



Rewarding Learning

ADVANCED
General Certificate of Education
2013

GCE Applied Business

Assessment Unit A2 7

assessing

Finance

[A6B11]

WEDNESDAY 12 JUNE, AFTERNOON

**MARK
SCHEME**

General Marking Instructions

Introduction

Mark schemes are published to assist teachers and students in their preparation for examinations. With the mark schemes teachers and students will be able to see what examiners are looking for in response to questions and exactly where the marks have been awarded. The publishing of the mark schemes may be intended to show that examiners are not concerned about finding out what a student does not know but rather with rewarding students for what they do know.

The Purpose of Mark Schemes

Examination papers are set and revised by teams of examiners and revisers appointed by the Council. The teams of examiners and revisers include experienced teachers who are familiar with the level and standards expected of students in schools and colleges.

The job of the examiners is to set the questions and the mark schemes; and the job of the revisers is to review the questions and mark schemes commenting on a large range of issues about which they must be satisfied before the question papers and mark schemes are finalised.

The questions and the mark schemes are developed in association with each other so that the issues of differentiation and positive achievement can be addressed right from the start. Mark schemes, therefore, are regarded as part of an integral process which begins with the setting of questions and ends with the marking of the examination.

The main purpose of the mark scheme is to provide a uniform basis for the marking process so that all the markers are following exactly the same instructions and making the same judgements in so far as this is possible. Before marking begins a standardising meeting is held where all the markers are briefed using the mark scheme and samples of the students' work in the form of scripts. Consideration is also given at this stage to any comments on the operational papers received from teachers and their organisations. During this meeting, and up to and including the end of the marking, there is provision for amendments to be made to the mark scheme. What is published represents this final form of the mark scheme.

It is important to recognise that in some cases there may well be other correct responses which are equally acceptable to those published: the mark scheme can only cover those responses which emerged in the examination. There may also be instances where certain judgements may have to be left to the experience of the examiner, for example, where there is no absolute correct response – all teachers will be familiar with making such judgements.

- 1 (a) Using the **Direct Labour Hours** as a basis for charging overheads calculate the Indirect Cost Recovery rate per labour hour.

[1] for £30,000 **and** for 7,500 Hours

[1] for £4.00

[2]

$\frac{\text{Total Indirect Costs}}{\text{Total Direct Labour Hours}} = \frac{\pounds 30,000}{7,500}$
<p>Answer £4.00 per Direct Labour Hour</p>

	AO1 Knowledge and Understanding	AO2 Application
Level 1	<p>1 mark Candidate demonstrates a good understanding of the necessary Direct Labour Hour calculation</p>	<p>1 mark Candidate applies knowledge effectively in context of stimulus material</p>
Level 0	<p>0 marks Candidate demonstrates no understanding of the necessary Direct Labour Hour calculation</p>	<p>0 marks Candidate does not attempt to apply knowledge to stimulus material</p>

- (b) Using the **Machine Hours** as a basis for charging overheads calculate the Indirect Cost Recovery rate per machine hour.

$\frac{\text{Total Indirect Costs}}{\text{Total Machine Hours}} = \frac{\pounds 30,000}{4,000}$
<p>Answer £7.50 per Machine Hour</p>

[1] for each £30,000 **and** for 4,000 hours

[1] for £7.50 per machine hour

[2]

	AO1 Knowledge and Understanding	AO2 Application
Level 1	<p>1 mark Candidate demonstrates a good understanding of the necessary Machine Hour calculation</p>	<p>1 mark Candidate applies knowledge effectively in context of stimulus material</p>
Level 0	<p>0 marks Candidate demonstrates no understanding of the necessary Machine Hour calculation</p>	<p>0 marks Candidate does not attempt to apply knowledge to stimulus material</p>

(c) Discuss the two absorption costing methods used in MacEngineering Enterprises.

Machine Hour Rate relates to the number of hours a machine will be used in the production of 1 generator. The Machine Hour Rate is an appropriate basis when the means of production are capital intensive and the production processes are predominantly mechanised. The overhead absorption rates will take account of the number of machine hours required to produce each generator.

Direct Labour Hour Rate is the number of hours that a worker would take to produce 1 generator. When a particular department is labour intensive and there is little machinery used or machine costs are low the overhead absorption rate may be calculated using the man hours required to complete the generator. There is a great proportion of labour hours in the case study, upon which the O.A.R. has been calculated.

Therefore the Labour Hour Rate is the most appropriate.

	AO1 Knowledge and Understanding	AO2 Application	AO3 Analysis	AO4 Evaluation
Level 2	2 marks Candidate demonstrates an adequate understanding of the two ways in which absorption costing is of use to MacEngineering. Candidate makes adequate use of specialist vocabulary when appropriate.	2 marks Candidate attempts to apply reasonable knowledge.	2 marks Candidate shows satisfactory attempt to analyse ways in which absorption costing is of use to MacEngineering.	2 marks Candidate gives a satisfactory evaluation of two ways in which absorption costing is of use to MacEngineering 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. The answer is organised in a satisfactory manner.
Level 1	1 mark Candidate demonstrates some understanding of the ways in which absorption costing is of use to MacEngineering. Candidate makes some use of specialist vocabulary when it is appropriate	1 mark Candidate attempts to apply some knowledge.	1 mark Candidate shows some attempt to analyse ways in which absorption costing is of use to MacEngineering	1 mark Candidate attempts some evaluation of one way in which absorption costing is of use to MacEngineering. 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 question. The organisation of the answer is limited.
Level 0	0 marks Candidate demonstrates no understanding of ways in which absorption costing is of use to MacEngineering. 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 ways in which absorption costing is of use to MacEngineering	0 marks Candidate makes no attempt to evaluate ways in which absorption costing is of use to MacEngineering.

AVAILABLE MARKS
[8]

(d) (i) The Breakeven Point in Generator numbers.

Workings

$$\frac{\pounds 1,320,000}{\pounds 30,000 - \pounds 13,500 (\pounds 7,500 + \pounds 2,500 + \pounds 3,500)} = \frac{1,320,000}{16,500} = 80 \text{ Generators}$$

[1] for £1,320,000

[1] for contribution £16,500

[1] for 80 Generators

OFR Applies

[3]

(ii) The Breakeven Point in Generator Sales Revenue.

Answer **£2.4 million**

Workings

$$80 \text{ Generators} \times \pounds 30,000 \text{ each} = \pounds 2.4 \text{ million}$$

[1] for 80 × £30,000

[1] for £2.4 million

OFR applies

[2]

- (iii) Calculate the total profit that could accrue to MacEngineering Enterprises Ltd if its tender is accepted.

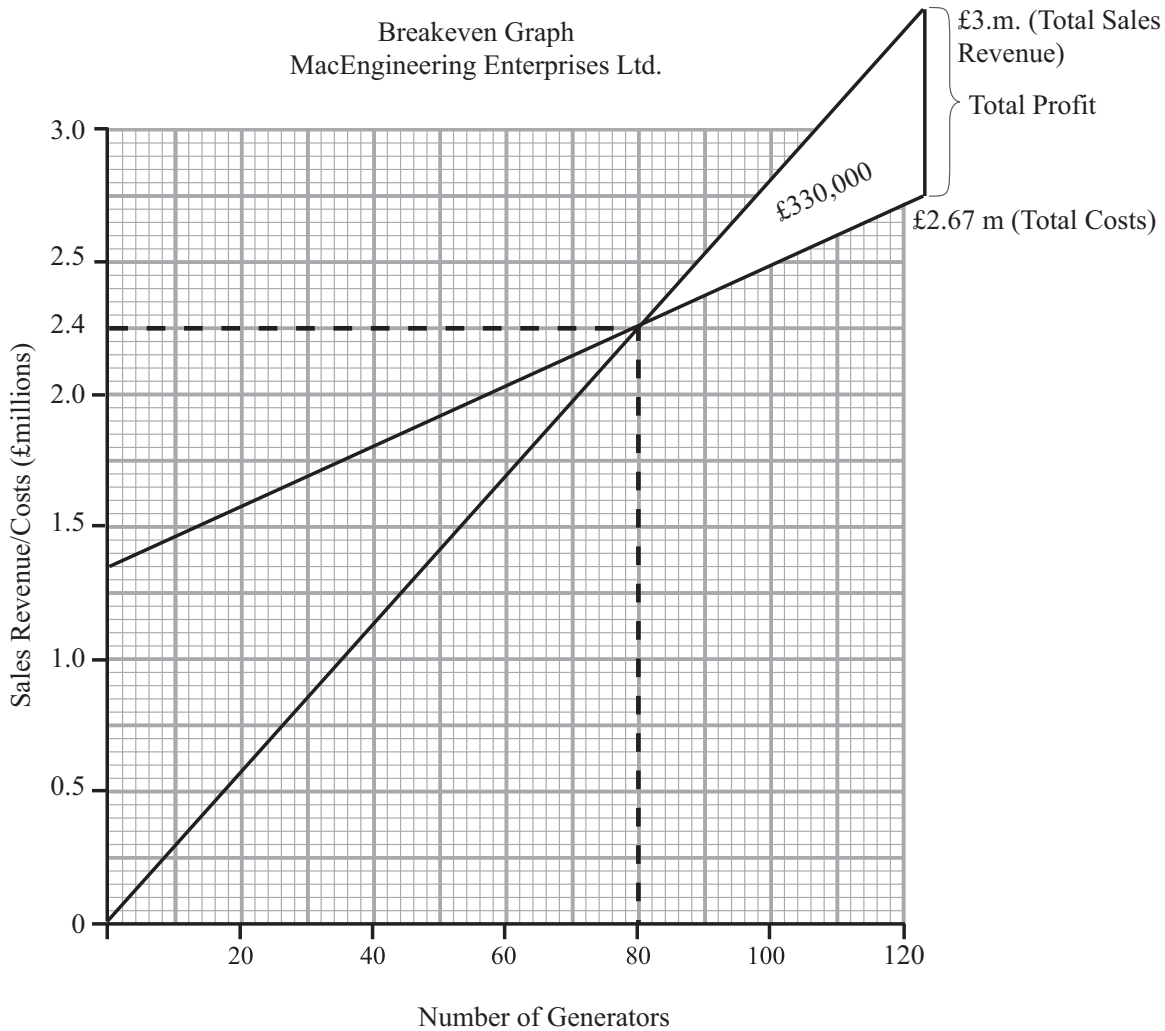
Workings		
Sales Revenue	$100 \times \text{£}30,000$	= $\text{£}3,000,000$
Fixed Costs		$\text{£}1,320,000$
Variable Costs	$100 \times \text{£}13,500$	$\text{£}1,350,000$
Total Costs		$\text{£}2,670,000$
Profit		$\text{£}330,000$
or		
Contribution per Generator	$\text{£}16,500 \times 20$	= $\text{£}330,000$

	AO1 Knowledge and Understanding	AO2 Application
Level 1	1–2 marks Candidate demonstrates a good understanding of computing the breakeven point and predicted profits computation	1 mark Candidate applies knowledge effectively in context of stimulus material
Level 0	0 marks Candidate demonstrates no understanding of computing the breakeven point and predicted profits computation	0 marks Candidate does not attempt to apply knowledge to stimulus material

OFR Applies

[3]

- (e) (i) Total Sales Revenue Line (£3 m) [1]
- (ii) Total Costs Line (£2.67 m) [1]
- (iii) Breakeven Point (80 Generators) [1]
 Breakeven Point (£2.4 Million Sales Revenue) [1]
- (iv) Total Profit from 100 generators (£330,000) [2]



Notes:

- Graph not to scale.
- Proper annotation required throughout graph.
- Graph should clearly display required information.

- (f) Discuss **three** ways in which breakeven analysis would assist the directors of MacEngineering Enterprises Ltd when considering the manufacture and export of the generators.

<ul style="list-style-type: none">• It is a simple straightforward way of discovering whether MacEngineering's proposed export venture will succeed financially.
<ul style="list-style-type: none">• Enables MacEngineering to calculate the breakeven point in terms of number of Generators and Sales Revenue and how long it will take to reach the output needed to make a profit (Margin of Safety).
<ul style="list-style-type: none">• Encourages MacEngineering to become more cost-conscious to achieve value for money for Directors and Shareholders.
<ul style="list-style-type: none">• Enables MacEngineering to determine an appropriate price for their generators.
<ul style="list-style-type: none">• The data can be used as a key element in persuading MacEngineering's bank manager or investors to give financial support should they require it.
<ul style="list-style-type: none">• Breakeven analysis allows MacEngineering to use the "what if" scenarios to show the different breakeven outputs and the changes in levels of profit that might arise from those changes in Fixed Costs, Variable Costs and Price.
<ul style="list-style-type: none">• It can predict its likely profit level.

	AO1 Knowledge and Understanding	AO2 Application	AO3 Analysis	AO4 Evaluation
Level 3	3 marks Candidate demonstrates a good understanding of the ways in which breakeven analysis is of use to MacEngineering. Candidate makes good use of specialist vocabulary when it is appropriate.	3 marks Candidate applies knowledge effectively.	3 marks Candidate thoroughly analyses ways in which breakeven analysis is of use to MacEngineering.	3 marks Candidate gives a full evaluation of the ways in which breakeven analysis is of use to MacEngineering and comes to a final judgement. Candidate demonstrates good spelling, punctuation and grammar. The meaning of the text is clear. The candidate has consistently used a form and style of writing appropriate to the question. Answer is organised in a clear and coherent manner.
Level 2	2 marks Candidate demonstrates an adequate understanding of the ways in which breakeven analysis is of use to MacEngineering. Candidate makes adequate use of specialist vocabulary when appropriate.	2 marks Candidate attempts to apply reasonable knowledge.	2 marks Candidate shows some attempt to analyse ways in which breakeven analysis is of use to MacEngineering.	2 marks Candidate gives a satisfactory evaluation of the ways in which breakeven analysis is of use to MacEngineering 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 some understanding of the ways in which breakeven analysis is of use to MacEngineering. Candidate makes use of specialist vocabulary when it is appropriate.	1 mark Candidate attempts to apply some knowledge.	1 mark Candidate shows little attempt to analyse ways in which breakeven analysis is of use to MacEngineering.	1 mark Candidate attempts some evaluation of the ways in which breakeven analysis is of use to MacEngineering. 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 the ways in which breakeven analysis is of use to MacEngineering. 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 ways in which breakeven analysis is of use to MacEngineering.	0 marks Candidate makes no attempt to evaluate ways in which breakeven analysis is of use to MacEngineering.

AVAILABLE MARKS

[12]

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- 2 (a) Calculate the following ratios, to one decimal place, for the year ended 31 March 2013. Use the spaces to show your calculations.

Gross Profit Margin

Gross Profit = £59m [1]

Sales Revenue = £129m [1]

Formula $\frac{£59m}{£129m} \times 100 = 46\%$

Answer 45.7% [1]

OFR Applies

Net Profit Margin

Profit before Tax £19m

Finance Costs £7m

Preference Dividends £0m

Total £26m [1]

Sales Revenue £129m [1]

Formula $\frac{£26m}{£129m} \times 100 = 20\%$

Answer 20.2% [1]

OFR Applies

Current Ratio

Current Assets £50m [1]

Current Liabilities £40m [1]

Formula $£50m : £40m = 1.25 : 1$

Answer 1.3 : 1 [1]

OFR Applies

Trade Receivables Ratio

Trade Receivables £10m [1]

Sales Revenue £129m [1]

Formula $\frac{£10m}{£129m} \times 365 \text{ days} = 28.3 \text{ days}$

Answer 28.3 days [1]

OFR Applies

Trade Payables Ratio

Trade Payables	£6m	[1]
Cost of Sales	£70m	[1]
Formula	$£6m/£70m \times 365 \text{ days} = 31.3 \text{ days}$	
Answer	31.3 days	[1]

OFR Applies

Return on Capital Employed

Profit before Tax	£19m	
Finance Costs	£7m	
Preference Dividends	£0m	
Total	£26m	[1]
Total Assets	£300m	
Current Liabilities	£40	
Total	£260	[1]
Formula	$£26m/£260m = 10\%$	
Answer	10.0%	[1]

OFR Applies

18

	AO1 Knowledge and Understanding	AO2 Application
Level 3	5–9 marks Candidate demonstrates an understanding of computing five/six ratios	5–9 marks Candidate applies knowledge effectively.
Level 2	3–4 marks Candidate demonstrates an understanding of computing three/four ratios.	3–4 marks Candidate attempts to apply reasonable knowledge.
Level 1	1–2 marks Candidate demonstrates an understanding of computing one/two ratios.	1–2 marks Candidate attempts to apply some knowledge.
Level 0	0 marks Candidate demonstrates no understanding of the ways in which ratios are calculated.	0 marks Candidate applies no knowledge.

- (b) Based on your calculations and on information provided about the competitor, financial performance of Childplay plc using the following ratios.

1	<p>Net Profit Margin</p> <ul style="list-style-type: none"> • The Net Profit Margin for Childplay plc in 2013 is 20% • The Net Profit Margin for Competition in 2013 is 20% • Childplay plc is comparable to Competitors which could mean that they are controlling costs to ensure maximised profits along industry lines and trends.
2	<p>Current Ratio</p> <ul style="list-style-type: none"> • Childplay plc have a current Ratio of 1.3 to 1 during 2013 • Competitors Current Ratio in 2012 was 0.91 : 1 during 2013 • Childplay plc is in a much better position in 2013 than their competitors due to better management of their cash flow, holding monies on deposit account £18m, could be used more efficiently.
3	<p>Return on Capital Employed</p> <ul style="list-style-type: none"> • Childplay plc has ROCE of 10% • Competitor ROCE is 16% for 2013 • Competitor returning a much higher % return than Childplay plc possibly due to the competitor's total assets being much lower than Childplay plc, and thus a higher return.

	AO1 Knowledge and Understanding	AO2 Application	AO3 Analysis	AO4 Evaluation
Level 3	3 marks Candidate demonstrates excellent understanding of accounting ratios. Candidate makes excellent use of specialist vocabulary when appropriate.	3 marks Very good application of accounting ratios.	3 marks Very good analysis of accounting ratios.	3 marks Candidate gives full evaluation of accounting ratios and comes to a final judgement. Candidate demonstrates good spelling, punctuation and grammar. The meaning of the text is clear. The candidate has consistently used a form and style of writing appropriate to the question. Answer is organised in a clear and coherent manner.
Level 2	2 marks Candidate demonstrates good understanding of accounting ratios. Candidate makes good use of specialist vocabulary when appropriate.	2 marks Candidate applies knowledge effectively.	2 marks Candidate shows good analysis of accounting ratios.	2 marks Candidate gives a satisfactory evaluation of accounting analysis. 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 some understanding 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 ways in which accounting ratios is of use to the business.	1 mark Candidate attempts some evaluation of accounting ratios. Candidate makes little 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 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 accounting ratios.	0 marks Candidate makes no attempt to evaluate accounting ratios.

AVAILABLE MARKS

[12]

30

- 3 Evaluate **two** benefits and **one** limitation of budgets to a business such as Becky's Beauty Salon.

Benefits

The benefits of Becky's Beauty Salon drawing up a budget are as follows:

- Budgeting allows Becky's Beauty Salon to control both its income and its expenditure. The budget can highlight areas within Becky's Beauty Salon where it is not performing as efficiently as it could, e.g. staff wages. Budgeting is therefore a useful control mechanism for Becky's Beauty Salon to identify problems.
- Budgets are a useful way of clarifying the roles and responsibilities of management with Becky's Beauty Salon. Who is responsible for buying salon supplies? Who is in charge of staff and wage rates?
- Budgets help to coordinate the activities of Becky's Beauty Salon and can improve the communication between staff.
- Budgets help to ensure that scarce resources are used as efficiently as possible, all stylists and beauticians can pull together and agree to buy a piece of equipment that every stylist can use rather than individually.
- Budgets enable performance to be measured against set targets, e.g. Sales Revenue per week per stylist/beautician.
- Budgets can help to motivate employees, e.g. how much of a budget to they have to get a practical task done.

Limitations

The limitations of Becky's Beauty Salon drawing up a budget are as follows:

- Budgeting is dependent upon the quality of the information provided. Poor quality information results in budgets that are meaningless, e.g. Information needs to be clear from the outset for each stylist/beautician.
- Budgets can become very inflexible.
- Budgets can be demotivating if the users have not been involved in the budgeting process, e.g. if stylists/beauticians in Becky's Beauty Salon are not aware of how their budget is set.
- There can be a danger of Becky becoming overdependent on budgets at the expense of managing her own time. [12]

	AO1 Knowledge and Understanding	AO2 Application	AO3 Analysis	AO4 Evaluation
Level 3	3 marks Candidate demonstrates excellent understanding of the usefulness of budgeting. Candidate makes excellent use of specialist vocabulary when appropriate.	3 marks Very good application.	3 marks Very good analysis of budgeting.	3 marks Candidate gives full evaluation of the usefulness of budget accounting. Candidate demonstrates good spelling, punctuation and grammar. The meaning of the text is clear. The candidate has consistently used a form and style of writing appropriate to the question. Answer is organised in a clear and coherent manner.
Level 2	2 marks Candidate demonstrates a good understanding of the usefulness of budgeting. Candidate makes good use of specialist vocabulary when appropriate.	2 marks Candidate applies knowledge effectively.	2 marks Candidate shows good analysis of budgeting.	2 marks Candidate gives a satisfactory evaluation of the usefulness of budget accounting. 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 some understanding of the usefulness of budgeting. Candidate makes some use of specialist vocabulary when it is appropriate.	1 mark Candidate attempts to apply some knowledge.	1 mark Limited analysis of advantages and disadvantages of budgeting.	1 mark Candidate attempts some evaluation of the usefulness of budget accounting. Candidate makes little 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 the usefulness of budgets.	0 marks Candidate does not attempt to apply knowledge.	0 marks Candidate does not analyse the advantages and disadvantages of budgeting.	0 marks Candidate makes no attempt to evaluate the usefulness of budgeting.

[12]

Total

AVAILABLE MARKS

12

80