



General Certificate of Education

Applied Business 8616/8619

BS15 Financial Accounting for Managers

Mark Scheme

2009 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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	Assessment Objectives
	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.
Quality of Written Communication	<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"> • select and use a form and style of writing appropriate to purpose and complex subject matter • organise relevant information clearly and coherently, using specialist vocabulary when appropriate • ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear. <p>The assessment of the quality of written communication is included in Assessment Objective 4.</p>

1

Total for this question: 19 marks

(a) Using **Item A**, select **one** business document that *Natural Sofas Ltd* could use when selling goods to the major high street retailer. Explain the purpose of this document. (2 marks)

Level	Descriptor	Marks	Assessment Objective
2	Candidate explains the purpose of the business document.	2	AO1
1	Candidate selects a suitable business document.	1	

Relevant answers might include the following:

- an invoice is sent to tell the high street retailer how much it owes for an order. The high street retailer will be able to check it against the purchase order to see if there is any discrepancy
- if a delivery note is sent with the delivery to the high street retailer it confirms that the delivery was correct when signed for
- the Statement of Account provides a summary of what the high street retailer owes *Natural Sofas Ltd* and, therefore, allows the high street retailer to check before paying.

(b) Using **Item A**, explain why it would be important for *Natural Sofas Ltd* to use a sales book for its sales to the major high street retailer. (4 marks)

Level	Descriptor	Marks	Assessment Objective
2	Candidate explains how a sales book could be used by <i>Natural Sofas Ltd</i> for its sales to the major high street retailer.	3–4	AO2
1	Candidate states the importance of using a sales book for credit sales.	1–2	AO1

Relevant answers might include the following:

- a sales book will record all the sales made on credit. This is a very simple book to complete and does not require specialist accounting knowledge (therefore few errors likely). Can also be easily computerised
- it provides a system for *Natural Sofas Ltd* to cross reference to the invoice sent so that details can be checked (therefore disagreements can be easily rectified)
- the total from the sales book can be transferred to the sales account. The amounts bought by the high street retailer can be transferred to their account in the sales ledger allowing analysis of the account (aged debtors etc). Helps the production of final accounts.

(c) Using **Item A**, explain the possible consequences of **not** improving *Natural Sofas Ltd's* financial accounting system. (5 marks)

Level	Descriptor	Marks	Assessment Objective
2	Candidate explains the consequence of not improving <i>Natural Sofas Ltd's</i> financial accounting system.	3–5	AO2
1	Candidate states the consequence(s) of not improving <i>Natural Sofas Ltd's</i> financial accounting system.	1–2	AO1

Relevant answers might include the following:

- without a system making use of invoices, statements etc it would be more difficult to rectify disputes. If disputes cannot be rectified business may be lost. Important that disputes are rectified quickly as a lot rests on this contract with the leading high street retailer. Delays may have cash flow implications because this is a large contract
- *Natural Sofas Ltd* would not look professional if it did not use the correct business documentation, therefore the high street retailer may not have confidence in *Natural Sofas Ltd*. Business may be lost
- without a proper accounting system it would be easy to make mistakes. Possible loss of business, cash flow implications, profit calculation and tax liability.

(d) Using **Item A**, analyse how selling through the high street retailer might affect *Natural Sofas Ltd's* cash flow. (8 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate analyses the extent that selling through the high street retailer will affect <i>Natural Sofas Ltd's</i> cash flow.	6–8	AO3
2	Candidate explains the extent that selling through the high street retailer will affect <i>Natural Sofas Ltd's</i> cash flow.	3–5	AO2
1	Candidate states the extent that selling through the high street retailer will affect <i>Natural Sofas Ltd's</i> cash flow.	1–2	AO1

Relevant answers might include the following:

- there will be an adverse effect on cash flow as *Natural Sofas Ltd* currently do not have to wait for cash but now they will need to wait 45 days for payment
- currently customers are subsidising *Natural Sofas Ltd's* cash flow as they pay six weeks before delivery, *Natural Sofas Ltd* are effectively getting an interest free loan
- the effect of the order whilst potentially profitable would have a potentially serious effect on the cash flow of the business. The business would go from a position where there are no cash flow problems to having to wait 45 days for payment whilst *Natural Sofas Ltd* would still need to pay suppliers. There is a possibility that the business could get into an overtrading situation. However, if the order is profitable then the bank would be likely to grant overdraft facilities to cover any cash flow problem
- current cash sales (and bank balance) may mitigate the effect on cash flow.

2

Total for this question: 27 marks

(a) Using **Figure 1** in **Item B**, complete the shaded boxes in the trading and profit and loss account below for *Natural Sofas Ltd*. (7 marks)

Natural Sofas Ltd
Trading and Profit and Loss Account
for the year ended 31 May 2009

	£	£
Turnover		800 000
Less cost of sales		
Opening stock of finished goods at 1 June 2008	55 000	
Production cost of goods completed	600 000	
	655 000	
Less closing stock of finished goods at 31 May 2009	65 000	590 000(1)
Gross profit		210 000(1)ofr
Less expenses:		
Insurance	20 000(1)	
Depreciation of delivery vans	4 800(2)	
Other selling expenses	68 400	
Other administration expenses	50 000	
Finance expenses	4 000	147 200(1)ofr
Net profit		62 800(1)ofr

(b) Using **Item B** and **Question 2(a)**, analyse the possible financial impact that the increase in the cost of raw materials could have on *Natural Sofas Ltd*. (8 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate analyses the impact that rising costs of raw materials will have on <i>Natural Sofas Ltd</i> .	6–8	AO3
2	Candidate explains the impact that rising costs of raw materials will have on <i>Natural Sofas Ltd</i> .	3–5	AO2
1	Candidate states the impact(s) that rising costs of raw materials will have on <i>Natural Sofas Ltd</i> .	1–2	AO1

Relevant answers might include the following:

- rising costs of raw materials will increase the cost of production and this will reduce gross (and net profit) at current prices
- for a manufacturing business the raw material costs make up a large proportion of the costs of the running the business. So rises in costs will have a disproportionate effect on profits
- using **Question 2(a)** candidate can illustrate the effect of an increase in raw materials costs
- one solution to coping with rising costs would be to pass these costs onto the customer, but how feasible will this be during a recession and also for a business that is selling a premium product such as this type of sofa
- there is also likely to be pressure from the leading retailer to maintain (or even lower) prices. *Natural Sofas Ltd* is very reliant on the leading retailer with 70% of sales through this source.

(c) *Should Natural Sofas Ltd lease new machinery to enable it to reduce the price of its sofas? Use **Item B** and **Question 2(a)** to justify your decision.* (12 marks)

Level	Descriptor	Marks	Assessment Objectives
3	Candidate analyses a reason for choice.	4–5	AO3
2	Candidate explains a reason for choice.	2–3	AO2
1	Candidate states a reason for choice.	1	AO1

Relevant answers might include the following:

Leasing new machinery

For

- leasing machinery could reduce maintenance costs and depreciation
- although leasing will push up costs it will also reduce costs of production
- if the current machinery is becoming obsolete it will need to be replaced soon anyway
- environmentally friendly materials are more expensive to produce, this would be a way of reducing this
- reduces the need for a cash injection / loan.

Against

- leasing costs more than buying the machinery
- there will be little net profit left after leasing costs are taken into account (£62 800 ofr – £50 000 = £12 800 ofr)
- if the current machinery can continue to be used it could be worth continuing with it and buy / lease new equipment when the economy improves.

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	Candidate makes a fully developed justification. 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.	5–7	AO4 and Quality of written communication
2	Candidate makes a partially developed justification. 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	Candidate makes an undeveloped justification. 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: 34 marks**

(a) Given the changing economic situation outlined in **Item C**, analyse the value of using the financial ratios in **Figure 2** to assess the current financial performance of *Marks and Spencer plc*. (8 marks)

Level	Descriptor	Marks	Assessment Objectives
3	Candidate analyses value of accounting ratios to assess the current performance of <i>Marks and Spencer plc</i> .	6–8	AO3
2	Candidate explains value of accounting ratios to assess the current performance of <i>Marks and Spencer plc</i> .	3–5	AO2
1	Candidate states the value of accounting ratios to assess the current performance of <i>Marks and Spencer plc</i> .	1–2	AO1

Relevant answers might include the following:

- the ratios were all calculated before the full extent of the downturn in the economy was felt
- the ratios do not take account of changes that management may be currently taking
- the ratios do not show the actual figure, for example have the businesses got sufficient reserves to weather the recession
- the ratios are only for one year
- the ratios do not measure the financial climate, they may be doing well in challenging times
- ratios only measure financial matters. They do not show:
 - competition
 - the workforce
 - the condition / location of the shops etc.

(b) To what extent do you think that Marks and Spencer plc has a serious solvency problem? Use **Item C** to justify your answer. (12 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate analyses an aspect of the solvency of <i>Marks and Spencer plc</i> .	4–5	AO3
2	Candidate explains an aspect of the solvency of <i>Marks and Spencer plc</i> .	2–3	AO2
1	Candidate identifies an aspect of the solvency of <i>Marks and Spencer plc</i> .	1	AO1

Relevant answers might include the following:

- the current ratio shows the ability of the business to pay its short-term debts. The ratio is well below the textbook target of 1.5:1 at 0.59:1
- the acid test ratio shows the ability of the business to pay its short-term debts immediately. It shows that *Marks and Spencer plc* would not be able to meet its current liabilities from its current assets less stock. It is below the textbook target of 1:1 at 0.35:1
- the gearing ratio is a measure of the long-term solvency. It shows that 64% is owned by people other than ordinary shareholders. It has increased since the previous year
- if the ratios are so poor, why is the business still trading? Suppliers must be reliant on *Marks and Spencer plc* so will be prepared to wait for payment. The textbook measure is an ideal average; however with good cash flow management the figure can become much lower
- businesses only become insolvent if creditors demand payment and it is unable to pay. Is it unlikely that the creditors of *Marks and Spencer plc* would force the business into receivership to get paid particularly when they seem to be paying suppliers quickly (creditors payment period) so it could easily delay payment to the normal credit trade period
- the short-term solvency measures are improving however the long-term solvency is worsening.

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	<p>Candidate offers judgement and full justification as to whether or not <i>Marks and Spencer plc</i> has a serious solvency problem.</p> <p>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.</p>	6–7	AO4 and Quality of written communication
2	<p>Candidate offers judgement and limited justification as to whether or not <i>Marks and Spencer plc</i> has a serious solvency problem.</p> <p>Ideas are communicated in a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.</p>	3–5	
1	<p>Candidate offers underdeveloped justification as to whether or not <i>Marks and Spencer plc</i> has a serious solvency problem.</p> <p>Ideas are communicated with some structure evident with occasional use of appropriate technical terms. There are some errors in accepted conventions of written communication.</p>	1–2	

(c) Using **Item C**, evaluate whether the financial performance of Marks and Spencer plc has worsened during the financial year ending 31 March 2008 compared with the previous financial year. (14 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate offers a full argument.	5–7	AO3
2	Candidate offers a limited argument.	2–4	AO2
1	Candidate identifies relevant points.	1	AO1

Relevant answers might include the following:

Solvency

- the short-term solvency of *Marks and Spencer plc* has improved in 2008 with both current ratio and acid test ratios rising although both are well below the recommended levels
- gearing has worsened in 2008 and by a big margin to 64% from 59.10%
- creditor payment periods are low, particularly in 2008, so *Marks and Spencer plc* should be able to delay payment if needed
- short-term solvency has improved in 2008 but long-term solvency has weakened.

Profitability

- gross profit margin has decreased slightly in 2008 but this would be expected in the prevailing market conditions
- net profit margin has increased and by a significant amount in 2008. This would suggest that *Marks and Spencer plc* have found a way to reduce costs in 2008
- in both years there is a large difference between gross and net profit margins for *Marks and Spencer plc*, indicating high expenses. The difference is less in 2008
- the ROCE has fallen and by three percentage points in 2008, however, the ROCE is still very high particularly in relation to current rates of interest. Not bad during recession.

Efficiency

- *Marks and Spencer plc* has lower stock and asset turnover ratios in 2008
- *Marks and Spencer plc* pays its creditors more quickly in 2008. In both years the payments are very quick
- stock turnover has decreased in 2008, but perhaps to be expected given the economic downturn
- fixed asset turnover has worsened in 2008.

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	Candidate offers judgement and full justification from the information available. 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	Candidate offers judgement and limited justification from the information available. 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	Candidate offers underdeveloped judgement from the information available. 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	