



Rewarding Learning

ADVANCED
General Certificate of Education
January 2013

GCE Applied Business

Assessment Unit A2 7

assessing

Finance

[A6B11]

THURSDAY 17 JANUARY, MORNING

MARK SCHEME

1 (a) You are required to prepare a cash budget for Organic Cottons for the months of April, May, and June only.

(b) **Table B – Cash Budget**

	April	May	June
Opening Balance	(13,200)	2,815	4,265
Cashflows in:			
Cash Sales	84,700	93,100	85,400
Trade Receivables	37,500	36,300	39,900
Total Cashflows in:	122,200	129,400	125,300
Cashflows Out:			
Wages	7,200	7,200	7,200
Purchases (Accounts Payable)	89,000	108,250	111,000
Overheads	9,985	12,500	13,600
Total Cashflows Out:	106,185	127,950	131,800
Closing Balance	2,815	4,265	(2,235)

Marking (1 mark for each of the following figures):

April:

- Overheads, £9,985
- Total cashflows out, £106,185

May:

- Trade Receivables, £36,300
- Total Cashflows in, £129,400
- Overheads, £12,500
- Total Cashflows out, £127,950
- Closing Balance, £4,265

June:

- Opening Balance, £4,265
- Cash Sales, £85,400
- Total Cashflows in, £125,300
- Purchases (Accounts payable), £111,000
- Overheads, £13,600
- Total Cashflows Out, £131,800
- Closing Balance, -£2,235

(Note: OFR applies.)

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- (b) Evaluate each of the following sources of finance available to a business such as 'Organic Cottons'.

1. Capital Equity

Advantages	
1	Personal savings/private loans from family are often used to provide the first injection of money into a business.
2	It is important to recognise that the amount of money made available to a business can often be determined by the degree of risk involved in the investment.
Disadvantages	
1	Using personal savings/private loans from family to start up or expand a business, their liability in the case of insolvency is unlimited.
2	Personal savings is a very limited source and there is sometimes a need for finance to be acquired from additional sources.

	AO1 Knowledge and Understanding	AO2 Application	AO3 Analysis	AO4 Evaluation
Level 2	2 marks Candidate demonstrates a good understanding of capital equity.	2 marks Candidate applies satisfactory level of knowledge in context of stimulus material.	2 marks Candidate demonstrates a satisfactory level of analysis.	2 marks Candidate demonstrates a satisfactory level of evaluation. SPG of a high standard.
Level 1	1 mark Candidate demonstrates a limited understanding of capital equity.	1 mark Candidate applies limited knowledge in context of stimulus material.	1 mark Candidate demonstrates a limited level of analysis.	1 mark Candidate demonstrates a limited level of evaluation.
Level 0	0 marks Candidate demonstrates no understanding of the term capital equity.	0 marks Candidate does not attempt to apply knowledge to stimulus material.	0 marks Candidate does not demonstrate analysis.	0 marks Candidate demonstrates no evaluation.

[8]

2. Financial Assistance from government agencies - Grants

Advantages	
1	Finance can be provided to businesses operating in areas of high unemployment and for some new businesses.
2	Government assistance is selective and tends to take the form of grants.
3	Grants for various businesses have also been made available through the European Union.
Disadvantages	
1	Businesses may have to pay back the grant.
2	It is important to realise that the same grants are not always available, as their availability can vary with the economic status of the area in which the business is situated and the needs of other areas either within the United Kingdom or within Europe in the case of a grant from the EU.

	AO1 Knowledge and Understanding	AO2 Application	AO3 Analysis	AO4 Evaluation
Level 2	2 marks Candidate demonstrates a good understanding of financial assistance from government agencies.	2 marks Candidate applies satisfactory level of knowledge in context of stimulus material.	2 marks Candidate demonstrates a satisfactory level of analysis.	2 marks Candidate demonstrates a satisfactory level of evaluation. SPG of a high standard.
Level 1	1 mark Candidate demonstrates a limited understanding of financial assistance from government agencies.	1 mark Candidate applies limited knowledge in context of stimulus material.	1 mark Candidate demonstrates a limited level of analysis.	1 mark Candidate demonstrates a limited level of evaluation.
Level 0	0 marks Candidate demonstrates no understanding of the term financial assistance from government agencies.	0 marks Candidate does not attempt to apply knowledge to stimulus material.	0 marks Candidate does not demonstrate analysis.	0 marks Candidate demonstrates no evaluation.

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- 2 (a) Using the information **from the trial balance**, complete the Income Statement of "Jammy Doughnuts" for the year ended 31st December 2012.

Jammy Doughnuts' Income Statement for the year ended 31 December 2012.

	£	£	£
Sales Revenue			85,300
LESS: COST OF SALES			
Opening Inventory		1,707	
Add Purchases		10,250	
Less Closing Inventory		<u>560</u>	
Cost of Sales			<u>11,397</u>
GROSS PROFIT			73,903
LESS EXPENSES:			
Advertising		532	
Rent		12,000	
Electricity		317	
Wages		37,800	
Telephone		527	
Depreciation of Equipment		1,840	
Administration Expenses		999	
Insurance		1,860	
Allowance for Trade Receivables		200	56,075
NET PROFIT			17,828

(OFR) applies

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(b) Using the information **from the trial balance**, complete the Statement of Financial Position of “Jammy Doughnuts” as at 31st December 2012.

Jammy Doughnuts' Statement of Financial Position as at 31 December 2012.

	£ Cost	£ Depreciation	£ Written Down value
NON-CURRENT ASSETS			
Equipment	9,200	1,840	7,360
	9,200	1,840	7,360
CURRENT ASSETS			
Closing Inventory			560
Trade receivables		800	
Less allowance for trade receivables		200	600
Prepayment			104
Bank			4,121
TOTAL CURRENT ASSETS			5,385
TOTAL ASSETS			12,745
EQUITY AND LIABILITIES			
Opening Capital			8,900
Add Profit			17,828
Less Drawings			(15,000)
TOTAL OWNER'S CAPITAL			11,728
CURRENT LIABILITIES			
Trade Payables			950
Accruals			67
TOTAL CURRENT LIABILITIES			1,017
TOTAL EQUITY AND LIABILITIES			12,745

(OFR) applies

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(c) James is unfamiliar with some accounting terms which appear in his Income Statement and his Statement of Financial Position.

(i) Define **accruals** and explain the reasons for their inclusion in the financial statements.

Accruals – An accrual (amount owing) is an expense that belongs to the current accounting period.

Electricity often has to be accrued, e.g. in a business (Jammy Doughnuts) if the financial year is January to December, and the electricity bill for November and December arrives in January, some of the expense will belong to the last financial year (£67). The business (Jammy Doughnuts) will have to estimate how much should be charged and make an accrual.

Add the amount of the accrual to the expense in the Income Statement. Include the amount of the accrual in the Current Liabilities, in the Statement of Financial Position (Jammy Doughnuts must pay it as they are liable for it).

	AO1 Knowledge and Understanding	AO2 Application
Level 2	2-3 marks Candidate demonstrates a satisfactory understanding of accruals.	2 marks Candidate demonstrates a satisfactory level of application.
Level 1	1 mark Candidate demonstrates a limited understanding of accruals.	1 mark Candidate demonstrates a limited level of application.
Level 0	0 marks Candidate demonstrates no understanding of accruals.	0 marks Candidate demonstrates no application.

[5]

(ii) Define **prepayments** and explain the reasons for their in the financial statements.

Prepayments – A prepayment is the part of an expense which is paid in advance for the next month or the next year.

An invoice included in the final statements may cover a period of the next financial year. For example, a business (Jammy Doughnuts) have telephone expenses of £631 for a year's services. As the business (Jammy Doughnuts) financial year runs from January to December, Jammy Doughnuts has paid £631, of which £104 belongs to the next year.

Deduct the prepayment amount from the expense in the Income Statement. Include the amount of the prepayment with the Current

Assets in the Statement of Financial Position (it is an 'advantage' to Jammy Doughnuts as they have prepaid an expense).

	AO1 Knowledge and Understanding	AO2 Application
Level 2	2–3 marks Candidate demonstrates satisfactory understanding of prepayments.	2 marks Candidate demonstrates a satisfactory level of application.
Level 1	1 mark Candidate demonstrates a limited understanding of prepayments.	1 mark Candidate demonstrates a limited level of application.
Level 0	0 marks Candidate demonstrates no understanding of prepayments.	0 marks Candidate demonstrates no application.

[5]

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3 (a) Calculate the payback period for this project:

	Annual Net Cashflow (£)	Cumulative Net Cashflow (£)
Initial Investment	(100,000)	(100,000)
Year 1	40,000	(60,000)
Year 2	40,000	(20,000)
Year 3	20,000	0

Payback period is: **3 Years**

([1] × 4) for calculation (OFR) applies [4]

(b) Calculate the Net Present Value (NPV) of this project.

Year	Annual Net Cashflow (£)	Discount Factor (10%)	Present Value (£)
Year 1	40,000	0.9091	36,364
Year 2	40,000	0.8264	33,056
Year 3	20,000	0.7513	15,026
Total Present Value			84,446
Less: Initial Investment			100,000
Net Present Value			(15,554)

[1] × 5 for calculation (OFR) applies [5]

- (c)
- Payback will take 3 years for the project;
 - NPV is (£15,554) which is negative for the project;
 - 2 different methods - use of cashflows yield contradictory results.

The project appears to be acceptable using the payback method.

- This method is useful for situations where technology changes rapidly such as investments in machinery and it is important to recover the cost of the investment as soon as possible.
- Estimated cashflows are insufficient to finance the project - deficit of £15,554 reported.

The project appears to be unacceptable using the NPV method.

- The NPV uses the time concept of money.
- Discount factor inaccurate.
- Estimated variable costs rise in year 2 - are estimations accurate?
- Estimated sales revenues decline over 3 years, drop in sales price suggested (41p v 28p/ltr).
- Final Judgement: Project should not proceed.

(3 points × [5] = 15 + 1 (Final Judgement))

Cash Flow

Income/Expenditure, Payback Period, Net Present Value, Discount Factor Accuracy

Estimated Variable Costs

Accuracy, over three Years, Change over time, knock-on effect on payback and NPV

Estimated Sales Revenue

Accuracy of Sales Revenue, Unit Prices, depreciation of money over time, knock-on effect on payback and NPV

Final Judgement

The project appears unacceptable using the NPV method

The project appears acceptable using the Payback period

	AO1 Knowledge and Understanding	AO2 Application	AO3 Analysis	AO4 Evaluation
Level 3	<p>3 marks</p> <p>Candidate demonstrates a good understanding of the investment as proposed.</p> <p>Candidate makes good use of specialist vocabulary when it is appropriate.</p>	<p>3 marks</p> <p>Candidate applies knowledge effectively.</p>	<p>3 marks</p> <p>Candidate thoroughly analyses the investment as proposed.</p>	<p>6–7 marks</p> <p>Candidate gives a full evaluation of the investment as proposed. Candidate demonstrates good spelling, punctuation and grammar. The meaning of the text is clear. Final judgement is clearly stated. The candidate has consistently used a form and style of writing appropriate to the purpose of the question. Answer is organised in a clear and coherent manner.</p>
Level 2	<p>2 marks</p> <p>Candidate demonstrates an adequate understanding of the investment as proposed.</p> <p>Candidate makes adequate use of specialist vocabulary when it is appropriate.</p>	<p>2 marks</p> <p>Candidate attempts to apply reasonable knowledge</p>	<p>2 marks</p> <p>Candidate shows some attempt to analyse the investment as proposed.</p>	<p>2–5 marks</p> <p>Candidate gives a satisfactory evaluation of the investment as proposed. Candidate demonstrates satisfactory spelling, punctuation and grammar. The meaning of the text is clear most of the time. Final judgement is stated. The candidate demonstrates a satisfactory level of writing, form and style of writing appropriate to the purpose of the question. Answer is organised in a satisfactory manner.</p>

	AO1 Knowledge and Understanding	AO2 Application	AO3 Analysis	AO4 Evaluation
Level 1	<p>1 mark</p> <p>Candidate demonstrates some understanding of the investment as proposed.</p> <p>Candidate makes some use of specialist vocabulary when it is appropriate.</p>	<p>1 mark</p> <p>Candidate attempts to apply some knowledge.</p>	<p>1 mark</p> <p>Candidate shows little attempt to analyse the investment as proposed.</p>	<p>1 mark</p> <p>Candidate attempts some evaluation of the investment as proposed. Candidate makes limited use of spelling, punctuation and grammar. The meaning of the text is not always clear. The candidate demonstrates a limited form and style of writing appropriate to the purpose of the question. The organisation of the answer is limited.</p>
Level 0	<p>0 marks</p> <p>Candidate demonstrates no understanding of the investment as proposed.</p> <p>Candidate makes no use of specialist vocabulary when it is appropriate.</p>	<p>0 marks</p> <p>Candidate does not attempt to apply knowledge.</p>	<p>0 marks</p> <p>Candidate shows no attempt to analyse the investment as proposed.</p>	<p>0 marks</p> <p>Candidate makes no attempt to evaluate the investment as proposed.</p>

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Total

80