

**Business Studies**

Advanced GCE

Unit **F294**: Accounting

**Mark Scheme for June 2013**

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All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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## Annotations

Annotation	Meaning
	Unclear
	Benefit of doubt
	Cross
	Level 1
	Level 2
	Level 3
	Level 4
	Not answered question
	No use of text
	Own figure rule
	Repetition
	Noted but no credit given
	Too vague
	Tick

Question	Answer	Marks	Content	Guidance	Levels of response
1	<p>(a) Gross profit = £100,008 Sales revenue = £251,530 (1) <math>(£100,008/£251,530) \times 100 = 39.8\%</math></p> <p>(b) Net profit = £2,240 Sales revenue = £251,530 (1) <math>(£2,240/£251,530) \times 100 = 0.9\%</math></p>	4	<p>Up to four marks. Award one mark for each correct formula in the case where the final answer is incorrect.</p> <p>Full marks for 39.7% and 0.8%</p>		
2	<p>Net profit margin = <math>\frac{\text{net profit}}{\text{sales revenue}} \times 100</math></p> <p><b>Indicative Content</b></p> <ul style="list-style-type: none"> <li>relationship between sales revenue and profit margins</li> <li>impact of increased direct costs and/or overheads on gross and net profit margins</li> <li>the impact of the 'fierce price war' on sales revenue</li> <li>increased cost of 'promotional war'</li> <li>increased costs of repairs and maintenance of boats.</li> </ul>	6	<p>One reason analysed = 5 marks. Two reasons analysed = 6 marks.</p> <p>One reason explained = 3 marks. Two reasons explained = 4 marks.</p> <p>One reason stated = 1 mark. Two reasons stated = 2 marks.</p> <p>Accept internal/business reasons, eg pricing, strategy, changes in cost structure, falling efficiency, etc</p> <p>Accept external reasons, eg falling demand, cost inflation, etc.</p>	<p><b>Level 3 (6–5 marks)</b> Candidate demonstrates analytical skills when considering one/two reasons for the change in NPCL's change in net profit margin.</p> <p><b>Level 2 (4–3 marks)</b> Candidate demonstrates understanding of reasons for change in net profit margin. <b>No context required.</b></p> <p><b>Level 1 (2–1 marks)</b> Candidate shows knowledge of net profit margin. <b>No context required.</b></p>	

Question	Answer	Marks	Content	Guidance	Levels of response
3	<p>Declining balance method of depreciation means that a fixed asset will be heavily depreciated in its early years of use.</p> <p>This means that the asset value will decline much quicker than if a straight line method was used. Net profit in the early years will be decreased by a greater amount due to the higher depreciation charge.</p> <p>The case study states that the boats have been used for over 25 years. Therefore, these assets have a very long economic life use at NPCL. Declining balance tends to be used in cases where the economic life of an asset is brief, eg where the impact of technology means that an asset becomes out-dated. The boats still reflect value in the balance sheet. It might be that, in fact, the re-sale value of the boats is even greater than the balance sheet value.</p> <p>Declining balance is a more complicated calculation than the straight line method.</p>	6			<p><b>Level 3 (6–5 marks)</b> Candidate demonstrates analytical skills when considering one disadvantage for NPCL in using the declining balance method of depreciation.</p> <p><b>Level 2 (4–3 marks)</b> Candidate demonstrates understanding of the declining balance method of depreciation and why it might be a disadvantage for a business to use it. <b>No context required.</b></p> <p><b>Level 1 (2–1 marks)</b> Candidate shows knowledge of the declining balance method of depreciation and/or the concept of depreciation. <b>No context required.</b></p>

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4	<p><u>Table 2:</u></p> <table border="0"> <tr> <td>Sales revenue</td> <td>41250</td> </tr> <tr> <td>Cost of sales</td> <td>25375</td> </tr> <tr> <td>Gross profit</td> <td>15875</td> </tr> <tr> <td>Additional overheads</td> <td>8790</td> </tr> <tr> <td>Allocation of existing overheads*</td> <td>7441</td> </tr> <tr> <td>Total overheads</td> <td>16231</td> </tr> <tr> <td>Net profit/loss</td> <td>(356)</td> </tr> </table> <p>GPM = 38.49%</p> <p>NPM= (0.86%)</p> <p>Need to distinguish between indicative content and exemplar responses.</p> <p>In simplistic terms, the activity should not be continued if the criterion is making a net profit. On the other hand, the activity has made a small loss in its first season and could well achieve a profit in the future with growing awareness.</p> <p>In contribution terms, the activity has produced a positive contribution of £15,875 and so the decision should be to continue.</p> <p>The other issue to be considered is how and why existing overheads have been allocated to the activity e.g. does the activity account for 10% of cruises? If existing overheads were not allocated, the net loss would become a net profit of £7,085 and provide a NPM of 17.18% which is much higher than for the other cruises.</p>	Sales revenue	41250	Cost of sales	25375	Gross profit	15875	Additional overheads	8790	Allocation of existing overheads*	7441	Total overheads	16231	Net profit/loss	(356)	13	<p>Top of Level 4 for both sides of the argument which demonstrate evaluative skills.</p> <p>Top of Level 3 for both sides of the argument which demonstrate analytical skills.</p> <p>A thorough analysis of Table 2 with reference to the allocation of overheads is a good route into L3 and Level 4.</p>	<p><b>Level 4 (13–9 marks)</b> Candidate demonstrates evaluative skills when considering whether it is worth BSSL continuing with the 'Naughty Nights' in October 2013.</p> <p><b>Level 3 (8–6 marks)</b> Candidate demonstrates analytical skills when considering whether it is worth BSSL continuing with the 'Naughty Nights' in October 2013.</p> <p><b>Level 2 (5–3 marks)</b> Candidate demonstrates knowledge and understanding of the use of financial data to make decisions whether an activity should be continued or not. <b>No context required.</b></p> <p><b>Level 1 (2–1 marks)</b> Candidate offers only theoretical knowledge of the use of financial data to make decisions whether an activity should be continued or not.</p>
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	Without this activity BSSL doesn't operate for six months of the year. Is this activity justified in terms of the positive impact it might have upon BSSL's liquidity?			

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5	<p>Need to distinguish between indicative content and exemplar responses. The value of assets is a starting point when identifying the worth of a business.</p> <p>Much depends upon how these assets have been valued, e.g. depreciation methods, debtors, stock, etc. Reference to accounting concepts would help the candidate to illustrate this point.</p> <p>In the context of these two businesses, the depreciation method employed by NPCL is known but not for BSSL. The question about the correct valuation of current assets hardly applies here both businesses have no debtors and minimal stock. BSSL has no cash either!</p> <p>The balance sheets do not reflect the value of intangible assets especially the goodwill which might have been developed over the years of successful trading this would seem to particularly relevant to NPCL after 25 years of trading.</p> <p>In BSSL's case, the worth of its net assets is severely reduced by its short and long term liabilities.</p> <p>So, the valuation of assets is a starting point when considering the worth of any business but there are many other factors to take into account such as goodwill, market prospects (e.g. future of UK tourism), the general economic climate etc.</p>	13	A candidate must present a two-sided argument based upon the contextual evidence in order to access Level 4	<p><b>Level 4 (13–9 marks)</b> Candidate demonstrates evaluative skills when considering to what extent the valuation of assets will assist in the calculation of the worth of NPCL &amp; BSSL</p> <p><b>Level 3 (8–6 marks)</b> Candidate demonstrates analytical skills when considering to what extent the valuation of assets will assist in the calculation of the worth of NPCL &amp; BSSL</p> <p><b>Level 2 (5–3 marks)</b> Candidate demonstrates understanding when considering to what extent the valuation of assets will assist in the calculation of the worth of a business <b>No context required.</b></p> <p><b>Level 1 (2–1 marks)</b> Candidate offers only theoretical knowledge of the valuation of assets and the worth of a business.</p>	



Question	Answer	Marks	Content	Guidance	Levels of response
6*	<p>Need to distinguish between indicative content and exemplar answers.</p> <p><u>Accounting issues</u></p> <p><u>Table 1 NPCL:</u> Very low NPM. High repairs and maintenance costs when compared to BSSL</p> <p><u>Table 3 BSSL:</u> Healthier GPM and NPM</p> <p><u>Table 4 Balance Sheets</u> Important facts are the relative strengths of NPCL's liquidity position when compared with BSSL which appears to have a problem especially when one considers that the balance sheet is at the end of the season. What happens to the liquidity position over the winter? Is this the key reason why BSSL introduced its winter cruises? The same question applies to BSSL's level of debt risk – its gearing ratio is very high.</p> <p><u>Other issues:</u> <u>Marketing:</u> BSSL's more innovative approach to promotion and product development combined with NPCL's high customer service ratings could be a winning combination.</p>	18	<p><b>An answer which only includes or does not include accounting (or as appropriate) other issues should only be awarded the lowest mark in the appropriate level.</b></p> <p>A one sided argument cannot achieve an L4 mark</p>	<p><b>Level 4 (18–13 marks)</b> Candidate demonstrates evaluative skills when considering whether NPCL and BSSL should merge. Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.</p> <p><b>Level 3 (12–7 marks)</b> Candidate demonstrates analytical skills when considering whether NPCL and BSSL should merge. Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.</p>	

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	<p>Operations: If the two 'fleets' were combined then a greater capacity utilisation would be achieved. BSSL's two boats seem to be reliable and efficient. NPCCL's boats could be sold and replaced with a new one of a larger capacity and better facilities. This depends how much can be obtained for the three boats and the access to any capital funds required to make up any shortfall. There are potentially many economies of scale to be gained.</p> <p>People: The management of change would be a crucial aspect of the merger, eg communication, consultation and involvement. The likelihood of redundancies is a task which needs careful planning but the long-term benefits of reduced direct and indirect costs would outweigh this unpleasant task.</p> <p>Stakeholders influence and interest: The other shareholders of both companies could resist the merger plans. How does BSSL's high gearing colour its shareholders' objectives?</p> <p>Objectives: One assumes that both companies wish to maximise the wealth of shareholders. According to the latest sets of accounts this may not be attainable unless there is a merger.</p> <p>External influences: Market research into the prospects for UK tourism would be a reasonable step to take, eg the trends for level of future demand, etc. How will BSSL be affected by changes in the rate of interest? It has a large loan to pay off.</p>			<p><b>Level 2 (6–3 marks)</b> For demonstrating knowledge and understanding when considering whether a business should merge. Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive. <b>No context required.</b></p> <p><b>Level 1 (2–1 marks)</b> For showing knowledge when considering whether businesses should merge. Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar, which will be noticeable and intrusive. Writing may also lack legibility.</p>	

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