



**General Certificate of Education**

**Applied Business 8616/8619**

**BS15      Financial Accounting for Managers**

**Mark Scheme**

*2007 examination - June series*

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

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	<b>Assessment Objectives</b>
	The Assessment Objectives represent those qualities which can be demonstrated in candidates' work and which can be measured for the purposes of assessment.
AO1 Knowledge, skills and understanding	Candidates demonstrate knowledge and understanding of the specified content and relevant business skills.
AO2 Application of knowledge, skills and understanding	Candidates apply knowledge and understanding of the specified content and relevant business skills.
AO3 Research and analysis	Candidates use appropriate methods in order to obtain and select information from a range of sources to analyse business problems.
AO4 Evaluation	Candidates evaluate evidence to reach reasoned judgements.
<b>Quality of Written Communication</b>	<p>The quality of written communication is assessed in all assessment units where candidates are required to produce extended written material. Candidates will be assessed according to their ability to:</p> <ul style="list-style-type: none"> <li>• select and use a form and style of writing appropriate to purpose and complex subject matter</li> <li>• organise relevant information clearly and coherently, using specialist vocabulary when appropriate</li> <li>• ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear.</li> </ul> <p>The assessment of the quality of written communication is included in Assessment Objective 4.</p>

1

**Total for this question: 15 marks**

(a) (i) *Explain the purpose of a statement of account.* (2 marks)

The statement of account is sent from the seller to the buyer to show how much the buyer owes the seller for the transactions that have taken place over a period of time.

1 mark for basic explanation  
1 mark for development.

(ii) *Using **Item A**, calculate how much Weekend Wear owes Street Style Ltd on 30 April 2007. Show your calculations.* (3 marks)

£60 000 – £6000 = £54 000 (10% discount)  
£54 000 + £9450 = £63 450 (+VAT)

£4000 – £400 = £3600 (10% discount)  
£3600 + £630 = £4230 (+VAT)

£63 450(1) – £4230(1) = £59 220(1) OFR

(b) *Explain why Street Style Ltd would use a purchases book to record its financial transactions.* (4 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate fully explains purpose.	4	AO1
2	Candidate partially explains purpose.	2–3	
1	Candidate states purpose.	1	

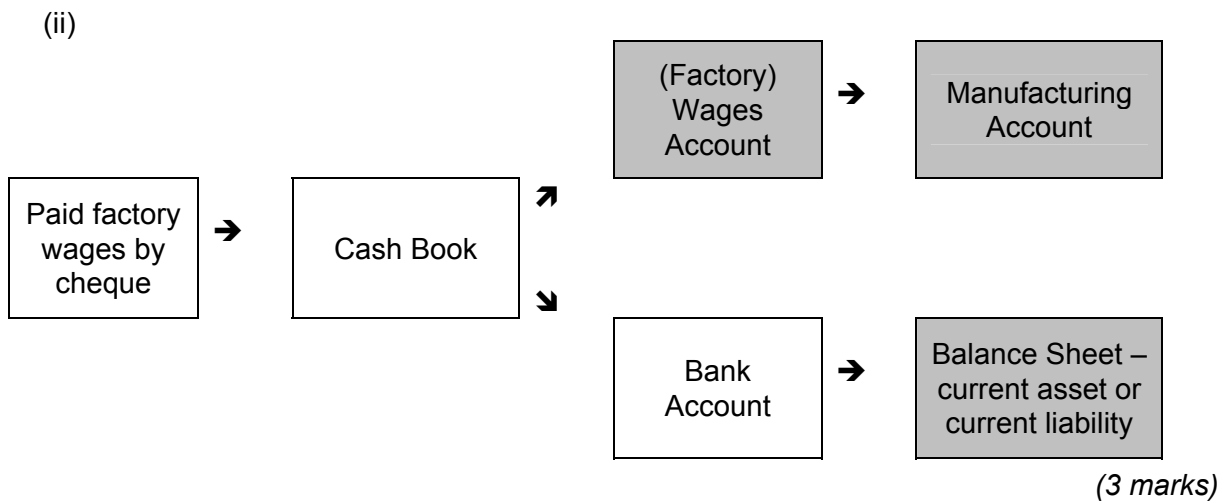
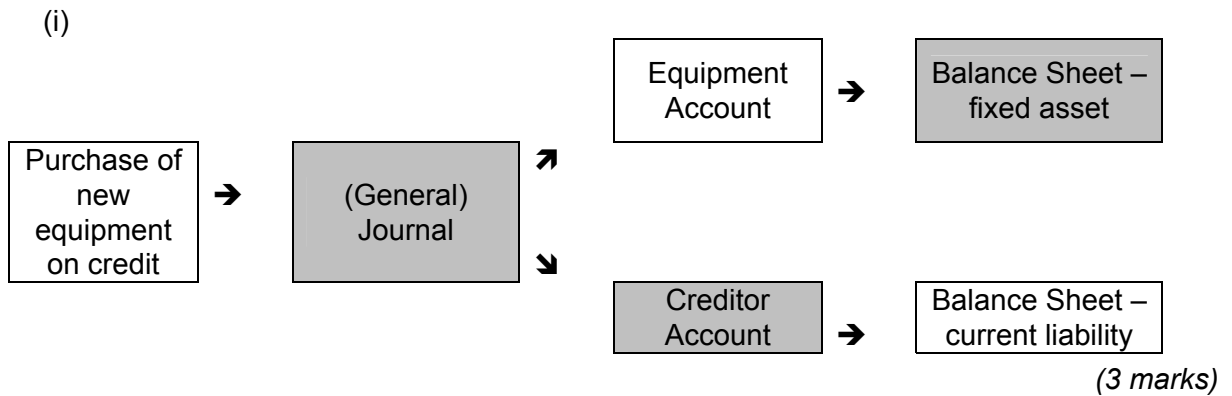
**Possible answers might include the following:**

- to record credit purchases
- to remove unnecessary detail from the ledger
- to keep details about credit purchases such as trade discount and VAT
- provides totals for the general ledger.

(c) The flow chart below shows how a recent transaction at Street Style Ltd would have been recorded in the business's accounting system.

Complete the flow charts for the situations set out below by filling in the shaded boxes with the correct information. (6 marks)

Transaction	Book of Original Entry	Ledger Account involved	Where the Account appears in Final Accounts
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2

**Total for this question: 28 marks**

(a) Using **Item B**, complete the shaded boxes in the Trading and Profit and Loss Account below. (10 marks)

**Street Style Ltd**  
**Trading and Profit and Loss Account**  
**for the year ended 31 May 2007**

	£	£
Turnover		9 000 000
Less cost of sales:		
Opening stock of finished goods at 1 June 2006	600 000	
<b>Production cost of goods completed</b>	<b>6 730 000</b>	
	<b>7 330 000</b>	
Less closing stock of finished goods at 31 May 2007	750 000	(1) 6 580 000
<b>Gross profit</b>		<b>(1) 2 420 000 o/f</b>
Less expenses:		
Office salaries	650 000	
Insurance	(2) 120 000	
Selling expenses	110 000	
Depreciation of office equipment	(2) 40 000	
Office rent	60 000	
Distribution expenses	(2) 150 000	
Administration expenses	140 000	(1) 1 270 000 o/f
<b>Net profit</b>		<b>(1) 1 150 000 o/f</b>

**Calculations:**

Depreciation of office equipment  $\text{£}120\,000/3 = \text{£}40\,000(2)$   
 Allow 1 mark for partial calculation.

Distribution expenses  $\text{£}130\,000 + \text{£}20\,000 = \text{£}150\,000$   
 Allow 1 mark for partial calculation.

Insurance  $\text{£}220\,000 - \text{£}100\,000 = \text{£}120\,000(2)$   
 Allow 1 mark for partial calculation.

(b) Explain the purpose of a trial balance.

(2 marks)

Level	Descriptor	Marks	Assessment Objective
2	Candidate states <b>two</b> valid purposes or explains <b>one</b> valid purpose of a trial balance.	2	AO1
1	Candidate states purpose.	1	

**Possible answers might include the following:**

- trial balance checks the arithmetical accuracy of the bookkeeping entries, but does not detect all errors, such as errors of commission, omission, principle, compensating, original entry and reversal
- helps with the completion of final accounts by gathering information in one place.

(c) (i) Explain, using an example, what is meant by an 'error of commission'.

(3 marks)

Level	Descriptor	Marks	Assessment Objective
2	Candidate fully explains an error of commission.	3	AO1
1	Candidate partially explains an error of commission.	1–2	

**Possible answers might include the following:**

- an error of commission is where a transaction is entered in the wrong account (on the correct side) but in the same class of account, eg wrong debtor, creditor or expense account.

(ii) Explain why the directors of Street Style Ltd would be concerned that a trial balance might **not** detect errors in the sales book.

(4 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate fully explains the concern in context.	4	AO2
2	Candidate partially explains concern(s).	2–3	
1	Candidate states problem(s).	1	AO1

**Possible answers might include the following:**

- the sales ledger could be incorrect because of an error of commission with incorrect figures for debtors
- the directors would be concerned that money could be lost by undercharging some debtors and overcharging others
- administration costs to correct the error
- the general ledger would be incorrect and the general consequences of this.

(d) *The directors of Street Style Ltd are aware that some High Street fashion stores have closed, and are concerned that some of their customers could go out of business.*

*Discuss why businesses such as Street Style Ltd should have a provision for bad or doubtful debts. Use accounting concepts to justify your answer. (9 marks)*

Level	Descriptor	Marks	Assessment Objective
3	Candidate analyses a reason for provision for bad or doubtful debts.	3	AO3
2	Candidate explains a reason for provision for bad or doubtful debts.	2	AO2
1	Candidate states a reason for provision for bad or doubtful debts.	1	AO1

**Possible answers might include the following:**

- bad debts are common, particularly, in the market descriptions described. It would be prudent to make a provision for them because of the consequences of not doing so
- if a debtor is unlikely to pay following the accruals concept, the loss should be recorded in the year when it happened rather than the year in which the bad debt was discovered
- context could include the use of calculations to illustrate the effects on profits.

In addition (and separately) award marks for evaluation using the grid below.

**Note:** AO4 also assesses candidates' quality of written communication. When deciding on the AO4 level to be awarded, consider the degree to which the candidate orders and communicates his/her ideas.

Level	Descriptor	Marks	Assessment Objective
3	Fully justifies answer using accounting concept(s). Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in conventions of written communication.	5–6	AO4 and Quality of written communication
2	Partially justifies answer using accounting concept(s). Ideas are communicated in a logical structure with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	3–4	
1	Supports answer using accounting concept(s). Ideas are communicated with some structure evident with occasional use of appropriate technical terms. There are some errors in accepted conventions of written communication.	1–2	



**3****Total for this question: 37 marks**

(a) Using <b>Item C</b> , assess the profitability of <i>The Fashion House</i> .	(8 marks)
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Level	Descriptor	Marks	Assessment Objective
3	Candidate uses <b>Item C</b> to assess the profitability of <i>The Fashion House</i> .	5–8	AO4
2	Candidate uses <b>Item C</b> to analyse the profitability of <i>The Fashion House</i> .	2–4	AO3
1	Candidate uses <b>Item C</b> to quantify an aspect of the profitability of <i>The Fashion House</i> .	1	AO2

**Possible answers might include the following:**

- gross profit ratio is lower than previous year
- net profit ratio is lower than previous year
- ROCE is lower than previous year and represents a considerable deterioration
- can be compared with available interest rates
- although the ratios have fallen, still good, perhaps the price of trying to address solvency problem?

(b) Using <b>Item C</b> , assess the solvency (liquidity) position of <i>The Fashion House</i> .	(8 marks)
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Level	Descriptor	Marks	Assessment Objective
3	Candidate uses <b>Item C</b> to assess the solvency (liquidity) of <i>The Fashion House</i> .	5–8	AO4
2	Candidate uses <b>Item C</b> to analyse the solvency (liquidity) of <i>The Fashion House</i> .	2–4	AO3
1	Candidate uses <b>Item C</b> to quantify an aspect of the solvency (liquidity) of <i>The Fashion House</i> .	1	AO2

**Possible answers might include the following:**

- current ratio has risen to within the acceptable 1.5:1 to 2:1 range
- acid test is below 1:1 but improved considerably from the previous year
- cash flow problem
- comparison with previous years, business is more solvent.

(c) Explain **two** limitations of using only financial information, including accounting ratios, when deciding whether to buy *The Fashion House*. (8 marks)

Apply the grid below twice.

Level	Descriptor	Marks	Assessment Objective
3	Candidate explains limitation in context.	4	AO3
2	Candidate explains limitation.	2–3	AO2
1	Candidate states a limitation.	1	AO1

Possible answers might include the following:

- accounting ratios do not measure how good the staff/management of *The Fashion House* are. Will they need training when they become part of *Street Style Ltd*?
- need to look at market trends reference question 2 “High Street shops closing”
- competitor information
- need to use accounting ratios in conjunction with other information
- the location of *The Fashion House*
- the state of the shop and equipment of *The Fashion House*
- how loyal are the customers (customer base) of *The Fashion House*? Would they buy *Street Style Ltd*’s range of clothing?
- etc.

(d) Using your answers to 3(a), (b) and (c), discuss whether Street Style Ltd should buy The Fashion House. (13 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate uses answers to 3(a), (b) and (c) to fully analyse the overall performance of <i>The Fashion House</i> .	5–6	AO3
2	Candidate uses answers to 3(a), (b) and (c) to partially analyse the overall performance of <i>The Fashion House</i> .	3–4	
1	Candidate uses answers to 3(a), (b) and (c) to explain the overall performance of <i>The Fashion House</i> .	1–2	AO2

**Possible answers might include the following:**

- discussion of the relationship between the various types of ratios, eg solvency and efficiency
- limitations of ratios
- overall the business is improving with the slight reduction in profitability set off against the improvement in solvency although *The Fashion House* does have potentially serious solvency problems
- the purchase price is just above the capital employed figure so if the business is improving this would not be a bad purchase price. Also as *Street Style Ltd* is successful the management might be better
- some economies of scale
- stock from *Street Style Ltd* will be cheaper as the two businesses are now one.

**Please turn over for AO4.**

In addition (and separately) award marks for evaluation using the grid below.

**Note:** AO4 also assesses candidates' quality of written communication. When deciding on the AO4 level to be awarded, consider the degree to which the candidate orders and communicates his/her ideas.

Level	Descriptor	Marks	Assessment Objective
3	Demonstrates consistent judgement in the selection of key results from answers to <b>3(a), (b) and (c)</b> , prioritising these results. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in conventions of written communication.	5–7	AO4 and Quality of written communication
2	Demonstrates some judgement in the selection of key results from answers to <b>3(a), (b) and (c)</b> , prioritising some of these results. Ideas are communicated in a logical structure with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	3–4	
1	Demonstrates some judgement in the selection of key results from answers to <b>3(a), (b) and (c)</b> , <b>or</b> prioritises some of these results. Ideas are communicated with some structure evident with occasional use of appropriate technical terms. There are some errors in accepted conventions of written communication.	1–2	