



General Certificate of Education

Applied Business 8616/8619

**BS15 Financial Accounting for
Managers**

Mark Scheme

2008 examination - January series

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

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	Assessment Objectives
	The Assessment Objectives represent those qualities which can be demonstrated in candidates' work and which can be measured for the purposes of assessment.
AO1 Knowledge, skills and understanding	Candidates demonstrate knowledge and understanding of the specified content and relevant business skills.
AO2 Application of knowledge, skills and understanding	Candidates apply knowledge and understanding of the specified content and relevant business skills.
AO3 Research and analysis	Candidates use appropriate methods in order to obtain and select information from a range of sources to analyse business problems.
AO4 Evaluation	Candidates evaluate evidence to reach reasoned judgements.
Quality of Written Communication	<p>The quality of written communication is assessed in all assessment units where candidates are required to produce extended written material. Candidates will be assessed according to their ability to:</p> <ul style="list-style-type: none"> • select and use a form and style of writing appropriate to purpose and complex subject matter • organise relevant information clearly and coherently, using specialist vocabulary when appropriate • ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear. <p>The assessment of the quality of written communication is included in Assessment Objective 4.</p>

1

Total for this question: 18 marks

(a) Using **Item A**, explain **one** benefit to *Plumbing and Parts Ltd* of allowing a prompt payment discount to customers. (3 marks)

Level	Descriptor	Marks	Assessment Objective
2	Candidate explains benefit of allowing a prompt payment discount to customers.	2–3	AO2
1	Candidate states benefit of allowing a prompt payment discount to customers.	1	AO1

Relevant answers might include the following:

- will encourage customers to pay quickly
- will help with cash flow as *Plumbing and Parts Ltd* has to pay its own suppliers. Might therefore help *Plumbing and Parts Ltd* to receive discount if it has the cash to pay quickly
- better to receive less than to have cash flow problem
- less likelihood of bad debts.

(b) Using **Item A**, explain **one** benefit to *Plumbing and Parts Ltd* of introducing goods received notes. (3 marks)

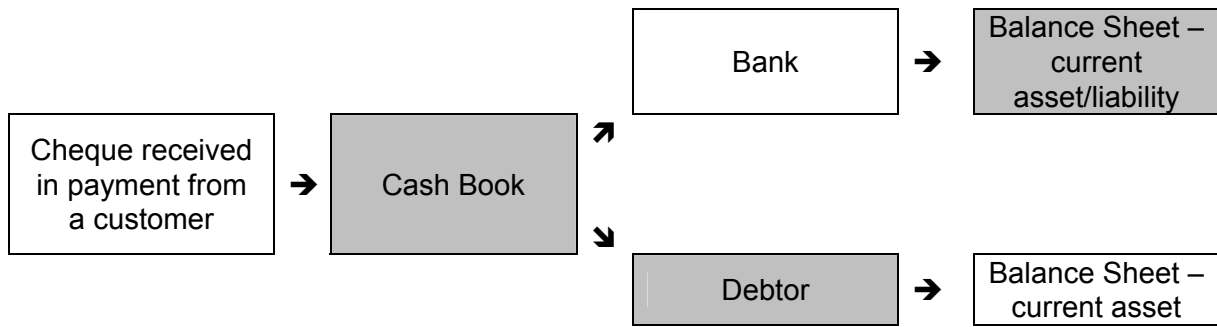
Level	Descriptor	Marks	Assessment Objective
2	Candidate explains benefit of a goods received note.	2–3	AO1
1	Candidate states benefit of a goods received note.	1	

Relevant answers might include the following:

- used to check against the delivery note and purchase order. Helps to prevent disputes in the future
- if there are differences it is better to get them resolved straight away, for example if incorrect amounts this could mean holding too little or too much stock. Implications for this business
- internal document that helps with stock control, very useful for a business like this that has high stock levels
- as more business is being generated there is more chance of errors arising.

(c) Complete the flow chart for the situation set out below by filling in the shaded boxes with the correct information. (3 marks)

Transaction	Book of Original Entry	Ledger Account involved	Where the Account appears in Final Accounts
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(d) Using **Item A**, analyse why sound financial record keeping is important to *Plumbing and Parts Ltd*. (9 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate analyses significance of sound financial record keeping in context.	7–9	AO3
2	Candidate explains benefit(s) of sound financial record keeping.	4–6	AO2
1	Candidate identifies aspects of sound financial record keeping.	1–3	AO1

Relevant answers might include the following:

Problems that could arise from poor record keeping, eg:

- they may buy too much of the expensive stock which means that money may be tied up in this expensive stock. This would have an adverse effect on cash flow which is likely to be something that a business such as this would need to monitor carefully. There could also be issues with storage
- they may have bought too little stock meaning that certain parts/sizes/colours might not be available. This could lose (potentially lucrative) customers who expect the full range of stock from a business such as this
- loss of customers upset by overcharging/errors; this could be significant as customers are likely to be buying large quantities
- cash flow problems as a result of sending invoices late; this could be significant as this is effectively giving a longer period of credit
- refusal to supply (or loss of discount) by *Plumbing and Parts Ltd's* suppliers which could have an impact on both profits and cash flow
- management problems: may make decisions on incorrect figures.

Level 3 Context includes:

- volume of stock (storage)
- high value of stock
- competition (online)
- qualification for cash discount
- expanding rapidly.

2

Total for this question: 30 marks

(a) Using **Item B**, complete the shaded boxes in the Trading and Profit and Loss Account below. (10 marks)

Plumbing and Parts Ltd
Trading and Profit and Loss Account
for the year ended 31 December 2007

	£000s	£000s
Turnover		14 158
Less cost of sales		10 222(3)
Gross profit		3 936(1)ofr
Less expenses:		
Electricity	30(2)	
Salaries	400(2)	
Insurance	14	
Distribution expenses	700	
Other administration expenses	1 100	
Finance costs	55	
Provision for depreciation	234	2 533(1)ofr
Net profit		1 403(1)ofr

Calculations:

Cost of sales

$$£1\,900\,000 + £10\,276\,000 - £1\,954\,000 = £10\,222\,000 \text{ (3)}$$

Electricity

$$£25\,000 + £5\,000 = £30\,000 \text{ (2)}$$

Salaries

$$£410\,000 - £10\,000 = £400\,000 \text{ (2)}$$

(b) *Plumbing and Parts Ltd has made errors in the final accounts in recording warehouse equipment and finance costs (Item B, lines 11 to 14).*

*Analyse the possible impact of these errors on the business's financial decision making.
(8 marks)*

Level	Descriptor	Marks	Assessment Objective
3	Candidate analyses impacts of these errors.	6–8	AO3
2	Candidate explains impacts of these errors.	3–5	AO2
1	Candidate states impact(s) of these errors.	1–2	AO1

Relevant answers might include the following:

- compensating error will not be identified by a trial balance
- the error of incorrect increase in warehouse equipment will be offset by the incorrect reduction of salaries and finance costs, so total debits will equal total credits, therefore the trial balance will still balance and would therefore not be identified.

If not detected:

- warehouse equipment over valued, will affect asset values and depreciation
- the expenses of both salaries and finance costs have been reported too low thus increasing reported profit above actual profit therefore incorrect decisions could be made.

Analysis will focus on the impact on the business.

(c) *To what extent do you agree with the suggestion made by one of the directors that the accounting policies of Plumbing and Parts Ltd should be altered (Item B, lines 16 to 22)? You should use relevant accounting concepts to justify your answer. (12 marks)*

Level	Descriptor	Marks	Assessment Objective
3	Candidate analyses reason(s) for or against changes in accounting policies.	3–5	AO3
2	Candidate explains reason(s) for or against changes in accounting policies.	2	AO2
1	Candidate identifies reason for or against changes in accounting policies.	1	AO1

Relevant answers might include the following:

- this would be ‘window dressing’ and it would give a false view of the business
- stock should be valued at cost or net realisable value, would this be being contravened, eg valued at selling price. Cost concept, prudence, realisation etc
- the same method of depreciation should be used year on year. Consistency value
- revaluation of premises (upwards?). Contravenes cost concept, realisation
- do the accounts give a true and fair view?

In addition (and separately) award marks for evaluation using the grid below.

Note: AO4 also assesses candidates’ quality of written communication. When deciding on the AO4 level to be awarded, consider the degree to which the candidate orders and communicates his/her ideas.

Level	Descriptor	Marks	Assessment Objective
3	Offers judgement, plus full justification, with good use of accounting concepts. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in conventions of written communication.	5–7	AO4 and Quality of written communication
2	Offers judgement, plus limited justification, with some use of accounting concepts. Ideas are communicated in a logical structure with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	3–4	
1	Offers undeveloped justification. Ideas are communicated with some structure evident with occasional use of appropriate technical terms. There are some errors in accepted conventions of written communication.	1–2	

3**Total for this question: 32 marks**

(a) Identify and explain **two** limitations of using only accounting ratios to assess the performance of B&Q. (6 marks)

Apply the marking grid below twice.

Level	Descriptor	Marks	Assessment Objective
2	Candidate explains a limitation of using accounting ratios to assess the performance of B&Q.	2–3	AO2
1	Candidate identifies a limitation of using accounting ratios to assess the performance of B&Q.	1	AO1

Relevant answers might include the following:

- the ratios do not include the results for competitors. How well is B&Q doing in comparison?
- the ratios are historical. If management has taken remedial action (such as revamping its largest stores) the benefits would not yet show up
- the ratios do not show the resale value of the stores
- the ratios do not show the quality its staff.

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(b) Using **Item C**, evaluate the significance to B&Q of the accounting ratios shown in **Table 1**.
(12 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate analyses ratios(s).	3–5	AO3
2	Candidate uses ratio(s).	2	AO2
1	Candidate identifies changes in the ratio(s).	1	AO1

Relevant answers might include the following:

Solvency

- the short-term solvency position of the business is good with the current and acid test ratios in the recommended ranges
- the current ratio has fallen, may be significant if it continues to fall
- the acid test ratio has improved slightly
- the business is more highly geared than previous years and the increase is dramatic. The increase may be due to needing to revamp the stores
- although the gearing has risen, B&Q is not highly geared.

Profitability

- all ratios have decreased indicating that the business is less profitable
- expenses may have increased as the business tries to turn itself around, revamping stores etc
- the business is making a loss. Profits poor in 2005 also.

Efficiency

- stock turnover has increased – perhaps due to price cutting?
- debt collection has decreased slightly, but this is not significant for this type of business
- creditor payment period improved slightly
- asset turnover has reduced slightly.

The management efforts have not improved profits yet. In the long-run, profits cannot be allowed to continue to fall.

In addition (and separately) award marks for evaluation using the grid below.

Note: AO4 also assesses candidates' quality of written communication. When deciding on the AO4 level to be awarded, consider the degree to which the candidate orders and communicates his/her ideas.

Level	Descriptor	Marks	Assessment Objective
3	Candidate judges the relative significance of the ratio values. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in conventions of written communication.	5–7	AO4 and Quality of written communication
2	Candidate judges the significance of some ratio values. Ideas are communicated in a logical structure with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	3–4	
1	Candidate offers unsupported judgement of the significance of ratio values. Ideas are communicated with some structure evident with occasional use of appropriate technical terms. There are some errors in accepted conventions of written communication.	1–2	

(c) *Using all the information available to you, propose suitable actions that could be taken to improve the solvency, profitability and efficiency of B&Q. You should justify your answer.*
(14 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate analyses suitable action(s).	5–7	AO3
2	Candidate explains suitable action(s)	2–4	AO2
1	Candidate identifies suitable action.	1	AO1

Relevant answers might include the following:

Solvency

- as the solvency position in the short term is within the ideal range the business should try and maintain this
- the gearing ratio suggests that the business has scope to attract loans etc which would be useful to finance plans to improve profitability.

Profitability

- this is an area of concern as the business is making a loss
- the revamp of stores is to try and increase sales and, therefore, hopefully make a profit. The directors must think this will work and presumably have researched this so this course of action should be continued
- if DIY is in decline then B&Q needs to diversify. As the gearing ratio is not high they could borrow the money. Also the Shareholders funds are high
- the net profit has dropped but not as dramatically as ROCE. This suggests that costs have risen. So the business could cut costs. Close less profitable stores and sell valuable land.

Efficiency

- further price cuts might improve stock turnover
- asset turnover has reduced slightly. They could sell less efficient assets.

As some of the problems are external such as housing market, which might soon improve, perhaps they need to sit tight. They are after all solvent and efficient.

In addition (and separately) award marks for evaluation using the grid below.

Note: AO4 also assesses candidates' quality of written communication. When deciding on the AO4 level to be awarded, consider the degree to which the candidate orders and communicates his/her ideas.

Level	Descriptor	Marks	Assessment Objective
3	Candidate judges the suitability of the action from a balanced perspective. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in conventions of written communication.	5–7	AO4 and Quality of written communication
2	Candidate judges the suitability of the action from a restricted perspective. Ideas are communicated in a logical structure with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	3–4	
1	Candidate offers undeveloped judgement using the information available. Ideas are communicated with some structure evident with occasional use of appropriate technical terms. There are some errors in accepted conventions of written communication.	1–2	