



**General Certificate of Education**

**Applied Business 8616/8619**

**BS15      Financial Accounting for  
Managers**

**Mark Scheme**

*2009 examination - January 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: 14 marks**

(a) *Explain why FNL might use purchase orders when starting to trade with a new wholesaler. (2 marks)*

Level	Descriptor	Marks	Assessment Objective
2	Explains reason for using purchase orders.	2	AO1
1	States reason for using purchase orders.	1	

**Relevant answers might include the following:**

- the wholesaler would expect to use this system
- purchase orders help to ensure that the correct stock is bought as it can be checked against delivery notes
- purchase orders help to ensure correct stock is bought so that it does not take longer to sell which would not help with cash flow
- helps to reduce errors and therefore administration costs relating to correcting errors
- provides evidence in case of disputes with suppliers.

(b) *Using **Item A**, explain how FNL could benefit from receiving trade credit when purchasing from wholesalers rather than paying straight away by cheque. (4 marks)*

Level	Descriptor	Marks	Assessment Objective
2	Explains benefit(s) of using trade credit.	3–4	AO2
1	Describes benefit(s) of using trade credit.	1–2	AO1

**Relevant answers might include the following:**

- FNL will have a period of interest free credit
- FNL has the opportunity of selling stock before paying for it; this will help with cash flow particularly as the stock is slow moving
- the trade credit period will allow the business to carry more stock, increasing the likelihood of customers buying something else with a higher profit margin when they buy newspapers.

(c) Using **Item A**, explain the value to *FNL* of using the following:

(i) *Purchase book*

(4 marks)

Level	Descriptor	Marks	Assessment Objective
2	Explains value to <i>FNL</i> of using a purchase book.	3–4	AO2
1	Describes purpose of purchase book.	1–2	AO1

**Relevant answers might include the following:**

- a purchase book can be used to record all credit purchases; this may help with stock control
- it will contain information on each individual order and it can be cross referenced back to the original invoice, useful in resolving disputes, particularly important as there are likely to be new suppliers (wholesalers)
- the individual orders can be transferred to the ledger accounts of suppliers in the purchase ledger and totals to the purchase account in the general ledger which will help to check the accuracy of the book keeping system
- it is a straight forward system of recording credit purchases.

(ii) *Purchase ledger.*

(4 marks)

Level	Descriptor	Marks	Assessment Objective
2	Explains value to <i>FNL</i> of using a purchase ledger.	3–4	AO2
1	Describes purpose of purchase ledger.	1–2	AO1

**Relevant answers might include the following:**

- the purchase ledger will collect all the suppliers (creditors) accounts in one place
- can be used as a basis of checking the accuracy of entries in the accounts
- helps to prepare a trial balance (also checking the accuracy of the accounts)
- can be used as a basis for the credit control, for example, a computerised purchase ledger can easily report on the 'age' of the creditors, so that they can be paid on time, benefiting from cash discounts but also delaying payment for as long as possible. This will help with cash-flow
- can be linked to stock control.

2

Total for this question: 30 marks

(a) Using **Item B**, complete the shaded boxes in the trading and profit and loss account below. (9 marks)

***First News Ltd***  
**Trading and Profit and Loss Account**  
**for the year ended 31 December 2008**

	£	£
Sales		2 000 000
Stock at 1 January 2008	60 000	
Add purchases	1 300 000	
	1 360 000	
Less stock at 31 December 2008	70 000	
Cost of Sales		1 290 000
Gross Profit		710 000(1)
Less expenses:		
Rent	200 000 (1)	
Insurance	30 000	
Electricity	20 000	
Wages	150 000(2)	
Depreciation of fixtures and fittings	15 000(2)	415 000(1)
Net profit		295 000(1)

- (b) *After the final accounts had been completed, it was discovered that a purchase of fixtures and fittings of £20 000 had been incorrectly recorded as a purchase of stock for resale.*
- (i) *Identify the type of error that has been made and explain why this error would **not** be revealed by a trial balance.* (3 marks)

Level	Descriptor	Marks	Assessment Objective
3	Fully explains error.	3	AO2
2	Partially explains error.	2	
1	Identifies error.	1	AO1

**Relevant answers might include the following:**

Error of Principle:

- the debit and credit entries have been made for the correct amount but in the wrong class of account. The entry should have been made in the fixtures and fittings account and not the purchases account.

- (ii) *Using **Item B**, and the trading and profit and loss account in question 2(a), explain why making this error would be of concern to FNL.* (6 marks)

Level	Descriptor	Marks	Assessment Objective
3	Explains the effect(s) on the final accounts and the significance of this.	4–6	AO3
2	Explains the effect(s) on the final accounts or the significance of this.	2–3	AO2
1	States consequence of error.	1	AO1

**Relevant answers might include the following:**

- the figures for purchases and fixtures and fittings would be incorrect
- purchases will be higher than it should be therefore both the gross and net profits will be reported lower than they should be. The managers are considering a bank loan at the moment and they might think they are not making enough profit to pay the loan back
- assets and depreciation will be lower than they should be, suggesting that the business has less assets against which to secure a loan
- the gross profit will have been inaccurately reported as £710 000 instead of £730 000 and the net profit as £295 000 rather than £315 000.

(c) Using **Item B**, and the trading and profit and loss account in question 2(a), discuss whether FNL should take out a loan of £1 million to finance expansion. (12 marks)

Level	Descriptor	Marks	Assessment Objective
3	Uses <b>Item B</b> and <b>TPL</b> to analyse financial case for taking out the loan.	4–5	AO3
2	Uses <b>Item B</b> and/or <b>TPL</b> when explaining the financial case for taking out the loan.	2–3	AO2
1	States a reason for agreeing/disagreeing with taking out the loan.	1	AO1

**Relevant answers might include the following:**

**Reasons for taking out the loan**

- Dilip has been successful so far with his expansion and has a good track record
- it is a large loan, however, the net profit of £295 000 exceeds the annual repayments of £244 000
- with Dilip’s experience the new shops will be able to make a contribution to paying the loan repayments
- if payments become difficult he may be able to reschedule the loan.

**Reasons against taking out the loan**

- this will be a major expansion, will Dilip be over stretching himself? Dilip has had cash flow problems in the past, will he be able to handle the greater amounts involved this time?
- if interest rates are rising will this rise add to the loan repayments?
- the net profit after loan repayments is considerably reduced. After tax this is not going to leave much available to be distributed to the shareholders
- will the recession mean that future profits will be lower than this year?
- there is insufficient information in the profit and loss account to make such an important decision. Needs at least a balance sheet as well. Cash flow forecast, ratios etc.



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	Decides, on the basis of a balanced judgement, whether or not, <i>FNL</i> should take out a loan. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in accepted conventions of written communication.	6–7	AO4 and Quality of written communication
2	Decides, on the basis of some judgement, whether <i>FNL</i> should take out the loan. Ideas are communicated in a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	3–5	
1	Decides, on the basis of limited evidence, whether <i>FNL</i> should take out the loan. 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: 36 marks**

(a) *Using Item C, analyse the possible reasons for the increase in profits in 2007 even though turnover has fallen.* (8 marks)

Level	Descriptor	Marks	Assessment Objective
4	Explains possible reason(s) for increase in profit by analysing a range of data from <b>Item C</b> .	6–8	AO3
3	Explains possible reason(s) for increase in profit by analysing a narrow range of data from <b>Item C</b> .	4–5	
2	Describes possible reason(s) for increase in profits.	2–3	AO2
1	States reason for increase in profits.	1	AO1

**Relevant answers might include the following:**

- they have cut costs, for example, the number of employees has fallen by 5.19%, which is quite a significant drop, and loans must have been paid back in order to reduce interest payments
- they have switched resources away from items such as CDs and DVDs which contributed to sales but were not very profitable. This, along with cutting costs, will have contributed to higher sales and a higher net profit margin
- there is a higher profit margin on the items that they are now concentrating on
- the reduction in value of fixed assets may have reduced depreciation and maintenance costs.

*(b) In 2007, the Chief Executive of WHSmith plc has commented that, "We have delivered another year of strong performance."*

*Using Item C, decide whether or not you agree with this view. You should justify your opinion. (14 marks)*

**Relevant answers might include the following:**

**Solvency**

- the current ratio and acid test ratios are both well below the recommended generic levels, however, 2007 is an improvement on 2006, this could be indicative that the business is turning around
- although the solvency is poor it is unlikely that creditors will force it into liquidation.

**Profitability**

- profit margins have improved. The business was in a loss situation in 2004 so it is a consistent turn around
- return on capital employed is higher in 2007, is higher than bank rates.

**Efficiency**

- turnover has reduced.

**Other**

- it looks like management decisions are starting to work
- another good year might seem overstating the improvements when looking at the solvency of the business
- perhaps things will continue to improve with the introduction of post offices.

Level	Descriptor	Marks	Assessment Objective
3	Explains implications of the performance indicator.	5–7	AO3
2	Explains meaning of the performance indicator.	2–4	AO2
1	Identifies performance indicator.	1	AO1

**Turn over for AO4.**

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

**Note that** 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	Decides, on the basis of a balanced judgement, whether or not the Chief Executive's comment is correct. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in accepted conventions of written communication.	6–7	AO4 and Quality of written communication
2	Decides, on the basis of some judgement, whether or not the Chief Executive's comment is correct. Ideas are communicated in a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	3–5	
1	Decides, on the basis of limited evidence, whether or not the Chief Executive's comment is correct. 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	

(c) *To what extent have the changes made by WHSmith plc since 2006 contributed to the future financial growth of the business? Use **Item C** to justify your answer. (14 marks)*

Level	Descriptor	Marks	Assessment Objective
3	Explains how the changes could contribute to future financial growth of <i>WHSmith</i> .	5–7	AO3
2	Explains the effect of change(s).	3–4	AO2
1	Identifies relevant change(s).	1–2	AO1

**Relevant answers might include the following:**

**In favour**

- the decision to cut costs seems to be working as the net profit margin and return on capital employed has improved
- reduction in the value of fixed assets may have helped improve solvency and the fixed assets in the business are working more efficiently than 2006
- the number of employees has fallen yet the business has made more profit
- the introduction of post office franchises will have given customers a reason to visit *WHSmith*. They are likely to buy items whilst posting etc
- some of the things that *WHSmith* sells are complementary to the post office for example, greetings cards, envelopes etc so may buy these items when visiting the post office.

**Against**

- turnover has fallen and the business still has solvency problems
- they are taking longer to pay creditors
- people may stop visiting *WHSmith* if they cannot buy CDs and DVDs
- *WHSmith* is focusing on items such as books where they face stiff competition from Waterstones and supermarkets etc
- the post office will take up floor space that could be used for selling other items.

**For AO4**, you should award marks using the scheme below.

**Note** that 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	Decides, on the basis of a balanced judgement, to what extent the changes made by <i>WHSmith</i> have contributed to the future financial growth of the business. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in conventions of written communication.	6–7	AO4 and Quality of written communication
2	Decides, on the basis of some judgement, to what extent the changes made by <i>WHSmith</i> have contributed to the future financial growth of the business. 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	Decides, with limited evidence, to what extent the changes made by <i>WHSmith</i> have contributed to the future financial growth of the business. 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	