



Rewarding Learning

ADVANCED
General Certificate of Education
2012

GCE Applied Business

Assessment Unit A2 7

assessing

Finance

[A6B11]

THURSDAY 14 JUNE, AFTERNOON

**MARK
SCHEME**

1 (a) You are required to calculate the following accounting ratios, based on the formulae provided:

		UTV Media plc	
		2007	2008
		(£m)	(£m)
<u>Sales Revenue</u>	–	120	× 100%
<u>Total Assets – Curr. Liabilities</u>	–	296	
Asset Turnover:	–	0.4 times	[1]

		2007	2008
<u>Non-Curr. Liabilities (Debt Capital)</u>	× 100%	148	167
Equity Cap + Reserves + Debt Capital		219	296
Gearing Ratio:		67.6%	56.4% [2]

		2008
<u>Current Assets</u>		41
<u>Current Liabilities</u>		44
Current Ratio:		0.9 times [1]

		2007	2008
<u>Dividend</u>		7	8
<u>No. of shares in issue</u>		95.9	95.9
Dividend Per Share:		7.3 pence	8.3 pence [2]

Marking: [1] for each figure correctly stated/calculated – to one decimal place (noted in bold). OFR to be applied as appropriate. (6 × [1])

(b) 1 Asset Turnover Ratio:

- A value of 0.4 times (2008) appears to be a low level of turnover on the asset base;
- Asset base appear to be at a high level, which could reduce efficiency;
- Levels of investment/book values of investment must theoretically be high, given the low rate of turnover;
- Investors might be encouraged to look at alternative investments or prefer to focus on increase in efficiency. [3]

2 Gearing Ratio:

- Values of 67.6% (2007) v 56.4% (2008) are reported respectively;
- Gearing ratio appears to have declined;
- Actual data suggests debt levels have increased, but total capital has increased, giving the impression that gearing levels have fallen, UTV need to review the matter. [3]

3 The Current Ratio = current assets/current liabilities:

- Value of 0.9 times is reported – lower than the recommended benchmark of 2:1;
- This could be a problem if it continues, since it indicates the inability of the company to meet its debts;
- Reasons for this should be investigated, e.g. high stockholdings/high levels of debtors (accounts receivable)/low cash balances/high levels of creditors (accounts payable). [3]

4 Dividend Per Share:

- Values of 7.3p and 8.3p are reported for each year;
- Decline in this ratio could be a problem if it continues, since it indicates the inability of the company to provide a decent return to shareholders;
- Indicative of the low/declining profitability levels;
- Alternatively, dividend has increased due to use of reserves to fund the dividend. [3]

	AO1 Knowledge and understanding	AO2 Application	AO3 Analysis	AO4 Evaluation
Level 3	3 marks Candidate demonstrates competent use of accounting ratios. Candidate makes adequate use of specialist vocabulary when it is appropriate.	3 marks Candidate attempts to apply knowledge competently.	3 marks Candidate shows some attempt to analyse the business using accounting ratios.	3 marks Candidate gives a competent discussion using accounting ratios and comes to a final judgement. Candidate demonstrates satisfactory spelling, punctuation and grammar. The meaning of the text is clear most of the time. The candidate demonstrates a satisfactory level of writing, form and style appropriate to the purpose of the question. Answer is organised in a competent manner.
Level 2	2 marks Candidate demonstrates good use of accounting ratios. Candidate makes adequate use of specialist vocabulary when it is appropriate.	2 marks Candidate makes a good attempt to apply knowledge.	2 marks Candidate shows a good attempt to analyse the business using accounting ratios.	2 marks Candidate gives a good discussion using accounting ratios and comes to a final judgement. Candidate demonstrates satisfactory spelling, punctuation and grammar. The meaning of the text is clear most of the time. The candidate demonstrates a satisfactory level of writing, form and style appropriate to the purpose of the question. Answer is organised in a satisfactory manner.
Level 1	1 mark Candidate demonstrates basic use of accounting ratios. Candidate makes some use of specialist vocabulary when it is appropriate.	1 mark Candidate attempts to apply some knowledge.	1 mark Candidate shows little attempt to analyse the business using accounting ratios.	1 mark Candidate attempts some discussion using accounting ratios. Candidate makes limited use of spelling, punctuation and grammar. The meaning of the text is not always clear. The candidate demonstrates a limited form and style appropriate to the purpose of the question. The organisation of the answer is limited.
Level 0	0 marks Candidate demonstrates no understanding of using accounting ratios. Candidate makes no use of specialist vocabulary when it is appropriate.	0 marks Candidate does not attempt to apply knowledge.	0 marks Candidate shows no attempt to analyse the business using accounting ratios.	0 marks Candidate makes no attempt to discuss using accounting ratios.

AVAILABLE MARKS

(c) Discuss the limitations of using accounting ratios to assess the financial position of a company such as UTV Media plc.

- Accounting ratios may not facilitate an in-depth analysis of key areas of financial performance, due to difficulties in making comparisons, e.g. availability of data, differing accounting policies between firms, use of summary data;
- Accounting ratios are only as accurate as the underlying financial statements and might not be entirely reliable;
- Accounting ratios are only a snap-shot view of the financial position – in-depth analysis is required to fully understand the financial position being reported;
- Accounting ratios date very quickly – data related to financial years 2007/8 is at least 3 years old in this instance.

[8]

	AO1 Knowledge and understanding	AO2 Application	AO3 Analysis	AO4 Evaluation
Level 2	<p>2 marks</p> <p>Candidate demonstrates an adequate understanding of the limitations of accounting ratios. Candidate makes adequate use of specialist vocabulary when it is appropriate.</p>	<p>2 marks</p> <p>Candidate attempts to apply reasonable knowledge.</p>	<p>2 marks</p> <p>Candidate shows some attempt to analyse the limitations of accounting ratios.</p>	<p>2 marks</p> <p>Candidate gives a satisfactory evaluation of the limitations of accounting ratios and comes to a firm judgement. Candidate demonstrates satisfactory spelling, punctuation and grammar. The meaning of the text is clear most of the time. The candidate demonstrates a satisfactory level of writing, form and style appropriate to the purpose of the question. Answer is organised in a satisfactory manner.</p>
Level 1	<p>1 mark</p> <p>Candidate demonstrates some understanding of the limitations of accounting ratios. Candidate makes some use of specialist vocabulary when it is appropriate.</p>	<p>1 mark</p> <p>Candidate attempts to apply some knowledge.</p>	<p>1 mark</p> <p>Candidate shows little attempt to analyse the limitations of accounting ratios.</p>	<p>1 mark</p> <p>Candidate attempts some evaluation of the limitations of accounting ratios. Candidate makes limited use of spelling, punctuation and grammar. The meaning of the text is not always clear. The candidate demonstrates a limited form and style appropriate to the purpose of the question. The organisation of the answer is limited.</p>
Level 0	<p>0 marks</p> <p>Candidate demonstrates no understanding of the limitations of accounting ratios. Candidate makes no use of specialist vocabulary when it is appropriate.</p>	<p>0 marks</p> <p>Candidate does not attempt to apply knowledge.</p>	<p>0 marks</p> <p>Candidate shows no attempt to analyse the limitations of accounting ratios.</p>	<p>0 marks</p> <p>Candidate makes no attempt to evaluate the limitations of accounting ratios.</p>

AVAILABLE MARKS

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- 2 (a) Complete Table 1 to show the production overhead analysis and apportionment for the Saudi Arabian contract.

Table 1

Production Overhead Analysis and Apportionment Table

Overhead	Basis of Apportionment	Total Cost (£'000)	Production Dept. (£'000)	Assembly Dept. (£'000)	Painting Dept. (£'000)	Stores Dept. (£'000)	
Indirect material	Direct	20	16	2	1	1	L1
Indirect wages	Direct	10	6	1	2	1	L2
Health/Safety costs	Direct	10	4	4	1	1	L3
Canteen costs	Area	6	3	1	1	1	L4
Depreciation	Plant cost	14	10	1	1	2	L5
Energy costs	Power use	14	7	5	1	1	L6
Water Charges	Floor Area	20	8	6	4	2	L7
Rates	Floor Area	10	4	3	2	1	L8
Total		104	58	23	13	10	L9
Stores	Stores issues	0	6	2	2	-10	L10
Total overheads		104	64	25	15		L11

Marking: [1] for each item correctly stated/calculated (noted in bold):

1. calculation of total Energy costs (**£14,000** = 7,000 + 5,000 + 1,000 + 1,000) (L6);
 2. apportionment of Water Charges across various departments in ratio of Floor Area (4:3:2:1) – **£20,000 (total); £8,000, £6,000, £4,000** and **£2,000** respectively (L7);
 3. apportionment of Rates across various departments in ratio of Floor Area (4:3:2:1) – £10,000 (total); **£4,000, £3,000, £2,000** and **£1,000** respectively (L8);
 4. calculation of total overheads and total per dept., **£104,000; £58,000, £23,000, £13,000, £10,000** respectively (L9);
 5. production dept. apportionment of stores overheads (**£6,000**) (L10);
 6. assembly dept. apportionment of stores overheads (**£2,000**) (L10);
 7. painting dept. apportionment of stores overheads (**£2,000**) (L10);
 8. stores dept. total overheads to be apportioned (**-£10,000**) (L10);
 9. calculation of total overheads after re-allocation at **£104,000** (L11);
 10. total production dept., overheads correctly calculated at **£64,000** (L11);
 11. total assembly dept., overheads correctly calculated at **£25,000** (L11);
 12. total painting dept., overheads correctly calculated at **£15,000** (L11).
- Own figure rule (OFR) to be applied as appropriate. [23]

AVAILABLE MARKS

- (b) Complete Table 2 to show the appropriate rates of overhead recovery for
- (i) the Production Department;
 - (ii) the Assembly Department; and
 - (iii) the Painting Department. All calculations must be shown in the box provided.

Table 2: Overhead Absorption Rates

	Production Dept.	Assembly Dept.	Painting Dept.
Machine Hours	16 000	5000	5000
Overhead Rate per Machine Hour (£)	4.00	5.00	3.00

Marking: [1] for each item correctly stated/calculated (noted in bold):

1. production dept. direct machine hours (16 000) (L1);
2. assembly dept. direct machine hours (5000) (L1);
3. painting dept. direct machine hours (5000) (L1);
4. overhead absorption rate for production dept., correctly calculated at £4.00 (L2), based on total production dept., overheads correctly calculated at £64,000 (L11, pt **(a)**);
5. overhead absorption rate for assembly dept., correctly calculated at £5.00 (L2), based on total assembly dept., overheads correctly calculated at £25,000 (L11, pt **(a)**);
6. overhead absorption rate for painting dept., correctly calculated at £3.00 (L2), based on total painting dept., overheads correctly calculated at £15,000 (L11, pt **(a)**).

Own figure rule to be applied as appropriate.

[6]

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- 3 (a) Using the information **from the trial balance**, complete the Income Statement of “Peachy Crafts” for the year ended 31st December 2011.

Peachy Crafts Income Statement for the year ended 31st December 2011

	£	£
Revenues		29,050
Less: Cost of Services		
Opening Inventory (Stock)	120	
Add Purchases	1,460	
Less Closing Inventory (Stock)	<u>450</u>	
Cost of Services		<u>1,130</u>
Gross Profit		27,920
Less Expenses:		
Administration expenses		230
Wages		5,500
Electricity		833
Rent		7,680
Advertising		873
Insurance		1,750
Telephone		593
Depreciation of Equipment		1,700
Allowance for Trade Receivables		140
Total Expenses		19,299
Net Profit		8,621

[7]

(b) Using the information from the trial balance, complete the Statement of Financial Position of "Peachy Crafts" as at 31st December 2011.

Peachy Crafts Statement of Financial Position as at 31st December 2011

	£ Cost	£ Depreciation	£ Written Down value
Non-Current Assets			
Equipment	6,800	1,700	5,100
	6,800	1,700	5,100
Current Assets			
Closing Inventory (Stock)			450
Trade Receivables (Debtors)		700	
Less Allowance for Trade Receivables		140	560
Advertising Prepaid			250
Bank			795
Total Current Assets			2,055
Total Assets			7,155
Equity and Liabilities			
Opening Capital			6,500
Add Profit			8,621
Less Drawings			(9,089)
Total Owner's Capital			6,032
Current Liabilities			
Trade Payables			890
Accruals			233
Total Current Liabilities			1,123
Total Equity and Liabilities			7,155

[8]

Note: 1 mark penalty imposed if Total Assets do not equal Total Equity and Liabilities.

(c) Matilda is satisfied with the financial performance of the business to date. However, she is unfamiliar with some accounting terms which need clarification.

(i) Explain the meaning of Allowance for Trade Receivables and discuss the importance of including it in the financial statements.

Allowance for Trade Receivables – the estimate by a business (Peachy Crafts) of the likely percentage of its debtors which may go bad during any one accounting period.

An Allowance for Trade Receivables is important because, if it is decided that the size of the allowance needs to be increased then the amount of the increase is charged to the Income Statement as an expense (reducing profits) and it is recorded as an increase in the allowance. It is important that the full provision is deducted from the Trade Receivables figure in the Statement of Financial Position as this reduces the total value of trade receivables/assets. [5]

(ii) Explain the meaning of depreciation and discuss the reasons for its inclusion in the financial statements.

Depreciation – the estimate of the amount of the fall in the value of fixed assets over a stated period of time.

Depreciation must be entered in a business's (Peachy Crafts) Statement of Financial Position. It is also included with the other operating expenses in the Income Statement. However, it is important to note that depreciation is an expense and reduces profit. It is important to include depreciation in the Statement of Financial Position to ensure that the assets give a true reflection of the value of the business.

A business's (Peachy Crafts) non-current assets will fall in value over time. This fall in value will vary depending on the type of asset, and affect asset valuations. [5]

Total

25

80

	AO1 Knowledge and understanding	AO2 Application
Level 2	<p>3 marks</p> <p>Candidate demonstrates an adequate understanding of allowance for trade receivables and its inclusion in financial statements.</p> <p>Candidate makes adequate use of specialist vocabulary when it is appropriate.</p> <p>Candidate demonstrates satisfactory spelling, punctuation and grammar.</p>	<p>2 marks</p> <p>Candidate attempts to apply reasonable knowledge.</p>
Level 1	<p>1 mark</p> <p>Candidate demonstrates some understanding of allowance for trade receivables and its inclusion in financial statements.</p> <p>Candidate makes some use of specialist vocabulary when it is appropriate.</p> <p>Candidate makes limited use of spelling, punctuation and grammar.</p>	<p>1 mark</p> <p>Candidate attempts to apply some knowledge.</p>
Level 0	<p>0 marks</p> <p>Candidate demonstrates no understanding of allowance for trade receivables and its inclusion in financial statements.</p> <p>Candidate makes no use of specialist vocabulary when it is appropriate.</p>	<p>0 marks</p> <p>Candidate does not attempt to apply knowledge.</p>

AVAILABLE MARKS

	AO1 Knowledge and understanding	AO2 Application
Level 2	<p>3 marks</p> <p>Candidate demonstrates an adequate understanding of depreciation and its inclusion in the financial statements.</p> <p>Candidate makes adequate use of specialist vocabulary when it is appropriate.</p> <p>Candidate demonstrates satisfactory spelling, punctuation and grammar.</p>	<p>2 marks</p> <p>Candidate attempts to apply reasonable knowledge.</p>
Level 1	<p>1 mark</p> <p>Candidate demonstrates some understanding of depreciation and its inclusion in the financial statements.</p> <p>Candidate makes some use of specialist vocabulary when it is appropriate.</p> <p>Candidate makes limited use of spelling, punctuation and grammar.</p>	<p>1 mark</p> <p>Candidate attempts to apply some knowledge.</p>
Level 0	<p>0 marks</p> <p>Candidate demonstrates no understanding of depreciation and its inclusion in the financial statements.</p> <p>Candidate makes no use of specialist vocabulary when it is appropriate.</p>	<p>0 marks</p> <p>Candidate does not attempt to apply knowledge.</p>

AVAILABLE
MARKS