



# Specimen Mark Scheme

## Applied Business (BS15)

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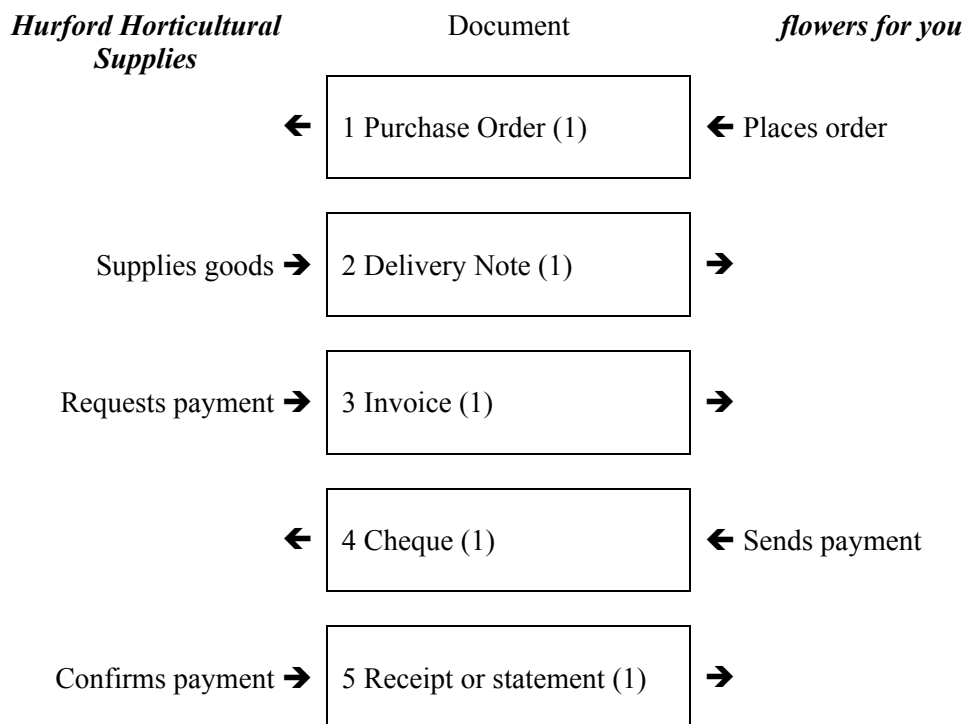
Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. 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.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

1

Total for this question is 19

(a) Complete the flow chart below, by stating the name of the financial documents that should be in each of the numbered boxes. (5 marks)



(b) (i) Using **Item A** calculate the correct value of the invoice that Justin should have sent to *flowers for you*. (4 marks)

	£
Flowers	3000 00
Less 5% discount	150 00 (1)
Sub total	2850 00 (1)
Add VAT @ 17.5%	498 75 (1)
Total	3348 75 (1)

(ii) Explain how HHS might correct an error in an invoice they have issued. (2 marks)

Use of a credit note to correct an error in an invoice.  
 Explanations might centre on the use of a credit note.  
 Award **1 mark** for identifying the document and **1 mark** for explaining how it might be used to identify errors.  
**1 mark** for manual adjustment of invoice.  
**Max 2 marks**

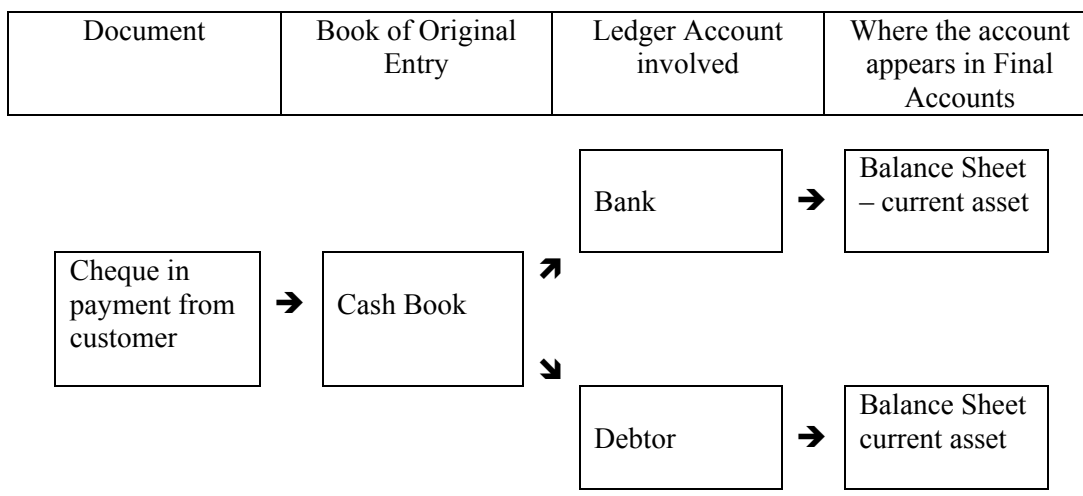
*(iii) Explain **one** possible consequence to HHS of issuing incorrect invoices. (2 marks)*

Possible consequences may include the following:

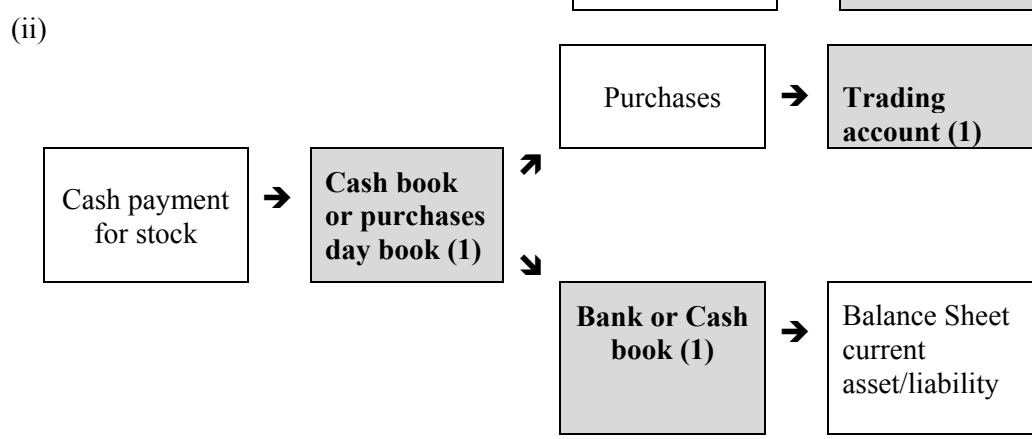
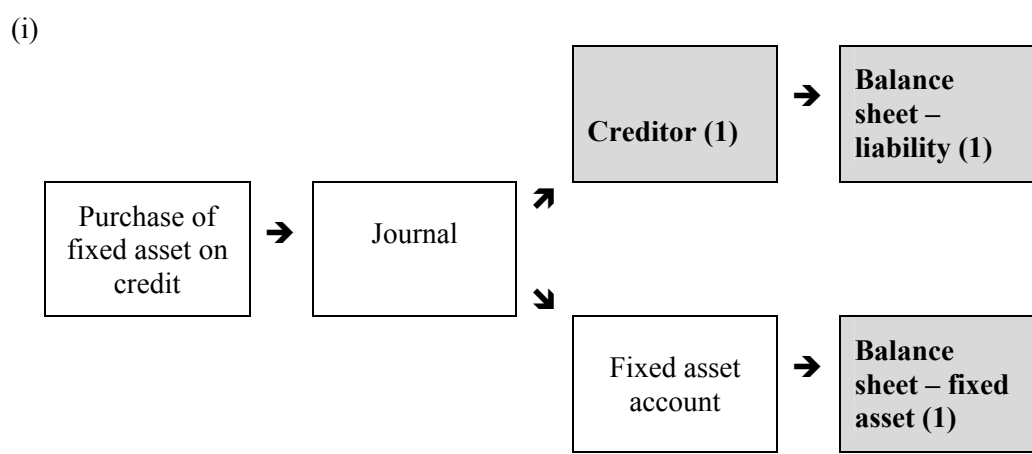
- costs of issuing credit notes and general administration;
- loss of customer goodwill;
- reduction in income from future sales because of overcharging;
- adverse impact on cash flow because of delays in payment.

**1 mark** for identifying a valid consequence and an additional **1 mark** for explaining the consequence

(c) The flow chart below shows how a recent transaction at HHS would have been recorded in the businesses accounting system. (6 marks)



Complete the flow charts for the situations set out below.



2

Total for this question is 24

(a) A trial balance could still balance even if errors have been made in the bookkeeping entries.

Identify and explain the effect of **one** error that could be made in the books of Hurford Horticultural Supplies that would **not** be identified by the preparation of a trial balance. (2 marks)

Types of error include:

- error of commission;
- error of omission;
- error of principle;
- compensating error;
- error of original entry;
- reversal of entries.

**1 mark** for identifying a valid error and an additional **1 mark** for explaining the effect

(b) It was discovered that an amount for electricity of £4000 was outstanding at 31 December 2005.

Using the trial balance opposite calculate the amount for electricity that should be included in the Profit and Loss account. (2 marks)

Electricity £16 000(1) + £4000(1) = £20 000

(c) It was discovered that the amount for insurance in the trial balance included £3000 for the following year.

Using the trial balance opposite calculate the amount for insurance that should be included in the Profit and Loss for the year ending 31 December 2005. (2 marks)

Insurance £14 800(1) - £3000(1) = £11 800

(d) Use the trial balance that Tracey has prepared to complete the following Trading and Profit and Loss account. You should take into account the adjustments you calculated in 2(b) and (d). The information should be entered in the shaded boxes. (7 marks)

***Hurford Horticultural Supplies***  
**Trading and Profit and Loss account for the year ended 31 December 2005**

	£	£
Turnover		500 700
Less cost of sales		
Opening stock	<b>(1) 33000</b>	
Purchases	249700	
Total	282700	
Less closing stock	<b>(1) 35000</b>	<b>(1) 247 700</b>
Gross profit		<b>(1) 253 000</b>
Less expenses		
Motor expenses	24 000	
Insurance	11 800	
Electricity	20 000	
Salaries	97 000	
Bad debts	5 000	
Sundry expenses	4 400	
Provision for depreciation		
- vehicles	14 000	
- fixtures and fittings	<b>(1) 4 800</b>	
Provision for doubtful debts	500	<b>(1) 181 500</b>
Net profit		<b>(1) 71 500</b>

(e) Use the trial balance that Tracey has prepared to complete the following Balance Sheet. The information should be entered in the shaded boxes. (4 marks)

<b>Hurford Horticultural Supplies</b>			
<b>Balance Sheet as at 31 December 2005</b>			
	Cost £	Agg depn £	NBV £
<b>Fixed Assets</b>			
Premises	200 000	-	200 000
Motor vehicles	70 000	(1) 42 000	28 000
Fixtures and fittings	40 000	(1) 20 800	19 200
			247 200
<b>Current Assets</b>			
Stock	35 000		
Trade debtors less provision for doubtful debts	(1) 47 500		
Expenses prepaid	3 000		
Bank	23 000		
Cash	2 800	111 300	
<b>Less Current Liabilities</b>			
Trade creditors	37 000		
Expenses owing	4 000	41 000	(1) 70 300
			317 500
<b>Financed by:</b>			
Capital at 1 January 2005			275 000
Add Net Profit			71 500
			346 500
Less drawings			29 000
			317 500

(f) *Accounting concepts have been applied to the preparation of the Trading Profit and Loss account and Balance Sheet in parts (d) and (e).*

*Discuss the importance of applying accounting concepts to the preparation of the Trading Profit and Loss account or Balance Sheet.* (7 marks)

A candidate may develop their answer by:

- identifying the concept;
- defining the concept;
- explaining the importance of the concept from the tasks within the question.

eg for accruals (or matching) candidate could explain the importance for adjusting for insurance in order to accurately report profits and give a true and fair view of the assets of the business.

eg it would be prudent to make an adjustment for provision for doubtful debts as not all debtors are likely to pay so it would be sensible to estimate this and include in the profit and loss account so as not to overstate profits. The figure for debtors as current assets will also be more accurate.

Answer can be further developed by consideration of issues that could include:

- legal requirements. If the business has to prepare accounts for publication (if it is a company for example) then it must adhere to company law and European directives.
- concepts provide a basis for objectivity. Also taxation purposes.
- allows accounts to be used by different stakeholders (bank, management, owners etc)
- allows comparisons to be made year on year, inter-firm (eg consistency concept)

Level	Descriptor	Marks	Objective
4	Discusses the importance of applying accounting concepts.	5–7 marks	AO4
3	Analyses the importance of relevant accounting concepts.	3–4 marks	AO3
2	Explains the importance of a relevant accounting concept.	2 marks	AO2
1	Describes an accounting concept.	1 mark	AO1



3

Total for this question is 37

(a) Using **Item C**, assess the solvency (liquidity) position of *Gardens of England*. (8 marks)

Current ratio: 1.3:1

Acid test ratio: 0.86:1

Answers could include:

- current ratio to low;
- acid test to low;
- too much tied up in stock;
- cash flow problem;
- comparison with previous years.

Level	Descriptor	Marks	Objective
3	Uses <b>Item C</b> to accurately assess the solvency (liquidity) of <i>Gardens of England</i> .	5–8 marks	AO4
2	Uses <b>Item C</b> to analyse the solvency (liquidity) of <i>Gardens of England</i> .	2–4 marks	AO3
1	Uses <b>Item C</b> to quantify an aspect of the solvency (liquidity) of <i>Gardens of England</i> .	1 mark	AO2

(b) Using **Item C**, assess the profitability of *Gardens of England*. (8 marks)

Gross Profit percentage: 24.33%

Net Profit percentage: 10%

ROCE: 12.5%

Answers could include:

- gross profit ratio should be similar from year to year;
- net profit ratio should be similar from year to year;
- ROCE higher the better;
- can be compared with available interest rates;
- need to compare with previous years/competitors.

Level	Descriptor	Marks	Objective
3	Uses <b>Item C</b> to accurately assess the profitability of <i>Gardens of England</i> .	5–8 marks	AO4
2	Uses <b>Item C</b> to analyse the profitability of <i>Gardens of England</i> .	2-4 marks	AO3
1	Uses <b>Item C</b> to quantify an aspect of the profitability of <i>Gardens of England</i> .	1 mark	AO2

(c) Using <b>Item C</b> , assess the efficiency of <i>Gardens of England</i> .	(8 marks)
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Stock turnover: 9.08 times

Debtors' collection period: 49 days

Creditors' payment period: 89 or 90 days

Answers could include:

- the business sells its average stock 9.08 times per year;
- normal period of trade credit 28/30 days therefore debt collection high/bad;
- taking a long time to pay creditors may improve cash flow;
- compare with previous years.

Level	Descriptor	Marks	Objective
3	Uses <b>Item C</b> to accurately assess the efficiency of <i>Gardens of England</i> .	5–8 marks	AO4
2	Uses <b>Item C</b> to analyse the efficiency of <i>Gardens of England</i> .	2–4 marks	AO3
1	Uses <b>Item C</b> to quantify an aspect of the efficiency of <i>Gardens of England</i> .	1 mark	AO2

(d) Using your answers to 3 (a), (b) and (c), discuss whether Hurford Horticultural Supplies should buy Gardens of England. (13 marks)

Answers could include:

- discussion of the relationship between the various types of ratios;
- limitations of ratios;
- comparison with *HHS*;
- discussion of the price against capital employed figure;
- *HHS* would be buying a customer base;
- economies of scale.

Level	Descriptor	Marks	Objective
3	Uses answers to 3 (a), (b) and (c) to analyse advantages <b>and</b> disadvantages to <i>Hurford Horticultural Supplies</i> of buying <i>Gardens of England</i> .	5-7 marks	AO3
2	Uses answers to 3 (a), (b) and (c) to analyse advantages <b>or</b> disadvantages to <i>Hurford Horticultural Supplies</i> of buying <i>Gardens of England</i> .	3-4 marks	
1	Uses answers to 3 (a), (b) and (c) to explain an advantage <b>or</b> disadvantage to <i>Hurford Horticultural Supplies</i> of buying <i>Gardens of England</i> .	1-2 marks	AO2

For A04, 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	Objective
3	Demonstrates consistent judgement in selection of key results from answers to 3 (a), (b) and (c), prioritising these results. 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.	5-6	AO4 and Quality of written communication
2	Demonstrates some judgement in selection of key results from answers to 3 (a), (b) and (c), prioritising some of these results. Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	3-4	
1	Demonstrates some judgement in selection of results from answers to 3 (a), (b) and (c) <b>or</b> prioritises some of these results. 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	