are aware of the previous conflicts <b>(1)</b>
Shared profits <b>(1)</b>	With no new partner, Justine would have 5% more profit and Meseret would have 15% more profit <b>(1)</b> Sales and profits are declining and so there may be less profit to share <b>(1)</b>
Risk that new partner could not be found	Downward trend in sales and profits and negative goodwill <b>(1)</b>

Comments about new partner **(maximum 6 marks: max 3 generic and max 4 applied)**

**Bank loan:**

<b>Benefits:</b>	
<b>Generic</b>	<b>Applied</b>
Bank is an external stakeholder and so no conflict <b>(1)</b>	-
Interest is a cost and not an appropriation of profit <b>(1)</b>	-
Fixed interest would make it easier to budget <b>(1)</b>	-
Difference in bank interest rate and current interest on capital rate <b>(1)</b>	Bank interest is 4% and interest on capital is currently 8% <b>(1)</b>
<b>Drawbacks:</b>	
<b>Generic</b>	<b>Applied</b>
Loan needs to be repaid in the long term <b>(1)</b>	£310 645 (or OF) is a large amount to be repaid <b>(1)</b> even in instalments and would reduce short term cash flow <b>(1)</b>



Need to pay interest at either a fixed or variable rate <b>(1)</b>	On a possible loan of £310 645 (or OF), this could mean an annual interest cost of £12 426 (or OF) per annum <b>(1)</b> which will hinder profit <b>(1)</b>
Need to produce a cash flow budget to support application <b>(1)</b>	Bank balance is currently £46 950 <b>(1)</b> and not sufficient to repay Tirunesh <b>(1)</b>
Need security and collateral against loan default <b>(1)</b>	Have got £828 750 (net non-current assets) (before revaluation) or £840 000 (after revaluation) <b>(1)</b> of non-current assets to use for this purpose <b>(1)</b>
Gearing would be increased <b>(1)</b>	Gearing would be 33% <b>(OF)</b> $(310\,645 + 36\,000 / 1\,044\,630 \times 100)$ <b>(1)</b> . This is a significant increase in risk from 3% $(36\,000 / 1\,086\,000 \times 100)$ <b>(1)</b>
High risk that loan would not be approved <b>(1)</b>	The large amount due to Tirunesh (£310 645 <b>OF</b> ) <b>(1)</b>

Comments about bank loan **(maximum 6 marks: max 3 generic and max 4 applied)**

**Overall maximum for new partner and bank loan (11 marks)**

**Decision (1 mark) and justification (1 mark)**

**Quality of written communication:**

2 marks: no more than 3 spelling, punctuation and grammatical errors

1 mark: 3 or more spelling, punctuation and grammatical errors

0 marks: prose response is difficult to understand

**Marker note:**

Only reward a benefit/drawback once (e.g. new partner no change in gearing/bank loan would change gearing).

**ACCN3 June 2017 Assessment objectives grid**

<b>Question</b>	<b>AO1</b>	<b>AO2</b>	<b>AO3</b>	<b>Total</b>
<b>1a</b>			<b>5</b>	<b>5</b>
<b>1b</b>		<b>4</b>		<b>4</b>
<b>1c</b>	<b>6</b>			<b>6</b>
<b>2a</b>		<b>10</b>	<b>6</b>	<b>16</b>
<b>2b</b>		<b>4</b>		<b>4</b>
<b>3a</b>	<b>7</b>	<b>7</b>		<b>14</b>
<b>4a</b>			<b>7</b>	<b>7</b>
<b>4b</b>		<b>2</b>	<b>5</b>	<b>7</b>
<b>4c</b>		<b>12</b>		<b>12</b>
<b>4d</b>	<b>5</b>	<b>6</b>	<b>4</b>	<b>15</b>
<b>Total</b>	<b>18</b>	<b>45</b>	<b>27</b>	<b>90</b>