



Rewarding Learning

**ADVANCED
General Certificate of Education
2016**

GCE Applied Business

Assessment Unit A2 7

assessing

Finance

[A6B11]

FRIDAY 24 JUNE, AFTERNOON

**MARK
SCHEME**

General Marking Instructions

Introduction

Mark schemes are published to assist teachers and students in their preparation for examinations. Through 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 help 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.

Lily's Blooms			
Statement of Financial Position as at 31 December 2015			
Non-Current Assets	Cost (£)	Dep. (£)	WDV (£)
Premises	19,000	0	19,000
Motor Vehicles	20,000	2,000	18,000
Total Non-Current Assets	39,000	2,000	37,000
Current Assets			
Inventories			3,000
Trade Receivables		10,000	
Allowance for Trade Receivables		(1,000)	9,000
Cash			100
Prepayment			75
Total Current Assets			12,175
Total Assets			
			49,175
Equity			
Opening Capital			30,950
Add Net Profit			25
			30,975
Less Drawings			1,500
Total Equity			29,475
Non-Current Liabilities			
Bank Loan			7,000
Total Non-Current Liabilities			7,000
Current Liabilities			
Trade Payables			12,000
Bank			600
Accruals			100
Total Current Liabilities			12,700
Total Equity & Liabilities			
			49,175

Marking: $19 \times [1] = 19$ marks (denoted in bold). OFR applies to totals only. [19]

Table 3 – Cash Budget

	October (£)		November (£)		December (£)	
Opening Balance	(1,750)	[1]	(2,190)		(7,050)	
Cashflows In:						
Cash Sales Revenue	51,360		55,800		59,700	
Trade Receivables Receipt	29,800		32,040	[1]	34,240	[1]
Total Cashflows In	81,160		87,840	[1]	93,940	[1]
Cashflows Out:						
Wages	8,700		8,700		8,700	
Overheads	9,900		11,500		12,500	[1]
Purchases	63,000		72,500	[1]	79,100	
Total Cashflow Out	81,600		92,700	[1]	100,300	[1]
Closing Balance	(2,190)	[1]	(7,050)	[1]	(13,410)	[1]

Marking: $12 \times [1] = [12]$ (Denoted in bold).

OFR applies only to calculation of closing balances each month.

- (b) Evaluate **two** benefits and **two** limitations of cash budgets for a business such as Tiny Tots Toys.

Benefits of cash budgets:

- Budgets help to coordinate the activities.
- Budgeting allows a business like Tiny Tots Toys to control both its income and its expenditure and can highlight areas where a business such as Tiny Tots Toys is not performing as efficiently as it might, e.g. staff wages. Budgeting is therefore a useful control mechanism for Tiny Tots Toys to identify problems.
- Budgets enable performance to be measured against set targets, e.g. sales figures.
- Helps with the "What If" decisions.
- Identify cash shortages and surpluses.

- Support lending decisions.
- Budgets can help to motivate employees in a business such as Tiny Tots Toys.
- Budgets help to ensure that scarce resources are used as efficiently as possible in a business such as Tiny Tots Toys.

Limitations:

- Cash budgeting can be demotivating.
- There can be a danger of management within a business such as Tiny Tots Toys becoming over dependent on budgets at the expense of managing.
- Budgeting is dependent upon the quality of the information provided in a business such as Tiny Tots Toys.
- Poor quality information results in cash budgets that are meaningless.

Final judgement: Budgeting useful for a business as it facilitates planning and control.

Levels	AO1 Knowledge and Understanding	AO2 Application	AO3 Analysis	AO4 Evaluation
Level 3	4 marks Candidate demonstrates a competent understanding of the benefits and limitations of cash budgeting. Candidate makes excellent use of specialist vocabulary when appropriate.	4 marks Candidate demonstrates competent application of knowledge.	4 marks Candidate demonstrates competent analysis of benefits and limitations of cash budgeting.	4 marks Candidate demonstrates a competent evaluation of the benefits and limitations of cash budgeting and comes to a final judgement. Candidate demonstrates competent standard of spelling, punctuation and grammar. The meaning of the text is clear. The candidate consistently uses a form and style of writing appropriate to the purpose of the question. Answer is organised in a clear and coherent manner.
Level 2	2–3 marks Candidate demonstrates a satisfactory understanding of the benefits and limitations of cash budgeting. Candidate makes good use of specialist vocabulary when appropriate.	2–3 marks Candidate demonstrates satisfactory application of knowledge.	2–3 marks Candidate demonstrates satisfactory analysis of benefits and limitations of cash budgeting.	2–3 marks Candidate demonstrates satisfactory evaluation of the benefits and limitations of cash budgeting, 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 limited understanding of the benefits and limitations of cash budgeting. Candidate makes use of specialist vocabulary when appropriate.	1 mark Candidate demonstrates limited application of knowledge.	1 mark Candidate demonstrates limited analysis of benefits and limitations of cash budgeting.	1 mark Candidate demonstrates limited evaluation of the benefits and limitations of cash budgeting.
Level 0	0 marks Candidate demonstrates no understanding of the benefits and limitations of cash budgeting.	0 marks Candidate demonstrates no attempt to apply knowledge	0 marks Candidate demonstrates no attempt to analyse the benefits and limitations of cash budgeting.	0 marks Candidate demonstrates no attempt to evaluate the benefits and limitations of cash budgeting.

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- 3 (a) Calculate the following (you must express your answer to the nearest whole number), for the year ended 31 December 2015.

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(i) Return on Capital Employed:

Profit before Tax	£2m
Finance Costs	£.5m
Total	£2.5m
Total Assets	£30m
Current Liabilities	£5m
Total	£25m
Formula	$\frac{£2.5m}{£25m} = 10\%$
Answer	10%

[1] Calculation of total profits;

[1] Calculation of CE;

[1] Calculation of ratio [3]

(ii) Current Ratio:

Current Assets	£5m
Current Liabilities	£5m
Formula	$\frac{£5m}{£5m} = 1 : 1$
Answer	1 : 1

[1] Calculation of current assets;

[1] Calculation of current liabilities;

[1] Calculation of ratio; [3]

(iii) Gearing Ratio:

Non-current liabilities:	£10m
Equity & reserves	£15m
Formula:	$\frac{£10m}{£10m + £15m}$
Answer:	$\frac{£10m}{£25m} = 40\%$

[1] Calculation of numerator (£10m);

[1] Calculation of denominator (£25m);

[1] Calculation of ratio [3]

[9]

- (b) Evaluate Tellyvision plc's financial performance using the financial information provided and the following accounting ratios. In each case you must indicate one way in which each ratio might be improved in order to outperform their two competitors:

(i) Return on Capital Employed:

- Compared to Competitors Tellyvision plc is not doing better (10% v 15% v 12.5%) – due to either lower margin from sales and/or higher cost of sales compared to rival.
- The Net Profit for Tellyvision plc in 2015 is £1.5m (after tax) – seems low;
- The Sales revenues for Competitors are £10m and £9m (I-View plc and U-Show plc respectively), nearly 3 times lower than Tellyvision plc, hence competitors might appear more profitable.
- The lower margin from sales and/or higher expenses indicating lack of cost control in the business compared to rival is not good for the business and needs to be reviewed.
- Corrective action – reduce costs, increase profit margin or revenues/market share.

Marking: explanation/discussion [1]; application[1]; analysis [1]; evaluation (corrective action) [1].

[4]

(ii) Current Ratio:

- Tellyvision plc has a current Ratio of 1:1 during 2015.
- Competitors' Current Ratio in 2015 was 1.5:1 and 2:1 (I-View plc and U-Show plc respectively).
- Tellyvision plc is in a much worse position in 2015 than their competitors due to poor management of current assets such as inventories, trade receivables and cash/bank balances.
- This is not good for the business as it suggests poor credit control, inventory management and low levels of cash flows.
- Corrective action – reduce levels of inventories and/or trade receivables – encourage early payment of debts (trade receivables) aimed at increasing cash.

Marking: explanation/discussion [1]; application[1]; analysis [1]; evaluation (corrective action) [1].

[4]

(iii) Gearing Ratio:

- Gearing level in Tellyvision plc is 40%.
- This level is higher (40%) than competitors' ratios of 30% and 20% (I-View plc and U-Show plc respectively).
- This would suggest that the level of debt may be higher either in financial terms or relative to equity, the interest expense is substantial and having a detrimental effect on profits and cashflows.
- This issue needs to be reviewed to ensure financial stability.
- Corrective action – pay off long-term debts or raise additional capital via a share issue in order to reduce gearing.

Marking: explanation/discussion [1]; application[1]; analysis [1]; evaluation (corrective action) [1].

[4]

	AO1 Knowledge and Understanding	AO2 Application	AO3 Analysis	AO4 Evaluation
Level 3	3 marks Candidate demonstrates a competent understanding of accounting ratios/ financial position and supporting calculations. Candidate makes excellent use of specialist vocabulary when appropriate.	3 marks Candidate demonstrates a competent attempt to apply knowledge in context of stimulus material.	3 marks Candidate demonstrates a competent attempt to analyse the financial position in context of stimulus material.	3 marks Candidate demonstrates a competent attempt to evaluate knowledge in context of stimulus material. Candidate demonstrates competent standard of 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 purpose of the question. Answer is organised in a clear and coherent manner
Level 2	2 marks Candidate demonstrates a satisfactory understanding of accounting ratios/ financial position and supporting calculations. Candidate makes excellent use of specialist vocabulary when appropriate.	2 marks Candidate demonstrates a satisfactory attempt to apply knowledge in context of stimulus material.	2 marks Candidate demonstrates a satisfactory attempt to analyse the financial position in context of stimulus material.	2 marks Candidate demonstrates a satisfactory attempt to evaluate knowledge in context of stimulus material. Candidate demonstrates competent standard of 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 purpose of the question. Answer is organised in a clear and coherent manner
Level 1	1 mark Candidate demonstrates a limited understanding of accounting ratios/ financial position and supporting calculations.	1 mark Candidate demonstrates a limited attempt to apply knowledge in context of stimulus material.	1 mark Candidate demonstrates a limited attempt to analyse the financial position in context of stimulus material.	1 mark Candidate makes a limited attempt to evaluate the financial position in the context of stimulus material. 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 0	0 marks Candidate demonstrates no understanding of accounting ratios/ financial position and supporting calculations	0 marks Candidate does not attempt to apply knowledge to stimulus material.	0 marks Candidate does not attempt to analyse the information in the context of the stimulus material.	0 marks Candidate does not attempt to evaluate knowledge in the context of the stimulus material.

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(c) Evaluate the usefulness to Tellyvision plc of **each** of the following sources of finance, which it might use in order to finance the purchase of new TV/film and studio equipment (costing £5m).

- **Bank Loan:**
 - **Benefit:**
 - Usually for a fixed amount of money and for fixed period of time.
 - Has use of equipment throughout the loan period.
 - **Drawback:**
 - Interest rates usually higher and fixed for term of loan.
 - Tellyvision plc does not own the equipment until last payment/ instalment has been made.
 - Expensive form of finance, which may reduce profits.

- **Issue of Ordinary Shares:**
 - **Benefit:**
 - Increased capital is raised through the issue of new shares to ordinary shareholders.
 - Means that shareholders own the company, no debt finance needed.
 - No loan interest is payable.
 - Usually cheaper to pay a variable rate of dividend, compared to interest rates on a bank loan.
 - **Drawback:**
 - Shareholders will expect a return on investment in order to retain confidence.

- **Issue of Preference Shares:**
 - **Benefit:**
 - Increased capital is raised through the issue of new shares to preference shareholders.
 - Shareholders entitled to a fixed rate of dividend, which might be lower than ordinary dividends and interest on a loan.
 - **Drawback:**
 - Preference shareholders do not carry voting rights, so cannot influence outcome of key operating decisions.
 - Preference dividend must be paid.

	AO1 Knowledge and Understanding	AO2 Application	AO3 Analysis	AO4 Evaluation
Level 3	3 marks Candidate demonstrates a competent understanding of various sources of finance. Candidate makes competent use of specialist vocabulary when appropriate.	3 marks Candidate demonstrates competent application of knowledge in context of stimulus material.	3 marks Candidate demonstrates a competent analysis of various sources of finance in context of stimulus material.	3 marks Candidate demonstrates a competent evaluation of various sources of finance and comes to a final judgement. Candidate demonstrates competent spelling, punctuation and grammar. The meaning of the text is clear. The candidate consistently uses a form and style of writing appropriate to the purpose of the question. Answer is organised in a clear and coherent manner.
Level 2	2 marks Candidate demonstrates a satisfactory understanding of various sources of finance. Candidate makes satisfactory use of specialist vocabulary when appropriate.	2 marks Candidate demonstrates satisfactory application of knowledge in context of stimulus material.	2 marks Candidate demonstrates a satisfactory analysis of various sources of finance in context of stimulus material.	2 marks Candidate demonstrates a satisfactory evaluation of various sources of finance 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 a limited understanding of various sources of finance.	1 mark Candidate demonstrates a limited attempt to apply knowledge in context of stimulus material.	1 mark Candidate demonstrates a limited attempt to analyse the various sources of finance in context of stimulus material.	1 mark Candidate demonstrates a limited attempt to evaluate various sources of finance in the context of stimulus material.
Level 0	0 marks Candidate demonstrates no understanding of various sources of finance.	0 marks Candidate does not attempt to apply knowledge to stimulus material.	0 marks Candidate does not attempt to analyse various sources of finance relative to the stimulus material.	0 marks Candidate does not attempt to evaluate various sources of finance in relation to stimulus material.

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Total

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80