



**General Certificate of Education (A-level) Applied
June 2013**

Applied Business

BS15

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

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

Final

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.

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	Assessment Objectives
	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.
Quality of Written Communication	<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"> • 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: 28 marks

1 (a)	<i>Explain how the principle of prudence applies to HTBC writing off bad debts from tenants who cannot pay.</i>	<i>(4 marks)</i>
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Level	Descriptor	Marks	Assessment Objective
2	Explains why it is prudent to write off bad debts as soon as you believe they may occur.	4–3	AO2
1	Demonstrates understanding of bad debt and/or prudence.	2–1	AO1

Relevant answers might include the following:

- bad debts reduce profits and should therefore be written off as soon as they arise to stop the profit being overstated
- even if some of the bad debt is subsequently recovered, it is better to be prudent and work on the basis that the bad debt will not be recovered.

1 (b)	<i>Using Item A, analyse why HTBC's profits fell between 2010 and 2012.</i>	<i>(9 marks)</i>
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Level	Descriptor	Marks	Assessment Objective
3	Analyses why <i>HTBC's</i> profits have reduced between 2010 and 2012.	9–8	AO3
2	Explains reason(s) for the decline in <i>HTBC's</i> profits between 2010 and 2012.	7–4	AO2
1	Demonstrates understanding of the factors which affect profits.	3–1	AO1

Relevant answers might include the following:

Knowledge and Application:

HTBC's profits have reduced because:

- it has had empty units which reduced income
- it has offered discounts to its new tenants which means that the average revenue per business unit has fallen
- operating costs have risen at the business
- bad debts have grown as it has attracted weak tenants, several of whom have become bankrupt owing *HTBC* money
- its finance costs will have risen as it is taking longer to collect rents due
- these actions have all led to a fall in revenue or an increase in bad debts and thus costs in the business which reduce profits in the business.

Analysis:

- the business has failed to ensure that its revenue increases in line with costs
- they have made some mistakes with the policies they have used which have increased the incidence of bad debt
- the big increase in debtors suggests that they may also be bad at chasing up late rent payments and this increases costs and the risks of a late payment becoming a default.

1 (c)	<i>Recommend which of the two options HTBC should use to increase its profits. Use Item A to justify your answer.</i>	<i>(15 marks)</i>
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Level	Descriptor	Marks	Assessment Objective
3	Analyses how the options <i>HTBC</i> is considering would affect its profits.	8–6	AO3
2	Explains how one or both of the options <i>HTBC</i> is considering may affect profits.	5–3	AO2
1	Demonstrates understanding of factors affecting profits.	2–1	AO1

Relevant answers might include the following:

Knowledge and Application:

- the first option of increasing charges for tenants is potentially attractive as it could increase income, but is also likely to lead to complaints from tenants, may lead some to move to other business units and could increase bad debts if tenants struggle to pay the new higher rates
- the second option, of reducing painting, cleaning and security costs is potentially attractive as it will help them to reduce costs which may increase profits. However, tenants are unlikely to be keen to see the business park looking less clean due to reduced painting or cleaning, and would be concerned about a reduction in security.

Analysis:

- if *HTBC* lose tenants due to raising prices, the higher costs will also make it much harder to re-let the units to other businesses and this may increase the number of vacant units and reduce income by more than any increase from higher rents
- a reduction in painting, cleaning and security will both reduce the satisfaction of current tenants and make the units harder to let to new tenants. The impact of less painting and cleaning may well increase over time if the units look less attractive
- both of these changes could lead to tenants leaving or asking for a reduction in the charges they pay which may offset any saving *HTBC* makes in its own costs.

See next page for Evaluation.

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 which option *HTBC* should use to increase its profits.

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	

Points for Evaluation:

- the response of current and potential tenants is key to which approach will work best
- raising prices is a very visible thing to do and every tenant would see a direct impact on their own business
- changing painting, security and cleaning will have a longer term impact and, whilst it will reduce costs, it may lead to very dissatisfied tenants who feel they are not getting value for money
- overall, there is no easy answer as both changes would adversely affect tenants and may lead to some leaving. If this happens, the result could be a further reduction in profits.

2

Total for this question: 28 marks

2	(a)	Using Item B , explain two ways in which <i>HTBC</i> 's costs will change if it invests in solar panels.	(5 marks)
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Level	Descriptor	Marks	Assessment Objective
2	Explains how <i>HTBC</i> 's costs will change if it invests in solar panels.	5–3	AO2
1	Identifies how cost(s) at <i>HTBC</i> may change.	2–1	AO1

Relevant answers might include the following:

- the cost of electricity purchased will fall by £45 000 which reduces revenue costs, and the government payment of £20 000 per year means total savings on electricity of £65 000 per year
- capital costs will increase due to the need to finance an investment of £400 000, which at 6% will increase interest payments by £24 000 in the first year
- the solar panels will need to be depreciated over 25 years, which with no residual value would be £16 000 per year
- assuming these figures, the total costs of the business would reduce by £25 000 in the first year.

2	(b)	The Board is interested in the idea of installing solar panels. Analyse how the assumptions made by Jane might affect the Board's decision.	(8 marks)
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Level	Descriptor	Marks	Assessment Objective
3	Analyses how Jane's assumptions might affect the decision to invest in solar panels.	8–7	AO3
2	Explains how Jane's assumptions might affect the decision to invest in solar panels.	6–4	AO2
1	Demonstrates understanding of how financial factors can vary over time.	3–1	AO1

Relevant answers might include the following:

Knowledge and Application:

- Jane's assumption on sun in the peak summer months for electricity production from the solar panels may be unrealistic every year. A predicted rise in electricity prices over the next 25 years would affect how sensible it is to invest in solar panels, because if prices continue to rise the benefit to the business will grow each year
- the impact of panel life on the profits is less as the depreciation figure is comparatively low. Unless the panels only lasted for a few years rather than 25 years there will still be a profit from investing in the panels.

Analysis:

- the amount of electricity produced by the panels may change each year but over the lifetime of the panels it is realistic to expect the estimate to be quite good
- it is hard to say how much electricity prices will rise as there are so many variables which can affect prices.

2 (c) *Recommend to the Board whether or not HTBC should invest in solar panels. Use **Item B** to justify your recommendation. (15 marks)*

Level	Descriptor	Marks	Assessment Objective
3	Analyses the impact investing in the solar panels will have on the business.	8–6	AO3
2	Explains how investing in the solar panels will affect the business.	5–3	AO2
1	Identifies factors which affect the commercial sense in investing.	2–1	AO1

Relevant answers might include the following:

Knowledge and Application:

- based on the calculated profit the investment is marginal, as it is only a 6% return, particularly when considering the large investment required
- it may, though, reduce costs if the figures are correct and based on 2012 profits it would add nearly 50% to company profits
- the investment would also reduce *HTBC*'s exposure to rises in electricity price, although this is uncertain.

Analysis:

- the profit from the investment would help to address the fall in profits at *HTBC* but the profit will vary from year to year
- investment in the solar panels may also be attractive to tenants as this would help to demonstrate a green business to its customers.

See next page for Evaluation.

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 *HTBC* should invest in the solar panels.

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	

Points for Evaluation:

- *HTBC* needs to do something to address its fall in profits and electricity costs appear to be rising very fast which has been a factor in the falling profits so it is a good area to focus on
- the investment would help to protect the company from rising prices and there is a guaranteed return from the government which will help the company stabilise its income.

3

Total for this question: 24 marks

3 (a) Using **Item C**, analyse why Colin is concerned about *CJ Butchers'* projected financial performance if it continues to sell only to retail customers. (9 marks)

Level	Descriptor	Marks	Assessment Objective
3	Analyses why <i>CJ Butchers'</i> projected financial performance would worry Colin.	9–7	AO3
2	Describes trends in <i>CJ Butchers'</i> projected financial performance.	6–3	AO2
1	Identifies trends in <i>CJ Butchers'</i> financial performance.	2–1	AO1

Relevant answers might include the following:

Knowledge and Application:

- turnover is projected to fall
- overheads are rising
- net and gross profit margins are predicted to fall
- the gross profit margin is predicted to fall from 41% to 40%
- the net profit margin is predicted to fall from 14.7% to 12.0%
- overhead costs are predicted to rise by 2.4%
- an additional overdraft facility of £5000 is needed.

Analysis:

- the business is therefore faced with rising costs, falling sales and reduced profit margins which makes the business less successful and more risky
- the business is clearly suffering from the increased competition from supermarkets and, if the trends continued, will soon start to run into financial difficulties
- whilst the business is still profitable, it cannot afford to ignore the pressures it is now facing and Colin is therefore concerned about the need to take positive action to correct the negative trends in financial performance.

3 (b) *Colin wants to focus on developing the commercial market to improve CJ Butchers' financial performance. To what extent do you agree with his view? Use **Item C** to justify your answer. (15 marks)*

Level	Descriptor	Marks	Assessment Objective
3	Analyses the impact of the new market on <i>CJ Butchers</i> .	8–6	AO3
2	Explains the advantages and/or disadvantages of the new contract to <i>CJ Butchers</i> .	5–3	AO2
1	Demonstrates understanding of how to measure financial performance.	2–1	AO1

Relevant answers might include the following:

Knowledge and Application:

- the commercial market provides a way to expand the business quickly at a time when it is hard to win more public customers due to competition from supermarkets
- the extra finance required on overdraft is a risk, as is having so much of the business dependent on one customer (a risk to both cash flow and profits)
- the much lower margin achieved on the restaurant chain's sales is also not as attractive as the margin made when selling to the public:
 - the gross profit margin falls from 40% to 31% if they sell to commercial customers as well as retail
 - the net profit margin falls from 12% to 9.2% if they sell to commercial customers as well as retail.

Analysis:

- the opportunity for one large customer who will nearly double turnover is attractive and it appears to be profitable to do so as profits are projected to be £35 000 higher if they embrace the new market
- if they could expand sales to the public it would produce more profit at potentially lower risk
- whilst the plan to sell to the commercial market is projected to increase profits, it needs more finance, is more risky and means they will need to expand substantially for a relatively modest increase in profit.

See next page for Evaluation.

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 *CJ Butchers* should focus on developing the commercial market.

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	

Points for Evaluation:

- the scale of growth possible with the commercial market is attractive, but the returns are lower and this increases risk and the amount of money they need to finance the business
- a single large customer in the new commercial market will also increase risk but also reduce complexity - there are pros and cons but it does increase risk if this customer leaves or fails to pay
- growing the retail market instead would reduce risks but faces stiff competition from supermarkets and would arguably take more effort.