

## Marking guide for Role Simulation Examination March 2024

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 2024 marking grid

	Marks identified in marks scheme				Maximum full marks	Syllabus
	K	S	B	Total		
Task 1						
1.1a	3	2		5	5	ACC
1.1b	6	8		14	6	ACC
1.2a	2	3		5	5	ACC
1.2b	3	8		11	10	ACC
1.2c		1		1	1	ASS
1.2d	4	1	3	8	4	BTF
1.3a	2			2	2	ASS
1.3b	6	6		12	4	ASS
1.3c	9	20		29	12	ASS
1.4a	2	2	4	8	6	ASS
1.4b		5		5	2	ASS
	<b>37</b>	<b>56</b>	<b>7</b>	<b>100</b>	<b>57</b>	
Task 2						
2.1a		3	4	7	4	BTF
2.1b		6	6	12	4	BTF
2.1c	4	2	2	8	4	LAW/BTF
2.1d	3	3		6	5	LAW
2.2a	3	11	8	22	10	BTF
2.3a	1	7	1	9	8	MI
2.3b	1		1	2	2	MI
2.3c		5	5	10	6	MI
	<b>12</b>	<b>37</b>	<b>27</b>	<b>76</b>	<b>43</b>	
<b>Total</b>	<b>49</b>	<b>93</b>	<b>34</b>	<b>176</b>	<b>100</b>	



The obligation regarding the dispute with the council already exists, and Inkwell will probably (more likely than not) have to pay ie transfer economic resource to someone else.	1 1	S-Analysis S-Analysis
This obligation meets the definition of a liability in the financial statements	1	K-Technical
And there will be a corresponding expense in the financial statements as well.	1	K-Technical
It is classified as a provision because the outcome, timing and amount are uncertain.	1	K-Regulation and compliance
Quality of explanations	1	S- Communication
<b>Examiner's comments</b>		
This requirement was very well answered. Most candidates correctly explained the accounting treatment of prepayments and provisions with reference to the Conceptual Framework – at its simplest, part of the amount paid to the marketing agency is an asset and the possible obligation to pay the council is a liability. The accounting treatment flows from identifying and recognising the asset and liability.		
Total possible marks	14	6K, 8S
Maximum full marks	6	

<b>Task 1.2</b>
<b>Examiner's comments</b>
Overall performance on this sub-task was variable. Part (b) requiring the preparation of the statement of financial position was generally well answered and more candidates struggled with part (d) requiring an explanation of the gearing ratio.

Task 1.2 (a)	Marks	Nature
Retained earnings in TB		
3,141,180		
Task 1.1 (a) adjustments:		
Prepayment	1	K-Systems and processes
120,000		
Provision	1	K-Systems and processes
(48,000)		
Inventory impairment (115,000 – 65,000)	1	S-Quality and accurate information
(50,000)		
Receivables allowance increase (W)		
(614)		
Retained earnings revised		
<u>3,162,566</u>		
<u>(W) Receivables</u>		
Allowance required (1% x 625,100)	1	S-Quality and accurate information
6,251		
Allowance b/f		
5,637		
Increase required	1	S-Analysis
614		
<b>Award marks for own figures based on answers in Task 1.1.</b>		

Examiner's comments		
This requirement was less well answered, although some candidates did score full marks. Some candidates omitted one or more adjustments required; the most common mistake was to subtract the whole receivables allowance, rather than just the increase, from retained earnings.		
Total possible marks	5	2K, 3S
Maximum full marks	5	

Task 1.2 (b)	Marks	Nature
<b>The Inkwell Company Ltd – Statement of financial position as at 31 December 2023</b>		
£		
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets	425,529	}
Property, plant and equipment	2,614,501	} 1
	<u>3,040,030</u>	S-Analysis
<b>Current assets</b>		
Inventories (3,113,615 – 50,000)	3,063,615	1
Trade and other receivables (625,100 – 6,251)	618,849	1
Prepayments	120,000	1
Cash and cash equivalents (1,321,758 – 17,250)	1,304,508	1
	<u>5,106,972</u>	S-Quality and accurate information S-Quality and accurate information S-Quality and accurate information S-Quality and accurate information
<b>Total assets</b>	<b>8,147,002</b>	
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Ordinary share capital (£1 shares)	1,000,000	}
Retained earnings (Task 1.2(a))	3,162,566	} 1
Total equity	<u>4,162,566</u>	K-Technical
<b>Non-current liabilities</b>		
Long-term borrowings	1,863,431	} } 1
<b>Current liabilities</b>		
Short-term borrowings	96,905	}
Trade payables (1,616,810 – 17,250)	1,599,560	} 1
Income tax payable	96,540	}
Accruals	280,000	} 1
Provisions	48,000	1
	<u>2,121,005</u>	S-Quality and accurate information K-Regulation and compliance S-Quality and accurate information

<b>Total equity and liabilities</b>	<b>8,147,002</b>		
Title, headings and layout		1	K-Regulation and compliance
Award marks for own figures based on answers in Task 1.1.			
<b>Examiner's comments</b>			
Most candidates scored highly on this requirement and there was no single common mistake. However many candidates did omit at least part of the headings and titles required in a published statement of financial position, thereby missing out on an easy mark.			
Total possible marks		11	3K, 8S
Maximum full marks		10	

<b>Task 1.2 (c)</b>	<b>Marks</b>	<b>Nature</b>
Gearing ratio: $(1,863,431 / 4,162,566) \times 100 = 45\%$	1 (OF)	S-Analysis
<b>Examiner's comments</b>		
Most candidates correctly calculated gearing using the formula in the Advance Information.		
Total possible marks	1	1S
Maximum full marks	1	

<b>Task 1.2 (d)</b>	<b>Marks</b>	<b>Nature</b>
Inkwell will meet its internal target for the gearing ratio and its target in the loan agreement with Concordance Bank.	1	S-Analysis
1 mark for statement consistent with calculations		
Gearing risk is a measure of the risk arising from how far the business chooses to finance itself by debt rather than by equity.	1	K-Technical
High borrowing, in relation to the amount of shareholders' capital in the business, increases the risk of volatility in earnings,	1	K-Technical
and the risk of financial distress ie difficulty in making payments to creditors and possible insolvency.	1	K-Technical
Inkwell's low gearing (relative to its targets) indicates low financial risk.	1	K-Business awareness
And this may indicate the overall financial strategy of the board of directors.	1	B-Proactivity
Gearing has improved, ie financial risk has reduced slightly compared with 2022 when Inkwell's gearing was above its internal target	1	B-Adaptability
Because retained earnings have increased reflecting a profit in 2023 and a proportion of borrowings appear to have been repaid.	1	B-Adaptability
Max 3 marks for other comments		
<b>Examiner's comments</b>		
This requirement was generally poorly answered and had the lowest average mark of all the requirements on the paper. Most candidates stated correctly that Inkwell's gearing was below the maximum allowed by the		

targets. However, few candidates could explain what information gearing provides or even convey the basic point that gearing provides a measure of financial risk.		
Total possible marks	8	4K 1S 3B
Maximum full marks	4	

<b>Task 1.3</b>
<b>Examiner's comments</b>
Overall performance on this sub-task was mixed, giving the impression that candidates felt less confident with this part of the syllabus, and answers to part (b) in particular varied in quality.

Task 1.3 (a)	Marks	Nature
Statement 1: False	1	K-Regulation and compliance
Statement 2: True	1	K-Regulation and compliance
<b>Examiner's comments</b>		
This requirement was correctly answered by all candidates.		
Total possible marks	2	2K
Maximum full marks	2	

Task 1.3 (b)	Marks	Nature																								
<table border="0"> <tr> <td><u>Causes of risk of misstatement</u></td> <td><u>Assertion</u></td> <td></td> <td></td> </tr> <tr> <td>the company not actually owning the assets</td> <td>rights and obligations</td> <td>1+1</td> <td>S-Using systems and processes K-Systems and processes</td> </tr> <tr> <td>the assets not actually existing or having been sold by the company</td> <td>existence</td> <td>1+1</td> <td>S-Using systems and processes K-Systems and processes</td> </tr> <tr> <td>omission of assets owned by the company</td> <td>completeness</td> <td>1+1</td> <td>S-Using systems and processes K-Systems and processes</td> </tr> <tr> <td>the assets being overvalued, either by inflating cost or valuation, or by undercharging depreciation</td> <td>valuation</td> <td>1+1</td> <td>S-Using systems and processes K-Systems and processes</td> </tr> <tr> <td>the assets being undervalued, by not including an appropriate revaluation in a policy of revaluation or by overcharging depreciation</td> <td>valuation</td> <td>1+1</td> <td>S-Using systems and processes K-Systems and processes</td> </tr> </table>	<u>Causes of risk of misstatement</u>	<u>Assertion</u>			the company not actually owning the assets	rights and obligations	1+1	S-Using systems and processes K-Systems and processes	the assets not actually existing or having been sold by the company	existence	1+1	S-Using systems and processes K-Systems and processes	omission of assets owned by the company	completeness	1+1	S-Using systems and processes K-Systems and processes	the assets being overvalued, either by inflating cost or valuation, or by undercharging depreciation	valuation	1+1	S-Using systems and processes K-Systems and processes	the assets being undervalued, by not including an appropriate revaluation in a policy of revaluation or by overcharging depreciation	valuation	1+1	S-Using systems and processes K-Systems and processes		
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the assets being incorrectly presented in the financial statements	presentation and disclosure	1+1	S-Using systems and processes K-Systems and processes
Max 2 causes, 1 for each cause, 1 for the relevant assertion in each case			
<b>Examiner's comments</b>			
Answers to this requirement varied in quality, though some candidates gained full marks. The most common reason to lose marks was failing to correctly match the cause of a potential misstatement with the appropriate assertion.			
Total possible marks		12	6K, 6S
Maximum full marks		4	

Task 1.3 (c)	Marks	Nature
<u>Audit procedures – land and buildings</u>		
Select a sample of assets in the asset register and vouch them to appropriate original documents, eg title deeds for land and buildings to verify the rights of ownership and use.	1+1	S-Using systems and processes K-Systems and processes
Review charge records to verify the restrictions on Inkwel's rights, (for example, inability to sell the asset or raise additional finance using the asset as security and the details of the obligations it may have to the chargeholder).	1+1	S-Using systems and processes K-Systems and processes
Review sales invoices for purchased and sold assets to ensure that ownership has been transferred to or from Inkwel	1+1	S-Using systems and processes K-Systems and processes
Up to 2 per well explained point, max 4		
<u>Audit procedures – loan</u>		
Obtain/prepare schedule of the balance on the loan outstanding at the end of the reporting period showing the name of lender, date of loan, maturity date, interest date, interest rate, balance at the end of the period and security to verify obligations associated with the loan.	1+1	S-Using systems and processes K-Systems and processes
Examine signed Board minutes relating to the agreement of the loan to verify board agreement.	1+1	S-Using systems and processes K-Systems and processes
Obtain direct confirmation from Concordance of the amounts outstanding, accrued interest and the security they hold	1+1	S-Using systems and processes K-Systems and processes
Confirm assets charged have been entered in the register of charges and notified to the Registrar, to confirm validity of the obligations relating to the charge and consequent limitations on the rights Inkwel has over the assets.	1+1	S-Using systems and processes K-Systems and processes

Review restrictive covenants and provisions relating to default – including any correspondence relating to the loan, to confirm limitations on the rights Inkwell has over the assets.	1+1	S-Using systems and processes K-Systems and processes
In the event of a default, determine its effect, and schedule findings, to identify potential effect on Inkwell’s financial position.	1+1	S-Using systems and processes K-Systems and processes
<b>Up to 2 per well explained point, max 4</b>		
<u>Written representations</u>		
that any plans or intentions (eg the redevelopment plans) that may affect the carrying value of the land and buildings have been appropriately reflected in the financial statements	2	S-Using systems and processes
that Inkwell’s title to the land and buildings is valid and appropriately reflected in the classification and presentation of assets in the financial statements	2	S-Using systems and processes
that the charges on the land and buildings, and the implications of pledging those assets as collateral for the loan, are appropriately reflected and disclosed	2	S-Using systems and processes
any aspect of laws and regulations, including non-compliance (eg the dispute with the local council) is appropriately reflected in the financial statements	2	S-Using systems and processes
whether Inkwell’s management have selected and applied appropriate accounting policies and estimates and have made appropriate judgements (eg measurement basis, depreciation rates, useful lives and residual values)	2	S-Using systems and processes
<b>Up to 2 per well explained point, max 4</b>		
Communication – explanations to Zhi	1	S-Communication
<b>Examiner’s comments</b>		
Answers to this requirement were also mixed. Candidates who scored low marks showed poor knowledge of audit procedures and/or made very general comments. Some candidates struggled to identify relevant specific written representations.		
Total possible marks	29	9K, 20S
Maximum full marks	12	

<b>Task 1.4</b>
<b>Examiner’s comments</b>
This sub-task had the lowest average mark of the paper, although the average was still above the pass mark of 70%. It is disappointing that candidates struggle to demonstrate knowledge of ethical standards and to explain ethical issues. This may reflect the context of the question – the auditor is being asked to take on additional non-audit work – however, candidates need to be able to identify and respond to ethical challenges in a variety of situations.

Task 1.4 (a)	Marks	Nature
RH is potentially facing a self-review threat.	1	K-Ethical standards

If RH took an active role in designing elements of IT security and/or IT controls, they would be unable to independently review their effectiveness.	1	S-Planning and prioritisation
RH could safeguard against this threat by ensuring different staff provide IT advice and work on the audit.	1	B-Ethics and integrity
RH is potentially facing a management threat.	1	K-Ethical standards
RH's work could involve making judgements and taking decisions that are the responsibility of Inkwell's management and this is prohibited by FRC Ethical Standard and the ICAEW Code of Ethics.	1	S-Planning and prioritisation
An appropriate safeguard would exist if there was informed management (ie the member of management designated by the audit client to receive the results of a non-audit service such as IT advice has the capability and expertise to make independent judgements and decisions).	1	B-Ethics and integrity
There is an inter-relationship between the management threat and the self-review threat.	1	B-Ethics and integrity
In general, auditors are allowed to provide IT services where they do not relate to the accounting system or the financial statements. However, such services are only generally acceptable where there is informed management and the auditors do not take management decisions.	1	B-Professional scepticism
<b>Examiner's comments</b>		
This requirement was often poorly answered. Many candidates talked in general terms rather than identifying and explaining the specific threats that were relevant to this scenario. This was disappointing, especially as the study manual contains a similar example, which clearly explains why this situation would give rise to a self-review threat and a management threat. Almost no candidates explained that there was an inter-relationship between the management threat and the self-review threat.		
Total possible marks	8	2K, 2S, 4B
Maximum full marks	6	

Task 1.4 (b)	Marks	Nature
Company manuals of IT control activities and copies of internal controls policies	1	S-Using systems and processes
Minutes of meetings detailing IT risk assessments and responses	1	S-Using systems and processes
Records of IT controls from previous years and changes	1	S-Using systems and processes
Discussion with people involved with IT controls (asking them what the controls are and why they have been implemented)	1	S-Using systems and processes
Watching day to day operations to identify the IT controls being put into action.	1	S-Using systems and processes
<b>Examiner's comments</b>		
While some candidates scored full marks on this requirement, some candidates lost marks by making general points rather than suggesting sources of information specifically about IT controls.		
Total possible marks	5	5S
Maximum full marks	2	

<b>Task 2.1</b>
<b>Examiner's comments</b>
Overall performance on this sub-task was varied, with answers to parts (a) and (b) covering areas from Business Technology and Finance generally being better than answers to parts (c) and (d) covering areas from Law.

<b>Task 2.1 (a)</b>	<b>Marks</b>	<b>Nature</b>
Data stored on the network could be compromised by hackers ie could be deleted or corrupted or otherwise rendered unusable.	1	S-Using systems and processes B-Adding value
This would lead to operational problems as Inkwell would then lack important business records such (eg prices, suppliers' details).	1	
Sensitive data such as personal data of employees and customers or strategically important data such as pricing formulae etc could be stolen.	1	S-Using systems and processes B-Adding value
Hackers could then use this data to extort money from Inkwell from ransom demands or could sell the data to third parties	1	
Hacking can cause damage to computer networks which could put the business's physical infrastructure and/or operations at risk and cause damage to Inkwell's reputation.	1	S-Using systems and processes
For example, Inkwell may find itself locked out of its bank accounts and unable to collect payments from customers or make payments to suppliers,	1	B-Adding value
or if Inkwell's inventory management system is inaccessible it will be unable to process customer orders.	1	B-Adding value
<b>Examiner's comments</b>		
Many candidates scored full marks on this requirement. Candidates that scored lower marks tended to identify points without subsequently explaining them or relating them to Inkwell.		
Total possible marks	7	3S 4B
Maximum full marks	4	

<b>Task 2.1 (b)</b>	<b>Marks</b>	<b>Nature</b>
<b>Controls available to Inkwell</b>		
Use a firewall to secure its internet connection, in order to monitor and/or intercept traffic in and out and guard against unauthorised software being installed.	1+1	S-Using systems and processes B-Proactivity
Choose the most secure configuration of the system and of settings for its devices and software (for example, password criteria, two factor authentication) ensuring the system is set up with cyber security as a priority.	1+1	S-Using systems and processes B-Proactivity
Use physical controls and network procedures to control access to the system and the data therein - protecting confidentiality as well as ensuring data security.	1+1	S-Using systems and processes B-Proactivity
Use malware protection such as anti-virus software to detect, prevent and remove unwanted programs from a system.	1+1	S-Using systems and processes

Keep devices and software up to date ensuring that the latest updates to operating system and applications are installed.	1+1	B-Proactivity S-Using systems and processes
Train staff in good cybersecurity practice such as password requirements, network procedures.	1+1	B-Proactivity S-Using systems and processes B-Proactivity
<b>Examiner comments</b>		
In general, this requirement was very well answered with candidates showing an excellent knowledge of controls and how to apply them.		
Total possible marks	12	6S, 6B
Maximum full marks	4	

Task 2.1 (c)	Marks	Nature
<u>Benefits to Concordance Bank</u>		
Concordance Bank is now a secured creditor.	1	S-Analysis
If Inkwell defaulted on its debt repayments, Concordance Bank could recover its money by using its right of enforcement against the identified assets.	1	K-Regulation and compliance
In the event of Inkwell's insolvency, Concordance Bank could appoint a receiver in respect of the property charged.	1	K-Regulation and compliance
As a secured creditor, Concordance Bank would rank in priority to unsecured creditors in any liquidation of Inkwell.	1	K-Regulation and compliance
Concordance Bank can protect its position by preventing Inkwell from selling the assets subject to the charge and may also be able to prevent Inkwell from modifying the assets in any way or using the assets as security for other loans.	1	K-Regulation and compliance
<b>Max 2 for first two benefits</b>		
<u>Benefits to Inkwell</u>		
The main benefit to Inkwell is a lower cost of finance because of the security.	1	S-Analysis
Inkwell will be paying a lower interest rate than it would otherwise be paying on an unsecured loan because Concordance Bank perceives a lower risk associated with the loan.	1	B-Adding value
Inkwell may find it easier to agree a variation to the loan such as additional borrowing or payment holidays.	1	B-Adding value
<b>Max 2 for first two benefits</b>		
<b>Examiner's comments</b>		
This requirement was less well answered, with the second part (the benefits to Inkwell) being particularly poorly answered. Many scripts did not even identify that the main advantage to Inkwell is that it will pay a lower interest rate than it would on a comparable unsecured loan. Weaker answers tended to repeat the basic point that Concordance is a secured creditor, without explaining what that means.		
Total possible marks	8	4K, 2S, 2B
Maximum full marks	4	

Task 2.1 (d)	Marks	Nature
Inkwell is required to keep a copy of every instrument creating a charge.	1	K-Regulation and compliance
Cristina has an electronic copy of the original loan agreement obtained from Inkwell's back-up cloud drive so has complied with this requirement.	1	S-Analysis
Inkwell is required to deliver details and documentation to the Registrar within 21 days.	1	K-Regulation and compliance
Inkwell delivered details and documentation to the Registrar on time and has an acknowledgement from the Registrar of this, so it has complied with this requirement.	1	S-Analysis
Inkwell is required to keep a register of charges which must be available for inspection.	1	K-Regulation and compliance
Inkwell has not created any formal documentation of its own nor does it have the original charge documentation, so it has not complied with this requirement.	1	S-Analysis
<b>Examiner's comments</b>		
This requirement was also generally poorly answered, with many answers appearing confused. To obtain the marks candidates needed to identify the three legal requirements and state whether Inkwell had met each one.		
Total possible marks	6	3K 3S
Maximum full marks	5	

Task 2.2	Marks	Nature
<p>EMAIL From: Assistant Accountant To: Dale Flanagan Date: 12/03/2024 Subject: Supply chain management</p> <p>Dear Dale,</p> <p>Here are some draft report sections for you to use.</p> <p><u>Tier 1 and tier 2 suppliers</u></p> <p>Tier 1 suppliers are those who supply directly to Inkwell. Tier 2 suppliers do not supply directly to Inkwell but are suppliers who supply to Tier 1 suppliers,</p> <p>For example, a tier 1 supplier is Alterna SA who supplies Inkwell with pens; a tier 2 supplier is XTN Inc who supplies jewels to Alterna (Inkwell's tier 1 supplier)</p> <p><b>Max 2</b></p> <p><u>Inkwell's responsibilities</u></p> <p>A procurement team would normally deal mainly with Tier 1 suppliers:</p>	<p>1 (format)</p> <p>1</p> <p>1</p> <p>1</p>	<p>S-Communication</p> <p>S-Analysis</p> <p>S-Analysis</p> <p>K-Business awareness</p>

<p>We have direct relationships with Tier 1 suppliers backed by detailed contracts.</p>	<p>1</p>	<p>S-Using systems and processes</p>
<p>However, we should also consider the activities of our Tier 2 suppliers because their output is eventually used by us in our own products and services.</p>	<p>1</p>	<p>B-Adding value</p>
<p>Inkwell has more legal responsibilities in transactions with its Tier 1 suppliers,</p>	<p>1</p>	<p>K-Regulation and compliance</p>
<p>However it also has legal responsibilities to manage its supply chain as a whole (the network of organisations involved).</p>	<p>1</p>	<p>K-Regulation and compliance</p>
<p>And our stakeholders may consider that the company has a moral responsibility to manage ethical issues associated with all suppliers.</p>	<p>1</p>	<p>B-Adding value</p>
<p>This would include managing the environmental and social impact of the supply chain (eg, ensuring that all suppliers are adhering to acceptable employment practices, wherever they are located; paying suppliers fairly</p>	<p>1</p>	<p>S-Leadership</p>
<p><b>Max 2</b></p>		
<p><u>Issues in the supply chain:</u></p>		
<p>There are some possible transactions in our supply chain which are potentially unethical; or compromise our sustainability. Examples include:</p>		
<ul style="list-style-type: none"> <li>▪ Ecopal paper sustainability and use of Paparama:</li> </ul>	<p>1</p>	<p>S-Analysis</p>
<p>There is a significant risk that Paparama’s products will not be sustainable. Since Inkwell is marketing the Ecopal range as sustainable, using Paparama as a supplier could be a significant risk. (Inkwell knows it has a reputation for using materials in its products that are different from those described or of different quality to that claimed.)</p>	<p>1</p>	<p>B-Adaptability</p>
<ul style="list-style-type: none"> <li>▪ Jewels in pens:</li> </ul>	<p>1</p>	<p>S-Analysis</p>
<p>Some mineral and mining companies, generally based in countries where employment rights are weak and environmental enforcement is lax, are known to exploit workers and cause damage to the environment. XTN, a supplier to Alterna, was recently exposed for unsafe working practices at one of its sites</p>	<p>1</p>	<p>B-Adaptability</p>
<ul style="list-style-type: none"> <li>▪ International purchases, especially of jewels:</li> </ul>	<p>1</p>	<p>S-Analysis</p>
<p>Since we purchase internationally, we may become involved in transactions with companies operating in countries subject to sanctions or other legally binding trade restrictions, so we might (even inadvertently) breach sanctions or indirectly support companies subject to sanctions.</p>	<p>1</p>	<p>B-Adaptability</p>
<ul style="list-style-type: none"> <li>▪ Imported goods:</li> </ul>	<p>1</p>	<p>S-Analysis</p>
<p>Transportation of products – for example most paper is imported – across long distances may detract from overall sustainability. This may compromise the overall environmental sustainability of the finished stationery product.</p>	<p>1</p>	<p>B-Adaptability</p>
<ul style="list-style-type: none"> <li>▪ Transport activities resulting in CO2 emissions:</li> </ul>	<p>1</p>	<p>S-Analysis</p>
<p>We currently use air transport for next day delivery and many of our suppliers use air freight to transport goods to us. Using air rather than</p>	<p>1</p>	<p>B-Adaptability</p>

<p>surface transport has a disproportionately large and avoidable effect on carbon emissions and pollution.</p> <ul style="list-style-type: none"> <li>Deforestation:</li> </ul> <p>Since so many of our products are paper based, we have a particular impact on the environment if, for example, we use paper from non-sustainable sources, paper production also uses large amounts of bleach which also contributes to water pollution.</p> <p>Up to 2 for each point, if explained and related to Inkwell, max 6 Mark first 3 points only</p>	<p>1</p> <p>1</p>	<p>S-Analysis</p> <p>B-Adaptability</p>
<p><b>Examiner's comments</b></p> <p>Answers to this task were very good, with candidates showing a good knowledge of this area of the syllabus. This task had the second highest average mark. Generally, the difference between tier 1 and tier 2 suppliers and the responsibilities that Inkwell has in relation to its supply chain were well understood and explained. Answers to the second part of the requirement – to identify and explain three possible issues related to ethics or sustainability – were generally not as good, with weaker answers being very general rather than making points relevant to Inkwell. Also, not all candidates structured their answer as an email and so lost the communication mark that was available for doing so.</p>		
<p>Total possible marks</p> <p>Maximum full marks</p>	<p>22</p> <p>10</p>	<p>3K, 11S, 8B</p>

<p><b>Task 2.3</b></p> <p><b>Examiner's comments</b></p> <p>Overall performance on this sub-task was generally excellent - this was the best answered sub-task on the paper.</p>
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Task 2.3 (a)						Marks	Nature
<b>Time</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>		
	<b>£ 000</b>						
Revenue		400	600	800	840		
Operating costs		(280)	(420)	(560)	(588)		
Investment	(700)						
Installation	(30)						
Servicing			(17)				
Disposal					350		
Net cash flow	(730)	120	163	240	602		
DF	1.000	0.909	0.826	0.751	0.683		
PV	(730)	109	135	180	411		
NPV	105						
For revenues and investment (unchanged)						1	S-Analysis
For operating costs T1 – T4 (OF)						1	S-Analysis
For installation costs and servicing costs						1	S-Analysis
For project life of 4 years						1	B-Adaptability
For disposal value						1	S-Analysis
For applying discount factors at 10%						1	S-Analysis
For NPV (OF)						1	K-Technical

For excluding depreciation	1	S-Using systems and processes
Presentation / layout	1	S-Quality and accurate information
<b>Examiner comments</b>		
Many candidates scored full marks on this requirement, being easily able to combine the data in the Advance Information with the new information provided in the exam paper to produce a completely correct discounted cash flow table. The only common error related to timing, the new information in the question changed the project time period and some candidates failed to reflect this in the discounted cash flow table, presenting the cash flows over five years rather than four.		
Total possible marks	9	1K, 7S, 1B
Maximum full marks	8	

Task 2.3 (b)	Marks	Nature
Inkwell should proceed with the investment because the NPV is positive.	1 1	B-Adaptability K-Technical
<b>Examiner comments</b>		
This requirement was very well answered. All candidates correctly interpreted a positive NPV to mean a worthwhile investment.		
Total possible marks	2	1K, 1B
Maximum full marks	2	

Task 2.3 (c)	Marks	Nature
The advantages of NPV rather than ARR, as a decision-making technique are:		
<ul style="list-style-type: none"> <li>It is consistent with the assumed objective of shareholder wealth maximisation because it directly measures, in absolute (£) terms, the effect of taking on the project now. ARR is a percentage and it is possible for a project to generate a negative NPV even if the ARR is above the company's target ARR.</li> </ul>	1+1	B-Adding value S-Analysis
<ul style="list-style-type: none"> <li>It considers the time value of money, ie, the further away the cash flow the less it is worth in present terms. ARR ignores the time value of money by taking a simple average of profit figures.</li> </ul>	1+1	B-Adding value S-Analysis
<ul style="list-style-type: none"> <li>Risk can be incorporated into decision making by adjusting the company's discount rate. ARR typically does not account for risk.</li> </ul>	1+1	B-Adding value S-Analysis
<ul style="list-style-type: none"> <li>It considers all relevant cash flows, so that it is unaffected by the accounting policies which affect profit-based investment appraisal techniques such as ARR.</li> </ul>	1+1	B-Adding value S-Analysis
<ul style="list-style-type: none"> <li>It provides clear, unambiguous decisions, ie, if the NPV is positive, accept; if it is negative, reject. A decision based on ARR requires comparison of the project ARR with an (possibly arbitrary) target or benchmark ARR.</li> </ul>	1+1	B-Adding value S-Analysis

Max 3 reasons, max 2 per reason if well explained and linking NPV with ARR.		
<b>Examiner comments</b> This requirement was full site generally very well answered, candidates could explain very well the advantages of using NPV rather than ARR as a decision-making technique. Candidates also generally made a good job of explaining their points, thus scoring the 2 marks available for each point.		
Total possible marks Maximum full marks	10 6	5S, 5B