



**General Certificate of Education (A-level) Applied  
June 2012**

**Applied Business**

**BS15**

**(Specification  
8611/8613/8616/8617/8619)**

**Unit 15: Financial Accounting for Managers  
(External Test)**

***Mark Scheme***

---

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 events which all examiners participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for standardisation each examiner analyses a number of students' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, examiners encounter unusual answers which have not been raised they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Further copies of this Mark Scheme are available from: [aqa.org.uk](http://aqa.org.uk)

Copyright © 2012 AQA and its licensors. All rights reserved.

**Copyright**

AQA retains the copyright on all its publications. However, registered schools/colleges for AQA are permitted to copy material from this booklet for their own internal use, with the following important exception: AQA cannot give permission to schools/colleges to photocopy any material that is acknowledged to a third party even for internal use within the centre.

Set and published by the Assessment and Qualifications Alliance.

	<b>Assessment Objectives</b>
	The Assessment Objectives represent those qualities which can be demonstrated in students' work and which can be measured for the purposes of assessment.
AO1 Knowledge, skills and understanding	Students demonstrate knowledge and understanding of the specified content and relevant business skills.
AO2 Application of knowledge, skills and understanding	Students apply knowledge and understanding of the specified content and relevant business skills.
AO3 Research and analysis	Students use appropriate methods in order to obtain and select information from a range of sources to analyse business problems.
AO4 Evaluation	Students 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 students are required to produce extended written material. Students 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 <b>Assessment Objective 4</b>.</p>

1

**Total for this question: 25 marks**

**1 (a) (i)** Explain the purpose of a credit note. (2 marks)

**Relevant answers might include the following:**

- a credit note records any refunds given to customers (1 mark) for goods returned to the supplier (1 mark)
- it means that customers do not have to pay money and then claim it back separately (1 mark) as it is offset against current or future invoices (1 mark).

**1 mark** for basic description and **1 mark** for explanation.

**1 (a) (ii)** Explain why *KX Developments Ltd* might want *Fast Trees Ltd* to send it a statement of account. (4 marks)

Level	Descriptor	Marks	Assessment Objective
2	Explains why <i>KX Developments Ltd</i> would benefit from receiving a statement of account.	4–3	AO2
1	Identifies features of a statement of account.	2–1	AO1

**Relevant answers might include the following:**

- a statement of account would normally mean one monthly transaction to cover all invoices (and credit notes) issued in one month (Level 1). Paying a statement of account would reduce *KX Developments Ltd's* costs and paperwork (Level 2).

**1 (b)** Explain why Jack has been advised by the accountant **not** to use the full sale value of the trees to value his stock. (7 marks)

Level	Descriptor	Marks	Assessment Objective
3	Explains the implications to <i>Fast Trees Ltd</i> of how the trees are valued.	7–5	AO2
2	Describes why the full sale value should be recorded only after the trees were sold.	4–3	
1	Identifies features of prudence or realisation.	2–1	AO1

**Relevant answers might include the following:**

- the trees are growing and until they are ready for sale they can die, or market conditions may change which would reduce their value
- it is therefore prudent to only record their sale value in the accounts once they are sold
- if the sale value was recorded earlier in the production process this would increase the value of output and mean that tax had to be paid on products which were still not ready for sale.

<b>1 (c)</b>	<i>To what extent do you agree with the bank's refusal to lend Jack the money to modernise the business? Use <b>Item A</b> to justify your answer. (12 marks)</i>
--------------	---

Level	Descriptor	Marks	Assessment Objective
3	Uses <b>Item A</b> to analyse whether or not the bank was right to refuse Jack the loan.	5–4	AO3
2	Uses <b>Item A</b> to explain why the bank may be reluctant to give Jack the loan.	3–2	AO2
1	Identifies factors banks use to assess a business's creditworthiness.	1	AO1

**Relevant answers might include the following:**

- Jack has not been running the business for very long and the bank may be nervous at his lack of track record with *Fast Trees Ltd* or any other business
- Jack wants to use the money to invest in products which will not be ready for sale for several years which increases risks
- Jack does not have much security to offer to secure the loan against
- the projected profits are, however, attractive
- whilst Jack can show that his trees are worth more than the book value, the bank may argue that if they had to recover the loan it is unlikely to get the full sale value.

There is no correct answer and students can argue for or against the bank's decision.

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

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

Judgement is being made on whether the bank was correct in refusing to lend Jack the money.

Level	Descriptor	Marks	Assessment Objective
E3	Offers judgement with weighted 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.	7–6	AO4 and Quality of written communication
E2	Offers judgement with supported justification. Ideas are communicated using a logical structure, with some appropriate technical terms. There are occasional errors in accepted conventions of written communication.	5–3	
E1	Offers limited judgement. Ideas are communicated with some structure evident with occasional use of appropriate technical terms. There are some errors in accepted conventions of written communication.	2–1	

2

**Total for this question: 27 marks**

**2 (a)** Using **Figure 1**, calculate the following ratios for *Fast Trees Ltd* if it makes the investment in the new production system.

(i) Net profit margin. (2 marks)

**Correct Answer:** 26.83% accept 26.8% and 27% (2 marks)

Other Answers:

26% (1 mark)

$$\text{Net profit margin} = \frac{\text{Net profit}}{\text{Sales revenue}} \times 100$$

$$\frac{55\,000}{205\,000} \times 100 \quad (1 \text{ mark}) = 27\% \quad (1 \text{ mark})$$

**2 (a) (ii)** Stock turnover ratio. (2 marks)

**Correct Answer:** 1:0.58 accept 1:0.57 and accept expressed as a percentage (2 marks)

Other Answers:

$$\text{Stock turnover ratio} = \frac{\text{Cost of goods sold}}{\text{Value of stock}} \times 100$$

$$\frac{150\,000}{260\,000} \times 100 \quad (1 \text{ mark}) = 1:0.58 \quad (1 \text{ mark})$$

**2 (b)** Using **Item B** and your answers to **Question 2(a)**, analyse the impact that the proposed change in production system will have on *Fast Trees Ltd's* profitability and efficiency. (9 marks)

Level	Descriptor	Marks	Assessment Objective
3	Uses <b>Item B</b> to analyse the impact on <i>Fast Trees Ltd's</i> profitability and/or efficiency.	9–6	AO3
2	Uses <b>Item B</b> to explain the effect on <i>Fast Trees Ltd's</i> profitability and/or efficiency.	5–3	AO2
1	Identifies changes in profitability and/or efficiency.	2–1	AO1

**Relevant answers might include the following:**

- increases absolute profits from 40 000 to 55 000
- however Net Profit Margin falls from 33% to 27%
- the Stock Turnover Ratio increases substantially from 1:0.19 to 1:0.58 which means that much less stock is being held for each pound of sales generated
- a better Stock Turnover Ratio indicates a more efficient business, and also reduces the amount of money which has to be invested in the business to generate the profits.

<b>2 (c)</b>	<i>Should Jack invest in the new production system for growing trees more quickly? Use all the information available to you to justify your answer.</i> <i>(14 marks)</i>
--------------	--

Level	Descriptor	Marks	Assessment Objective
3	Uses <b>Item B</b> to analyse the impact the investment would have on <i>Fast Trees Ltd.</i>	7–5	AO3
2	Uses <b>Item B</b> to describe the impact the investment would have on <i>Fast Trees Ltd.</i>	4–2	AO2
1	Identifies factors to consider in making an investment decision.	1	AO1

**Positives which support the case for investment are:**

- the absolute profit will increase
- the business will be more efficient due to much faster stock turnover
- sales will increase.

**Negatives against the investment are:**

- to fund the investment Jack is proposing to take a book loss on the existing trees which he is selling to quickly raise the funds for the investment
- the net assets of the business will fall
- the profit margin is lower.

There is no correct answer and students can argue for either case.

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

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

Judgement is being made on whether Jack should invest in the new production system.

Level	Descriptor	Marks	Assessment Objective
E3	Offers judgement with weighted 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.	7–6	AO4 and Quality of written communication
E2	Offers judgement with supported justification. Ideas are communicated using a logical structure, with some appropriate technical terms. There are occasional errors in accepted conventions of written communication.	5–3	
E1	Offers limited judgement. Ideas are communicated with some structure evident with occasional use of appropriate technical terms. There are some errors in accepted conventions of written communication.	2–1	

3

**Total for this question: 28 marks**

**3 (a)** Calculate the profit that HDC Engineering could achieve if it invests in the new production line and sells 10 000 valves per year. (8 marks)

Item	If it sells 10 000 valves per year	
	£	£
Sales revenue		1 250 000
Cost of parts	530 000 (1)	
Manufacturing costs	270 000 (1)	
Gross profit		450 000 (1 OFR)
Depreciation of new production line	120 000 (3 – see below)	
Share of company overheads	300 000	
Total expenses		420 000 (1 OFR)
Net profit		30 000 (1 OFR)

Depreciation of new production line

**Correct answer: £120 000 (3 marks)**

Other Answers:

140 000 (2 marks)

Depreciation =  $\frac{\text{cost} - \text{scrap value}}{\text{useful life}}$  (1 mark)

$700\,000 - 100\,000 = \frac{600\,000 \text{ (1 mark)}}{5 \text{ Years (1 mark)}} = 120\,000 \text{ per annum (1 mark)}$

**3 (b)** Explain how the net profit would change if HDC Engineering sells 20 000 valves per year. Use calculations to support your answer. (6 marks)

The new net profit is £480 000 / or an increase of £450 000 (6 marks).

**Other answers could include:**

- total sales would double / or sales will be £2.5m (1 mark)
- parts and manufacturing costs would double / or costs will be £1.6m (1 mark)
- gross profit would double / or gross profit will be £900 000 (1 mark)
- depreciation would not change for the production line / or remains at £120 000 (1 mark)
- total expenses would not change / or remains at £420 000 (1 mark).



**3 (c)** Do you think that *HDC Engineering* should invest in the new production line?  
Use **Item C** and your answers to **Questions 3(a)** and **3(b)** to justify your  
answer. (14 marks)

Level	Descriptor	Marks	Assessment Objective
3	Uses <b>Item C</b> to analyse the possible impact the investment may have on <i>HDC</i> .	7–6	AO3
2	Uses <b>Item C</b> to describe the possible impact the investment may have on <i>HDC</i> .	5–3	AO2
1	Identifies factors to consider when investing in a new market.	2–1	AO1

**Investing in the production line looks good because:**

- it makes a profit even at sales at only half the level expected
- if sales are at the level expected by the market research, profits would increase to over 400 000 because the margin over direct costs would double, but depreciation and company overheads would not increase much, if at all
- there may also be potential to develop an export market.

**Investing in the new production line may still be risky because:**

- the market is unproven
- if the market is not available the company will have invested £700 000 in a production line which will still depreciate and may not be used.

There is no correct answer and students can argue for or against the investment in the new production line.

**See next page for Evaluation grid.**

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

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

Judgement is being made on whether *HDC Engineering* should invest in the new production line.

Level	Descriptor	Marks	Assessment Objective
E3	Offers judgement with weighted 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.	7–6	AO4 and Quality of written communication
E2	Offers judgement with supported justification. Ideas are communicated using a logical structure, with some appropriate technical terms. There are occasional errors in accepted conventions of written communication.	5–3	
E1	Offers limited judgement. Ideas are communicated with some structure evident with occasional use of appropriate technical terms. There are some errors in accepted conventions of written communication.	2–1	