



General Certificate of Education

Applied Business 8616/8617/8619

BS15 Financial Accounting for Managers

Mark Scheme

2010 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: 17 marks

(a) Explain why <i>Chocolat Ltd</i> allows trade credit.	(3 marks)
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Level	Descriptor	Marks	Assessment Objective
2	Explains why <i>Chocolat Ltd</i> allows trade credit.	3–2	AO1
1	States why <i>Chocolat Ltd</i> allows trade credit.	1	

Relevant answers might include the following:

- trade credit is the normal way of trading between businesses
- allowing trade credit will attract ‘trade’ custom such as the small shops and the department store; this will mean increased sales and higher profits.

(b) The department store insists on receiving 60 days trade credit. Using Item A , explain the effect this could have on <i>Chocolat Ltd</i> ’s cash-flow.	(4 marks)
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Level	Descriptor	Marks	Assessment Objective
2	Explains the effect on cash-flow of allowing the department store 60 days trade credit.	4–3	AO2
1	Demonstrates understanding of how trade credit affect a businesses cash flow.	2–1	AO1

Relevant answers might include the following:

- selling on credit to the famous department store allowing 60 days trade credit will reduce the cash flow of *Chocolat Ltd*(L1)
- the 30 day difference between the trade credit that *Chocolat Ltd* receives and the trade credit it gives will mean that the working capital of *Chocolat Ltd* will be reduced. *Chocolat Ltd* will need to have larger cash balances or larger overdraft facilities in order to be able to pay creditors. (L2).

(c) *Joanne's accountant has stated, "...considering expansion during an economic downturn means that being prudent is more important than ever." To what extent do you agree with this statement? Use Item A to justify your answer. (10 marks)*

Level	Descriptor	Marks	Assessment Objective
3	Uses Item A to analyse the importance of being prudent during an economic downturn.	5	AO3
2	Uses Item A when explaining a reason(s) for agreeing / disagreeing with the importance of being prudent.	4–2	AO2
1	Demonstrates understanding of the prudence concept.	1	AO1

Relevant answers might include the following:

- interest rates are low at the moment so it will be cheaper to borrow which will reduce the risk associated with borrowing. However, what would happen if rates rose?
- *Chocolat Ltd* may be profitable at the moment but will it continue to be during an economic downturn?
- the loan is large, therefore, risky in a recession
- the prudence concept suggests that accountants should take a more cautious or pessimistic approach by not anticipating profits but anticipating losses. Joanne's accountant is, therefore, following the 'rules'
- there could be bad debts during an economic downturn *Chocolat Ltd* might need to be prudent and allow for provision for bad debts. This would reduce reported profits

For AO4, you should award marks using the scheme below.

Level	Descriptor	Marks	Assessment Objective
E3	Makes a reasoned judgement of the importance of prudence to <i>Chocolat Ltd</i> during and economic downturn. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in accepted conventions of written communication.	5–4	AO4 and Quality of written communication
E2	Makes a supported judgement, using some evidence, of the importance of being prudent during and economic downturn. Ideas are communicated in a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	3–2	
E1	Judges the importance of being prudent in this situation. 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

Total for this question: 32 marks

(a) Complete the shaded boxes in the Trading and Profit and Loss Account below. (3 marks)

Chocolat Ltd
Trading and Profit and Loss Account for the year ended 31 December 2009

	£	£
Sales		80 000
Opening stock at 1 January 2009	5 600	
Add production cost of goods completed	25 000	
	30 600	
Less closing stock at 31 December 2009	8 600	
Cost of sales		22 000
Gross profit		ofr58 000
Less expenses: Administration	7 500	
Selling and distribution	12 500	20 000
Net profit		ofr38 000

(b) After completing the final accounts, it was discovered that a purchase of equipment of £5 000 had been incorrectly recorded in the purchases account of Chocolat Ltd rather than in the equipment account.

Using your answers to **Question 2(a)**, explain the possible consequences of this error to Chocolat Ltd. (6 marks)

Level	Descriptor	Marks	Assessment Objective
3	Explains consequence of error on <i>Chocolat Ltds</i> profit.	6–5	AO2
2	Describes consequence of error on <i>Chocolat Ltds</i> profit.	4–3	
1	Demonstrates understanding of error of principle.	2–1	AO1

Relevant answers might include the following:

- the depreciation figure in the manufacturing account should be higher, meaning that the production cost will be higher reducing gross profit and net profit
- the production cost is higher than it should be; therefore profits are reported as being £5 000 lower than it should be. The gross profit should be £63 000.

(c) Joanne forecast that Chocolat Ltd's costs would increase as it expanded. Using **Figure 1**, and your answers to **Question 2(a)**, calculate the effect of **each** of the three forecast level of sales on the net profit of Chocolat Ltd. (9 marks)

Level	Descriptor	Marks	Assessment Objectives
3	Calculates answer correctly.	3	AO3
2	Makes good attempt at calculation.	2	AO2
1	Shows some understanding of profit	1	AO1

Apply three times.

Forecast level of sales 1

$$£120\ 000 - £63\ 000 = £57\ 000$$

Forecast level of sales 2

$$£160\ 000 - £71\ 400 = £88\ 600$$

Forecast level of sales 3

$$£200\ 000 - £75\ 600 = £124\ 400$$

(d) Should Joanne purchase the factory unit and expand the business? Use **Item B** and your answers to **Question 2(c)** to justify your decision. (14 marks)

Level	Descriptor	Marks	Assessment Objective
3	Using Item B and your answer to 2(c) analyses a reason for buying / not buying the factory unit.	6–4	AO3
2	Using Item B and your answer to 2(c) explain a reason (s) for or against buying the factory unit.	3–2	AO2
1	States a valid reason for or against expansion.	1	AO1

Relevant answers might include the following:

Not buying the factory unit and continuing at current capacity

- the business is doing well and seems to be coping with any cash-flow problems related to trading on credit
- Forecast 1 will bring the business less profits after loan repayments. If this is the only possible outcome then the expansion should not take place
- Forecast 2 will make marginally more profit, is it worth the risk?
- developing the brand exposes the businesses to all sorts of potential problems
- cash-flow problems as the amounts bought increases
- a loan for new premises etc will mean large interest payments
- there is no guarantee that other department stores and supermarkets will be interested in buying from *Chocolat Ltd*
- the business already has a little spare capacity. Better to work within this than to expand and possibly have a lot of spare capacity
- references to the current economic situation.

Buying the factory unit and expanding the business

- the business is operating at near its capacity; the only way to make more profit is to expand
- Forecast 2 will make marginally more profit but will give more capacity ready for pick up in sales after recession. The business may not expect the increase in trade all at the one time so forecast 2 could be a stepping point towards forecast 3
- Forecast 3 generates a significant increase in profits
- Joanne has carried out market research and this is indicating that the business has a larger market for its products
- the business has developed a good name. Expansion is the way to capitalise on this
- if the business expands it might benefit from economies of scale, for example, in buying raw materials so costs may not increase as much as expected
- in a best case scenario, forecast 3 the business would be making much more profit.

See next page for Evaluation.

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 makes a reasoned judgement for the likelihood of the success of the business expansion. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in accepted conventions of written communication.	8–6	AO4 and Quality of written communication
2	Candidate judges using some justification the likelihood of the success of the business expansion. Ideas are communicated in a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	5–3	
1	Judges the likelihood of the success of the business expansion. Ideas are communicated with some structure evident with occasional use of appropriate technical terms. There are some errors in accepted conventions of written communication.	2–1	

3**Total for this question: 31 marks**

(a) Using **Item C**, analyse why Morrisons removed luxury items, such as specialist chocolates, from its shelves. (8 marks)

Level	Descriptor	Marks	Assessment Objectives
3	Uses Item C to analyse the choice of product Morrisons sells.	8–6	AO3
2	Uses Item C to explain why Morrisons removed luxury items, such as specialist chocolates, from its shelves.	5–3	AO2
1	Demonstrates understanding of how choice of product range affects business.	2–1	AO1

Relevant answers might include the following:

- Morrisons' business model is to sell food at lower prices from large stores. Although luxury items, such as specialist chocolates have a higher net profit margin they are also sold at higher prices
- luxury items, such as specialist chocolates, take up shelf space that could be used by value lines. Accepting lower profit margins has helped Morrisons to increase its market share
- customers tend to buy luxury items, such as specialist chocolates, for special occasions, such as Christmas and for example Mothers Day, so therefore they are not selling all the time, have a low turnover again a reason for not selling (at the expense of space for value lines)
- there is an economic downturn and the evidence suggests that customers want value lines. Selling luxury items may confuse Morrisons 'value' marketing message.

(b) Using **Item C**, analyse the effect that the economic downturn might have had on the profitability of different supermarkets. (9 marks)

Level	Descriptor	Marks	Assessment Objective
3	Uses Item C to analyse the effect(s) that the economic downturn might have had on the profitability of different supermarkets.	9–7	AO3
2	Uses Item C to explain the effect(s) that the economic downturn might have had on the profits of supermarkets.	6–4	AO2
1	Demonstrates an understanding of the effect(s) that the economic downturn might have had on business profits.	3–1	AO1

Relevant answers might include the following:

- Morrisons more profitable / Tesco less profitable. Morrisons ROCE has improved but Tesco's has reduced. It may depend on what the supermarket's strategy is. Morrisons has succeeded by selling only food whereas Tesco has moved into other markets that have been hit harder by the economic downturn
- even if profitability has been hit, supermarkets have not been hit as hard as other types of business
- if the economy recovers from the economic downturn consumers may revert to previous buying patterns so the effect on profitability may only be temporary.

(c) *The Times newspaper stated that, “Morrisons today emerged as one of the clear winners of the recession...”. Using **Item C**, discuss to what extent you agree with this statement.*
(14 marks)

Level	Descriptor	Marks	Assessment Objective
3	Uses Item C to analyse the factors affecting Morrisons performance during the recession.	7–5	AO3
2	Uses Item C to explain whether Morrisons has or has not been successful.	4–2	AO2
1	Demonstrates an understanding of business success.	1	AO1

NB: If candidate only discusses **one side** of the question, **award maximum Level 2.**

Relevant answers might include the following:

- Morrisons improving, Tesco deteriorating
- Morrisons way of trying to make a profit might be better in a recession.

Comparing Morrisons to Tesco

Solvency

- the acid test ratios for both businesses are both well below the recommended levels
- Tesco has a better acid test ratio and is trying to improve stockholding
- Morrisons has better gearing ratios than Tesco
- although the solvency is poor it is unlikely that creditors will force either business into liquidation
- Morrisons solvency is improving.

Profitability

- both businesses are making profits
- Tesco has the better ratios
- Tesco is profitable but so is Morrisons in what are challenging times
- Morrisons profitability ratios are improving but those of Tesco are deteriorating.

Efficiency

- Morrisons had a slightly better stock turnover.

Other

- Morrisons improving, Tesco deteriorating
- Morrisons way of trying to make a profit might be better in a recession.

See next page for Evaluation.

For AO4, you should award marks using the scheme below.

Note that 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 makes a reasoned judgement for the likelihood of Morrisons being a winner in the recession. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in conventions of written communication.	7–5	AO4 and Quality of written communication
2	Candidate judges using some justification the likelihood of Morrisons being a winner in the recession. Ideas are communicated in a logical structure with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	4–3	
1	Judges the likelihood of Morrisons being a winner in the recession Ideas are communicated with some structure evident with occasional use of appropriate technical terms. There are some errors in accepted conventions of written communication.	2–1	