



Rewarding Learning

**ADVANCED
General Certificate of Education
January 2014**

GCE Applied Business

Assessment Unit A2 7

assessing

Finance

[A6B11]

FRIDAY 17 JANUARY, MORNING

MARK SCHEME

General Marking Instructions

Introduction

Mark schemes are published to assist teachers and students in their preparation for examinations. With the mark schemes teachers and students will be able to see what examiners are looking for in response to questions and exactly where the marks have been awarded. The publishing of the mark schemes may be seen to show that examiners are not concerned about finding out what a student does not know but rather with rewarding students for what they do know.

The Purpose of Mark Schemes

Examination papers are set and revised by teams of examiners and revisers appointed by the Council. The teams of examiners and revisers include experienced teachers who are familiar with the level and standards expected of students in schools and colleges.

The job of the examiners is to set the questions and the mark schemes; and the job of the revisers is to review the questions and mark schemes commenting on a large range of issues about which they must be satisfied before the question papers and mark schemes are finalised.

The questions and the mark schemes are developed in association with each other so that the issues of differentiation and positive achievement can be addressed right from the start. Mark schemes, therefore, are regarded as part of an integral process which begins with the setting of questions and ends with the marking of the examination.

The main purpose of the mark scheme is to provide a uniform basis for the marking process so that all the markers are following exactly the same instructions and making the same judgements in so far as this is possible. Before marking begins a standardising meeting is held where all the markers are briefed using the mark scheme and samples of the students' work in the form of scripts. Consideration is also given at this stage to any comments on the operational papers received from teachers and their organisations. During this meeting, and up to and including the end of the marking, there is provision for amendments to be made to the mark scheme. What is published represents this final form of the mark scheme.

It is important to recognise that in some cases there may well be other correct responses which are equally acceptable to those published: the mark scheme can only cover those responses which emerged in the examination. There may also be instances where certain judgements may have to be left to the experience of the examiner, for example, where there is no absolute correct response – all teachers will be familiar with making such judgements.

1 (a) (i)

Ken's Kabin		
Income Statement for the year ended 31 December 2013		
	Dr (£)	Cr (£)
Sales Revenue		345,000
Opening Inventories	20,000	
Purchases	250,000	
	270,000	
Closing Inventories	30,000	
Cost of Sales		240,000
Gross Profit		105,000
Discount Received		5,000
		110,000
Less Expenses		
Loan interest	3,500	
Motor Expenses	8,500	
Light & Heat	4,500	
General Expenses	3,500	
Rent	7,500	
Discount Allowed	1,250	
Insurance	1,000	
Wages	50,000	
Allowance on Trade Receivables	5,000	
Depreciation Equipment	8,000	
Depreciation Motor Vehicles	25,000	
Total Expenses		117,750
Net Loss		(7,750)

Marking: [9] for figures highlighted (correctly stated **and** annotated).

(9 × [1])

[9]

(OFR applies)

(ii)

Ken's Kabin			
Statement of Financial Position as at 31 December 2013			
Non Current Assets	Total	Acc Dep	WDV
Premises	210,000	0	210,000
Motor Vehicles	100,000	25,000	75,000
Equipment	80,000	8,000	72,000
	390,000	33,000	357,000
Current Assets			
Inventories			30,000
Trade Receivables		100,000	
Allowance for Trade Receivables		(5,000)	95,000
Cash			1,000
Prepayment			750
Total Current Assets			126,750
Total Assets			483,750
Equity			
Capital			309,500
Less Net Loss			(7,750)
			301,750
Less Drawings			15,000
Total Equity			286,750
Non Current Liabilities			
Bank Loan			70,000
Current Liabilities			
Trade Payables			120,000
Bank			6,000
Accruals			1,000
Total Current Liabilities			127,000
Total Equity & Liabilities			483,750

Marking: [10] for figures highlighted (correctly stated **and** annotated).

(OFR applies)

(10 × [1])

[10]

- (b) Ken is retiring and wishes to sell the business to Jenny. Evaluate the usefulness of the financial statements to Jenny, as she seeks to acquire the business.
- The financial statements provide a record of all transactions and summarised financial position for the owner – this provides a starting point for setting a sale price, whether the price is based on book values, market price, or negotiated price in excess of net worth/assets; this would assist Jenny in assessing the fairness of the asking price;
 - The financial statements highlight financial strengths of the business, which would persuade a potential buyer of the attractiveness of the business and enable Jenny to assess the future prospects of the business, e.g. location/goodwill/competitive advantage;
 - The financial statements contain information which may be out of date; the financial statements are often prepared for an accounting period of one year, hence need updating to ensure successful sale of the business;
 - The financial statements are subject to manipulation or professional judgement – i.e. provisions impact profits; depreciation rates used affect profits and asset values, hence may be manipulated to show a more favourable financial position than is otherwise the case;
 - The financial statements summarise the profitability and solvency of the business, which Jenny would need to check before acquisition – an audit might be required to verify losses/extent of debts as shown in the financial statements; it would enable her to ask Ken why the business is making a loss.

	AO1 Knowledge and Understanding	AO2 Application	AO3 Analysis	AO4 Evaluation
Level 3	3–4 marks Candidate demonstrates a competent understanding of the usefulness of the financial statements. Candidate makes good use of specialist vocabulary when it is appropriate.	3–4 marks Candidate makes a competent attempt to apply knowledge.	3–4 marks Candidate competently analyses the usefulness of the financial statements.	3–4 marks Candidate makes a competent evaluation of the usefulness of the financial statements and comes to a final judgement. Candidate demonstrates good spelling, punctuation and grammar. The meaning of the text is clear. 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.
Level 2	2 marks Candidate demonstrates a satisfactory understanding of the usefulness of the financial statements. Candidate makes adequate use of specialist vocabulary when it is appropriate.	2 marks Candidate makes a satisfactory attempt to apply knowledge.	2 marks Candidate shows a satisfactory attempt to analyse the usefulness of the financial statements.	2 marks Candidate makes a satisfactory evaluation of the usefulness of the financial statements and comes to a final judgement. Candidate demonstrates satisfactory spelling, punctuation and grammar. The meaning of the text is clear most of the time. The candidate demonstrates a satisfactory level of writing, form and style appropriate to the purpose of the question. Answer is organised in a satisfactory manner.
Level 1	1 mark Candidate demonstrates limited understanding of the usefulness of the financial statements. Candidate makes some use of specialist vocabulary when it is appropriate.	1 mark Candidate makes a limited attempt to apply knowledge.	1 mark Candidate shows a limited attempt to analyse the usefulness of the financial statements.	1 mark Candidate makes a limited evaluation of the usefulness of the financial statements. 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 appropriate to the purpose of the question. The organisation of the answer is limited.
Level 0	0 marks Candidate demonstrates no understanding of the usefulness of the financial statements. Candidate makes no use of specialist vocabulary when it is appropriate.	0 marks Candidate does not attempt to apply knowledge.	0 marks Candidate shows no attempt to analyse the usefulness of the financial statements.	0 marks Candidate makes no attempt to evaluate the usefulness of the financial statements.

AVAILABLE MARKS

[16]

35

- 2 (a) Calculate the following (you must express your answers to one decimal place), for the year ended 31 December 2013.

Return on Capital Employed:	
Profit before Tax	£20m
Finance Costs	£5m
Total	£25m
Total Assets	£300m
Current Liabilities	£ 25m
Total	£275m
Formula	$\frac{£25m}{£275m} = 9.1\%$
Answer	9.1%
[1] Calculation of total profits;	
[1] calculation of ROCE	
(2 × [1])	[2]
<hr/>	
Current Ratio:	
Current Assets	£ 50m
Current Liabilities	£ 25m
Formula	$\frac{£50m}{£25m} = 2 : 1$
Answer 2 : 1	
[1] Calculation of current liabilities;	
[1] calculation of current ratio	
(2 × [1])	[2]
<hr/>	
Gearing:	
<hr/>	
Non-current liabilities:	£45m
Equity & reserves	£230m
Formula:	$\frac{£45m}{(£230m+£45m)}$
Answer:	$\frac{£45m}{£275m} = 16.4\%$
[1] calculation of denominator (£275m) (or £230m + £45m);	
[1] calculation of ratio	
(2 × [1])	[2]

[6]

(b) Evaluate Flyzo’s financial performance using the following accounting ratios.

(i) Return on Capital Employed:

- Compared to Competitors Flyzo is not doing better (9.1% v 20%), i.e. it yields a lower return on investment – due to either lower margin from sales and/or higher cost of sales compared to rival;
- Possible reasons:
 - The Net Profit for Flyzo Plc in 2013 is £15m (after tax) – seems low;
 - The Sales revenues for competitor are £90m, nearly 3 times lower than Flyzo, hence the competitor might appear more profitable.
 - Company is inefficient in use of assets.

(ii) Current Ratio:

- Flyzo Plc have a Current Ratio of 2 : 1 during 2013
- Competitors Current Ratio in 2013 was 1 : 1
- Flyzo Plc is in a much better position in 2013 than their competitor due to better management of non-current assets
- This is good for Flyzo as it suggests good credit control, inventory management and cash flows.

(iii) Gearing Ratio:

- Gearing level in Flyzo plc is 16.4%
- This level is lower than competitor’s ratio of 25%
- This would suggest that the level of debt is lower for Flyzo
- This issue needs to be reviewed to ensure financial stability.

	AO1 Knowledge and Understanding	AO2 Application	AO3 Analysis	AO4 Evaluation
Level 2	3 marks Candidate demonstrates a competent understanding of accounting ratios/financial position and supporting calculations.	3 marks Candidate competently applies knowledge in context of stimulus material.	3 marks Candidate competently analyses the financial position in context of stimulus material.	3 marks Candidate competently evaluates the financial position in context of stimulus material.
Level 1	1–2 marks Candidate demonstrates a satisfactory understanding of accounting ratios/financial position and supporting calculations.	1–2 marks Candidate makes a satisfactory attempt to apply knowledge in context of stimulus material.	1–2 marks Candidate makes a satisfactory attempt to analyse the financial position in context of stimulus material.	1–2 marks Candidate makes a satisfactory attempt to evaluate the financial position in context of stimulus material.
Level 0	0 marks Candidate demonstrates no understanding of accounting ratios/financial position and supporting calculations.	0 marks Candidate does not attempt to apply knowledge to stimulus material.	0 marks Candidate does not attempt to analyse the information relative to stimulus material.	0 marks Candidate does not attempt to evaluate the financial position.

AVAILABLE MARKS

[12]

18

- 3 (a) (i) Calculate the number of pairs of boxing gloves which must be produced/sold in order to breakeven.

Breakeven Point (BEP):

FC/CPU, where

FC = £100,000

CPU = £25.00

BEP = £100,000/£25.00 = 4000 pairs of boxing gloves

Marking: [1] FC; [1] CPU; [1] BEP; (3 × [1]) [3]

- (ii) Calculate the number of punch-bags which must be produced/sold in order to breakeven:

Breakeven Point (BEP):

FC/CPU, where

FC = £150,000

CPU = £50.00

BEP = £150,000/£50.00 = 3000 punch-bags

Marking: [1] FC; [1] CPU; [1] BEP; (3 × [1]) [3]

- (iii) Calculate the total **additional** contribution (£) that would arise, if the management team revise the current production plan, and decide to proceed with the production and sale of 3000 pairs of boxing gloves and 7000 punch-bags:

Current Total Contribution:

Boxing Glove sets:

Total number of sales currently made × CPU

= 5000 × £25.00 = £125,000

Punch-bags:

Total number of sales currently made × CPU

= 5000 × £50.00 = £250,000

Total Contribution = £125,000 + £250,000 = £375,000 [2]

Revised Contribution:

Boxing Glove sets:

Total number of sales proposed × CPU

= 3000 × £25.00 = £75,000

Punch-bags:

Total number of sales proposed × CPU = 7000 × £50.00 = £350,000

Total Contribution = £75,000 + £350,000 = £425,000 [2]

Additional Contribution =

Revised Contribution – Current Contribution

= £425,000 – £375,000 = £50,000 [2] [6]

Alternative calculations:

Boxing Glove sets lost contribution: $-2000 \times £25$
 $-\text{£}50,000$ [2]

Punch-bags additional contribution: $+2000 \times £50$
 $+\text{£}100,000$ [2]

Thus, net additional contribution: $\text{£}50,000$ [2]

- (b) Each product manufactured by Sportz Limited is produced across a range of departments. Using the appropriate information, complete the following table showing clearly the overhead absorption rates for each department, per machine hour (you must show your answers to two decimal places).

Overhead Absorption Rates – January			
	Production Dept.	Assembly Dept.	Painting Dept.
Machine Hours	66,660	5,555	556
Total overheads (£)	33,330	11,110	5,560
Overhead Rate per Machine Hour (£)	£0.50	£2.00	£10.00

Marking: (3 × [1])

[3]

- (c) For each of the following items of expenditure identify one source of debt finance, and evaluate the extent to which each source of finance would be appropriate for Sportz Limited.

Expenditure	External Source of Finance
Increased Inventories	Bank Overdraft
<ul style="list-style-type: none"> • A Bank overdraft is when the bank allows an organisation to overspend its current account at the bank up to an agreed amount overdraft limit and for a short stated time only. • They are particularly useful to seasonal businesses which are likely to experience some cash flow problems at certain times of the year. • Disadvantage – the interest rate is usually higher than a loan. • Disadvantage – only intended as source of short term finance, but can extend to longer period. <p>Alternative sources considered. (Note: bank loan only accepted if explicit reference made to short term use only or short term nature of inventoria)</p>	
Expenditure	External Source of Finance
New factory equipment	Bank Loan
<ul style="list-style-type: none"> • A Loan is a form of medium/long term finance and is typically used to buy, e.g. machinery. • These assets are used as security for the loan, so if the repayments are not met the building is sold. • A loan is generally for 5 years paid monthly inclusive of interest • Disadvantage – costly compared to other forms of finance. • Disadvantage – fees for early repayment. <p>Alternative sources considered.</p>	

	AO1 Knowledge and Understanding	AO2 Application	AO3 Analysis	AO4 Evaluation
Level 3	2 marks Candidate demonstrates a competent understanding of various sources of debt finance. Candidate makes good use of specialist vocabulary when it is appropriate.	2 marks Candidate makes a competent attempt to apply knowledge.	4 marks Candidate competently analyses debt finance as a source of finance in business.	4 marks Candidate makes a competent evaluation of debt finance in business and comes to a final judgement. Candidate demonstrates good spelling, punctuation and grammar. The meaning of the text is clear. 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.
Level 2	2 marks Candidate demonstrates a satisfactory understanding of various sources of debt finance. Candidate makes adequate use of specialist vocabulary when it is appropriate.	2 marks Candidate makes a satisfactory attempt to apply knowledge.	2 marks Candidate makes a satisfactory attempt to analyse various sources of debt finance.	2 marks Candidate makes a satisfactory evaluation of debt finance and comes to a final judgement. Candidate demonstrates satisfactory spelling, punctuation and grammar. The meaning of the text is clear most of the time. The candidate demonstrates a satisfactory level of writing, form and style appropriate to the purpose of the question. Answer is organised in a satisfactory manner.
Level 1	1 mark Candidate demonstrates limited understanding of various sources of debt finance in business. Candidate makes some use of specialist vocabulary when it is appropriate.	1 mark Candidate makes a limited attempt to apply knowledge.	1 mark Candidate shows a limited attempt to analyse various sources of debt.	1 mark Candidate attempts limited evaluation of debt finance in business. 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 appropriate to the purpose of the question. The organisation of the answer is limited.
Level 0	0 marks Candidate demonstrates no understanding of various sources of debt finance in business. Candidate makes no use of specialist vocabulary when it is appropriate.	0 marks Candidate does not attempt to apply knowledge.	0 marks Candidate shows no attempt to analyse various sources of debt finance in business.	0 marks Candidate makes no attempt to evaluate debt finance in business.

[12]

Total

AVAILABLE MARKS

27

80