

Mark Scheme June 2007

Results Mark
Scheme

GCE Business Studies (6123)

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<p>1.</p> <p>(A) USING EXAMPLES THAT WOULD APPLY TO MAC'S MODELS LTD (APPENDIX 2), DESCRIBE WHAT IS MEANT BY EACH OF THE FOLLOWING:</p> <ul style="list-style-type: none"> • fixed assets • current liabilities. <p>Valid points could include:</p> <ul style="list-style-type: none"> • fixed assets are what the business owns long term • current liabilities are what the business owes short term • FA = shop premises or lease for shop, the van, the computer hardware • CL = overdraft or unpaid suppliers/creditors <p>Level 2: Candidate applies knowledge of fixed assets and current liabilities to the context</p> <p>Level 1: Candidate shows some knowledge of fixed assets and/or current Liabilities</p>	<p>4 marks</p> <p>3-4 marks</p> <p>1-2 marks</p>
<p>(b) Calculate for Mac's Models Ltd:</p> <ul style="list-style-type: none"> • ONE profitability ratio • ONE liquidity ratio. <p>Valid points could include:</p> <ul style="list-style-type: none"> • Net Profit margin - $26\,000 / 520\,000 * 100 = 5\%$ • ROCE - $26\,000 / 345\,000 * 100 = 7.54\%$ • Current ratio - 75 000 to 30 000 = 2.5: 1 • Acid test ratio - 25 000 to 30 000 = 0.83:1 <p>Level 2: Candidate applies knowledge of ratios to the context</p> <p>Level 1: Candidate shows some knowledge of profitability and/or liquidity ratios</p>	<p>4 marks</p> <p>3-4 marks</p> <p>1-2 marks</p>

(d) Evaluate the likely effects on the value of current assets if Mac's Models Ltd were to introduce internet trading in the future.

14 marks

Valid points could include:

- Stock Turnover may increase (6124)
- Stock is £50 000 because toys need to be held in stock to avoid disappointed customers when stock runs out. Internet sales would increase stock levels since the level of sales is likely to increase.
- High stocking which causes poor liquidity this high might mean that if a new range of toys were released then Mac's Models would be unable to purchase them and so lose significant sales
- If the majority of customers are passing trade it is very unlikely that many orders would be taken on credit terms; most sales would be cash/bank or credit card company transfer. However, internet trading might increase credit sales and so could increase the level of debtors temporarily
- Internet selling may have consequences for liquidity as transactions may prove risky, time consuming and complex - for example sales to customers overseas might expand and cause delayed receipts

A Level 4 candidate will analyse and discuss the data in the context of the company and then go on to provide a conclusion, e.g. this shop has been trading for 4 years which means that internet trading may be a little ambitious particularly given the apparent need for high levels of stock. However, the internet would provide Mac's Models with a very useful distribution channel to attract the enthusiast who may be more likely to spend more money which should eventually improve cash-flow and enable stock building as the result.

NB the lower marks (9-11) in the mark range at level 4 if only ONE current asset is evaluated

NB 1-2 marks can be awarded if a candidate simply shows knowledge/understanding of any aspect of financial management.

<p><i>A Level 3 candidate will analyse the likely effects of internet trading on the businesses stock and/or debtors, e.g. internet trading may increase the market for Mac's Models which may encourage stock building to avoid 'sales without purchases'</i></p> <p><i>NB the lower marks (5-6) in the mark range at level 3 if only ONE current asset is analysed</i></p>	
Level 4: Candidate evaluates the relevance to the business and reaches a valid conclusion	9-14 marks
Level 3: Candidate analyses the relevance in context but fails to reach a valid conclusion	5-8 marks
Level 2: Candidate applies knowledge of current assets to the context	3-4 marks
Level 1: Candidate shows some knowledge of current assets	1-2 marks

Total 30 marks

Quality of Written Communication:

Quality of written communication will be assessed in question 1d by means of the following criteria:

Level 3

Candidate expresses ideas extremely clearly and fluently. Answers are very well structured. Arguments are consistently relevant and well developed. There are few, if any, errors in spelling, punctuation and grammar.

3 marks

Level 2

Candidate expresses moderately complex ideas clearly and answers are well structured. Arguments are generally relevant and developed. There may be some errors in grammar, punctuation and spelling.

2 marks

Level 1

Candidate expresses simple ideas clearly, but may be confused or imprecise in the expression of ideas. Answers are not well structured and arguments are weakly presented. There may be noticeable errors in spelling, grammar and punctuation.

0-1 mark

TOTAL 3 MARKS

2.

Gary and Ian are considering setting up an online website for Mac's Models Ltd. A local IT systems company, R P Babbage Ltd, has advised them that the website would cost £2 000 to set up and a further £20 000 to equip. They would also need to buy a small delivery van at a cost of £10 000. However, Gary and Ian only have a limited budget.

(a) Define the term **budgeting**.

2 marks

Valid points could include:

- A financial plan
- Expenditure against income/receipts

Level 1: Candidate shows knowledge of budgeting

1-2 marks

(b) Evaluate the likely importance of budgeting to Mac's Models Ltd.

Valid points could include:

- The business is likely to be seasonal so there will be periods when spending will be exceeded by income
- High stock levels require extra finance during periods like Oct/Nov which may necessitate an overdraft facility
- Suppliers will expect to be paid for toys which will mean ensuring that receipts from sales are sufficient
- The establishment of Internet selling may cause expenditure to rise in the short term which will need to be recouped
- The age of the business means that budgeting is even more crucial to survival of the business and to the livelihoods of the brothers
- Only a small going concern so finances easier to manage; does not require formal budgeting processes
- Budgeting usually serves as a monitoring tool in larger businesses but again may not be so significant
- Budgeting supports human resource planning in large organisations but in this case hardly relevant

A Level 4 candidate will analyse and discuss budgeting in the context of the company and then go on to provide a conclusion, e.g. Mac's Models is not really making a significant level of profit (5% of revenues) which suggests that careful budgeting is necessary to ensure the short term survival of the business. However, the business does have a real opportunity to expand its operations through internet sales which should provide sufficient revenues and correspondingly smaller costs to boost profits in the long term.

NB the lower marks (9-11) in the mark range at level 4 if only the current situation for Mac's Models is evaluated

A Level 3 candidate will analyse budgeting in the context of the business, e.g. Mac's Models do not enjoy a particularly high profit so budgeting is important to ensure sufficient cash-flow and prevent liquidity problems

NB the lower mark (5) in the mark range at level 3 if only the current situation for Mac's Models is analysed

Level 4: Candidate evaluates the relevance of budgeting to the business and reaches a valid conclusion

9-14
marks

<p>Level 3: Candidate analyses the relevance of budgeting in context but fails to reach a valid conclusion</p> <p>Level 2: Candidate applies knowledge of budgeting to the context</p> <p>Level 1: Candidate shows some knowledge of budgeting</p>	<p>5-8 marks</p> <p>3-4 marks</p> <p>1-2 marks</p>
<p>The value of the delivery van is expected to depreciate by £2 000 per year.</p> <p>(c) (i) Define the straight line method of depreciation.</p> <ul style="list-style-type: none"> To reduce the value of a fixed asset by the same amount each year <p>(ii) Using the straight line method, calculate the number of years it would take for the residual value of the van to reach zero.</p> <p>Valid points could include:</p> <ul style="list-style-type: none"> Cost of van = £10 000 £2 000 per year therefore means 5 years 	<p>1 mark</p> <p>2-3 marks</p>
<p>Level 2: Candidate applies knowledge of depreciation to the context</p> <p>Level 1: Candidate shows knowledge of depreciation, e.g. mentions wear and tear</p>	<p>2-3 marks</p>
<p>(d) Assess whether the declining/reducing balance method is more appropriate for the purpose of depreciating the value of the van.</p> <p>Valid points could include:</p> <ul style="list-style-type: none"> Vehicles depreciate more in earlier years because of resale values determined by the motor vehicle trade Reducing balance method will provide a scrap value for the vehicle which is usually the case Profits will not be overstated in the earlier years of the life of the van as depreciation is at a higher level 	<p>1 mark</p> <p>10 marks</p>
<p><i>A Level 4 candidate will analyse and discuss depreciation methods in the context of the business and then go on to provide a conclusion, e.g. Mac's Models may want to use the straight line method as it is easier to calculate and provides regular amounts of £2 000 as a cost to offset taxation. However, as this is a vehicle it is important to charge more against tax in the earlier years by using the reducing balance method to reflect the real value of the van in case it is resold by the brothers who may find that deliveries are not needed</i></p> <p><i>A Level 3 candidate will analyse depreciation in the context of the business, e.g. straight line depreciation will offset profit taxation evenly across the lifetime of the asset as it will be costed evenly, in this case £2 000 per year</i></p>	
<p>Level 4: Candidate evaluates the value of the ready balance method of line depreciation method to the business and reaches a valid conclusion</p> <p>Level 3: Candidate analyses the relevance in context but fails to reach a valid conclusion</p>	<p>8-10 marks</p> <p>5-7 marks</p>

Level 2: Candidate applies knowledge of depreciation to the context	
Level 1: Candidate shows some knowledge of depreciation, e.g. wear and tear, replacement cost.	3-4 marks
	1-2 marks

Total 30 marks