



Rewarding Learning

ADVANCED  
General Certificate of Education  
2011

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## GCE Applied Business

Assessment Unit A2 7

*assessing*

Finance

[A6B11]

FRIDAY 10 JUNE, MORNING

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**MARK  
SCHEME**

1 (a) Complete **Table 1** to show the analysis of production overheads and apportionment of overheads for Babytoys Limited.

**Table 1**

Overhead	Basis of Apportionment	Total Cost (£)	Production Dept. (£)	Assembly Dept. (£)	Stores Dept. (£)	
Indirect Material	Direct	8,000	4,000	3,000	1,000	L1
Indirect Wages	Direct	9,000	5,000	3,000	1,000	L2
Health/Safety Costs	Direct	8,000	5,000	1,000	2,000	L3
Canteen Costs	No. of Staff	12,000	6,000	5,000	1,000	L4
Depreciation	Plant Cost	7,000	3,000	3,000	1,000	L5
Energy Costs	Power Use	13,000	7,000	5,000	1,000	L6
Water Charges	Power Use	11,000	5,000	5,000	1,000	L7
Rates	Floor Area	12,000	5,000	5,000	2,000	L8
Total		80,000	40,000	30,000	10,000	L9
Stores	Stores Issue Notes	<b>0</b>	<b>8,000</b>	<b>2,000</b>	<b>-10,000</b>	L10
Total Overheads		<b>80,000</b>	<b>48,000</b>	<b>32,000</b>		L11

Marking: 1 mark for each item correctly stated/calculated (noted in bold):

1. calculation of total Stores Dept. overheads apportioned £0 (L10);
2. calculation of total Stores Dept. overheads to be apportioned – £10,000 (L10)
3. production dept. apportionment of stores overheads (£8,000) (L10);
4. assembly dept. apportionment of stores overheads (£2,000) (L10);
5. calculation of total overheads after re-allocation at £80,000 (L11);
6. total production dept., overheads correctly calculated at £48,000 (L11);
7. total assembly dept., overheads correctly calculated at £32,000 (L11)

Own figure rule (OFR) to be applied as appropriate. [7]

AVAILABLE MARKS

- (b) Complete **Table 2** to show the appropriate rates of overhead recovery for (i) the Production Department; and (ii) the Assembly Department. All calculations must be shown in the box provided.

**Table 2: Overhead Absorption Rates**

	<b>Production Dept.</b>	<b>Assembly Dept.</b>
Total Overheads (£)	<b>48,000</b>	<b>32,000</b>
Machine Hours	<b>80 000</b>	<b>80 000</b>
Overhead Rate per Machine Hour (£)	<b>0.60</b>	<b>0.40</b>

Marking: 1 mark for each item correctly stated/calculated (noted in bold):

- total overheads for production dept. (£48,000) (L1);
- total overheads for assembly dept. (£32,000) (L1);
- production dept. machine hours (80 000) (L2);
- assembly dept. direct machine hours (80 000) (L2);
- overhead absorption rate for production dept., correctly calculated at £0.60 (L3), based on total production dept., overheads correctly calculated at £48,000 (L11, pt (a));
- overhead absorption rate for assembly dept., correctly calculated at £0.40 (L3), based on total assembly dept., overheads correctly calculated at £32,000 (L11, pt (a))

Own figure rule to be applied as appropriate. [6]

- (c) (i) Calculate number of Walkie-Talkie Phones which must be produced/sold in order to breakeven:

Breakeven Point (BEP):  
 FC/CPU, where  
 FC = £10,000  
 CPU = £2.50  
 BEP = £10,000/£2.50 = 4000 units [3]

- (ii) calculate number of Speaking Clocks which must be produced/sold in order to breakeven:

Breakeven Point (BEP):  
 FC/CPU, where  
 FC = £15,000  
 CPU = £5.00  
 BEP = £15,000/£5.00 = 3000 units [3]

(iii) calculate the total additional contribution (£) that would arise, if the management team revise the current production plan, and decide to proceed with the production and sale of 3000 Walkie-Talkie Phones and 7000 Speaking Clocks:

Current Total Contribution:

Walkie-Talkie Phone:

$$\begin{aligned} &\text{Total No. of sales forecasted} \times \text{CPU} \\ &= 5000 \times \text{£}2.50 = \text{£}12,500 \end{aligned}$$

Speaking Clock:

$$\begin{aligned} &\text{Total No. of sales forecasted} \times \text{CPU} \\ &= 5000 \times \text{£}5.00 = \text{£}25,000 \end{aligned}$$

$$\text{Total Contribution} = \text{£}12,500 + \text{£}25,000 = \text{£}37,500$$

Revised Contribution:

Walkie-Talkie Phone:

$$\begin{aligned} &\text{Total No. of sales proposed} \times \text{CPU} \\ &= 3000 \times \text{£}2.50 = \text{£}7,500 \end{aligned}$$

Speaking Clock:

$$\begin{aligned} &\text{Total No. of sales proposed} \times \text{CPU} \\ &= 7000 \times \text{£}5.00 = \text{£}35,000 \end{aligned}$$

$$\text{Total Contribution} = \text{£}7,500 + \text{£}35,000 = \text{£}42,500$$

Additional Contribution =

Revised Contribution – Current Contribution

$$= \text{£}42,500 - \text{£}37,500 = \text{£}5,000 \quad [5]$$

(Alternative calculations:

$$\text{Walkie-Talkie Phone lost contribution:} \quad -\text{£}5,000$$

$$\text{Speaking Clock additional contribution:} \quad +\text{£}10,000$$

$$\text{Thus, net additional contribution:} \quad \underline{\text{£}5,000}$$

Note: OFR to be applied as appropriate.

- 2 (a) You are required by Patrick to complete the cash budget for the quarter October to December 2011, by completing **Table A**, to show the projected closing cash balance at the end of each month.

**Table A–Cash Budget October to December (2011)**

	October £	November £	December £	
Opening Balance	(500)	(355)	1,225	[3]
<b>Cashflows In:</b>				
Cash Sales	7,650	<b>10,200</b>	8,670	[1]
Debtors Receipts	1,245	<b>1,605</b>	1,350	[1]
Vending Machines Revenues	250	320	350	
<b>Total Cashflows In</b>	9,145	<b>12,125</b>	10,370	[1]
<b>Cashflows Out:</b>				
Overheads	<b>6,300</b>	7,350	8,190	[1]
Creditors	<b>2,700</b>	3,150	3,510	[1]
Bank Charges		45		
<b>Total Cashflows Out</b>	<b>9,000</b>	10,545	11,700	[1]
<b>Closing Balance</b>	<b>(355)</b>	<b>1,225</b>	<b>(105)</b>	[3]

Marking: [1] for each figure correctly calculated/stated (denoted in bold above) as appropriate.  
(12 × [1]). OFR applies.

- (b) Evaluate two benefits and one limitation of budgeting for a business such as Fitness Magical.

#### **Advantages of budgeting**

- Budgeting allows a business like Fitness Magical to control both its income and its expenditure, and can highlight areas where Fitness Magical is not performing as efficiently as it could. Budgeting is therefore a useful control mechanism for an organisation.
- Budgets are a useful way of clarifying the roles and responsibilities of management within a business like Fitness Magical.
- Budgets help to coordinate the activities of a business like Fitness Magical and can improve the communication between departments.
- Budgets help to ensure that scarce resources are used as efficiently as possible.
- Budgets enable performance to be measured against set targets.
- Budgets can help to motivate employees.

#### **Disadvantages of budgeting**

- Budgeting is dependent upon the quality of the information provided. Poor-quality information results in budgets that are meaningless.
- Budget can become very inflexible.
- Budgets can be demotivating if the users have not been involved in the budgeting process.
- There can be a danger of management becoming over dependent on budgets at the expense of managing.

	<b>AO1 Knowledge and Understanding</b>	<b>AO2 Application</b>	<b>AO3 Analysis</b>	<b>AO4 Evaluation</b>
Level 3	<p><b>3 Marks</b> Candidate demonstrates excellent understanding of the benefits and limitations of budgeting. Candidate makes excellent use of specialist vocabulary when appropriate.</p>	<p><b>3 Marks</b> Very good application.</p>	<p><b>3 Marks</b> Very good analysis</p>	<p><b>3 Marks</b> Candidate gives a full evaluation of the benefits and limitations of budgeting. Candidate demonstrates good spelling, punctuation and grammar. The meaning of the text is clear. The candidate has consistently used a form and style of writing appropriate to the purpose of the question. Answer is organised in a clear and coherent manner.</p>
Level 2	<p><b>2 Marks</b> Candidate demonstrates good understanding of the benefits and limitations of budgeting. Candidate makes good use of specialist vocabulary when appropriate.</p>	<p><b>2 Marks</b> Candidate applies knowledge effectively.</p>	<p><b>2 Marks</b> Good analysis of advantages and disadvantages of budgeting.</p>	<p><b>2 Marks</b> Candidate gives a satisfactory evaluation of the benefits and limitations of budgeting. Candidate demonstrates satisfactory spelling, punctuation and grammar. The meaning of the text is clear most of the time. The candidate demonstrates a satisfactory level of writing form and style appropriate to the purpose of the question. The answer is organised in a satisfactory manner.</p>

Level 1	<b>1 Mark</b> Candidate demonstrates some understanding of the benefits and limitations of budgeting. Candidate makes use of specialist vocabulary when appropriate.	<b>1 Mark</b> Candidate attempts to apply knowledge.	<b>1 Mark</b> Limited analysis of advantages and disadvantages of budgeting.	<b>1 Mark</b> Candidate demonstrates some evaluation of the benefits and limitations of budgeting. Candidate makes limited use of spelling, punctuation and grammar. The meaning of the text is not always clear. The candidate demonstrates a limited form and style appropriate to the question. The organisation of the answer is limited.
Level 0	<b>0 Marks</b> Candidate demonstrates no understanding of the benefits and limitations of budgeting.	<b>0 Marks</b> Candidate does not attempt to apply knowledge.	<b>0 Marks</b> Candidate does not analyse the advantages and disadvantages of budgeting.	<b>0 Marks</b> Candidate makes no attempt to evaluate the benefits and limitations of budgeting.

[12]

AVAILABLE MARKS
24



3 (a) You are required to calculate the following accounting ratios, based on the data provided:

(i) Return on Capital Employed:

	Sainsbury plc		Tesco plc	
$\frac{\text{Profit/(loss) Before Tax}}{\text{Total Assets-Current liabilities}} \times 100\%$	$\frac{479}{6,541}$	$\times 100\%$	$\frac{2,803}{16,936}$	$\times 100\%$
Return on Capital Employed:	<input type="text" value="7.32%"/>		<input type="text" value="17.0%"/>	[2]
	<b>7.32%</b>		<b>16.55%</b>	

(ii) Net Profit Margin:

	Sainsbury plc		Tesco plc	
$\frac{\text{Profit/(loss) Before Tax}}{\text{Sales}} \times 100\%$	$\frac{479}{17,837}$	$\times 100\%$	$\frac{2,803}{47,298}$	$\times 100\%$
Net Profit Margin:	<input type="text" value="2.68%"/>		<input type="text" value="5.93%"/>	[2]
	<b>2.68%</b>		<b>5.93%</b>	

(iii) Current Ratio:

	Sainsbury plc		Tesco plc	
$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{1,722}{2,605}$		$\frac{6,300}{10,263}$	
Current Ratio:	<input type="text" value="0.66"/>	times	<input type="text" value="0.61"/>	times [2]
	<b>0.66</b>		<b>0.61</b>	

**(iv) Gearing:**

	<b>Sainsbury plc</b>	<b>Tesco plc</b>
$\frac{\text{Long Term Debt}}{\text{Equity + Debt}} \times 100\%$	$\frac{2,575}{6,541} \times 100\%$	$\frac{7,999}{16,936} \times 100\%$
Gearing:	<input type="text"/> <b>39.37%</b>	<input type="text"/> <b>47.23%</b>

[2]

**(b)** Using the information above and the ratios calculated in part (a), analyse the financial position of Sainsbury plc and Tesco plc with respect to the following ratios:

**(i) Return on Capital Employed Ratio**

The Return on Capital Employed Ratio = profit before tax/capital employed.  
 This ratio measures the return in relation to the total amount of money invested in the business. The ratio indicates that for every £1 invested in the business Sainsbury plc makes a profit of £0.07 and Tesco plc earns a return of just over £0.17. By making a comparison between these two competitors Tesco is making twice as much as Sainsbury plc to the total money invested in the business. Sainsbury's plc could improve its ROCE by increasing its operating profit without raising further capital. It could also reduce the amount of capital employed perhaps by repaying some long-term debt. [3]

**(ii) Net Profit Margin Ratio**

The Net Profit Percentage = Net Profit after tax/Sales × 100%  
 The Net Profit Ratio is calculated by subtracting expenses from gross profit. The Net Profit margin is found by expressing the net profit as a percentage of sales. The ratio indicates the amount of net profit per £1 of sales that a business has earned. Sainsbury plc makes a profit of £0.027 whereas Tesco plc earns a profit of just over £0.059. By making a comparison between these two competitors Tesco plc is making a return twice as much as Sainsbury's in relation to the total sales of the business. A greater net profit margin indicates that the business is profitable. Improvements in the net profit margin may be achieved through higher sales or tighter control of costs, particularly indirect costs. [3]

**(iii) Current Ratio**

The Current Ratio – current assets/current liabilities  
 Although different businesses will have different acceptance ratios, as a rule of thumb a ratio of 2:1 is considered to be good. This means that the business has £2 worth of current assets for every £1 worth of current liabilities. Sainsbury plc has an equity ratio of 0.67 times whereas Tesco plc has an equity ratio of (0.62) times. By making a comparison between these two competitors Sainsbury's plc is making a return of 0.67 times in relation to the current liabilities in the business, which is

acceptable but still very low. With Tesco plc ratio being (0.62) times, it is difficult to find it difficult to meet their current liabilities. Conversely a higher ratio may indicate that although current liabilities should be met, the business may be holding too much current assets. For example, a business may have too much cash, stock levels may be too high, debtors may be too high, or creditors may be too low. To properly evaluate this ratio, it would require additional information regarding the make-up of current assets and monitored over time. [3]

**(iv) Gearing Ratio**

The Gearing Ratio = long term loans/capital employed  
 This measure of a business's performance is important because by raising too high a proportion of capital through fixed interest capital, firms become vulnerable to increases in interest rates. This ratio tells us the Gearing ratio for Sainsbury's plc is 39% whereas Tesco plc is 47%. By making a comparison between these two competitors both companies have under 50% of its capital employed in the form of loans. Both companies have low gearing and their vulnerability to increases in interest rates is minimal. [3]

	<b>AO1 Knowledge and understanding</b>	<b>AO2 Application</b>	<b>AO3 Analysis</b>
Level 2	<b>3–4 Marks</b> Candidate demonstrates good understanding of the financial position. Candidate makes good use of specialised vocabulary when it is appropriate.	<b>3–4 Marks</b> Candidate applies knowledge effectively.	<b>3–4 Marks</b> Good analysis of financial position, using accounting ratios.
Level 1	<b>1–2 Marks</b> Candidate demonstrates some understanding of the financial position. Candidate makes some use of specialist vocabulary when it is appropriate.	<b>1–2 Marks</b> Candidate attempts to apply knowledge.	<b>1–2 Marks</b> Limited analysis of financial position, using accounting ratios.
Level 0	<b>0 Marks</b> Candidate demonstrates no understanding of the financial position. Candidate does not make use of specialist vocabulary when it is appropriate.	<b>0 Marks</b> Candidate does not attempt to apply knowledge.	<b>0 Marks</b> No analysis of financial position, using accounting ratios.

- (c) Discuss the limitations of using accounting ratios to assess the financial performance of companies such as Sainsbury plc and Tesco plc.
- Provides snapshot.
  - Ratios are based on past performance which means they may not represent what actually happen in the future.
  - Different companies have different accounting policies. This means it may be difficult to make comparisons between companies.
  - Different countries have different rules. United States (US) accounts and German accounts are prepared differently which will also result in difficulties if comparisons are to be made on an international basis.
  - Inflation is a consideration – if there are price rises this can distort the figures.
  - Industry standards may not be the best benchmark to assess performance.
  - Financial ratios ignore other objectives of the company.
  - Window dressing.

	<b>AO1 Knowledge and Understanding</b>	<b>AO2 Application</b>	<b>AO3 Analysis</b>	<b>AO4 Evaluation</b>
Level 3	<b>3 Marks</b> Candidate demonstrates excellent understanding of the limitations of using accounting ratios. Candidate makes excellent use of specialist vocabulary when appropriate.	<b>3 Marks</b> Very good application.	<b>3 Marks</b> Very good analysis.	<b>3 Marks</b> Candidate gives a full evaluation of the limitations presented. Candidate demonstrates good spelling, punctuation and grammar. The meaning of the text is clear. The candidate has consistently used a form and style of writing appropriate to the purpose of the question. Answer is organised in a clear and coherent manner.

<p>Level 2</p>	<p><b>2 Marks</b> Candidate demonstrates good understanding of the limitations of using accounting ratios. Candidate makes good use of specialist vocabulary when appropriate.</p>	<p><b>2 Marks</b> Candidate applies knowledge effectively.</p>	<p><b>2 Marks</b> Good analysis of limitations.</p>	<p><b>2 Marks</b> Candidate gives a satisfactory evaluation of the limitations presented. Candidate demonstrates satisfactory spelling, punctuation and grammar. The meaning of the text is clear most of the time. The candidate demonstrates a satisfactory level of writing form and style appropriate to the purpose of the question. The answer is organised in a satisfactory manner.</p>
<p>Level 1</p>	<p><b>1 Mark</b> Candidate demonstrates some understanding of the limitations of using accounting ratios. Candidate makes use of specialist vocabulary when appropriate.</p>	<p><b>1 Mark</b> Candidate attempts to apply knowledge.</p>	<p><b>1 Mark</b> Limited analysis of limitations.</p>	<p><b>1 Mark</b> Candidate attempts some evaluation of the arguments presented. Candidate makes limited use of spelling, punctuation and grammar. The meaning of the text is not always clear. The candidate demonstrates a limited form and style appropriate to the question. The organisation of the answer is limited.</p>

Level 0	<b>0 Marks</b> Candidate demonstrates no understanding of the limitations of using accounting ratios.	<b>0 Marks</b> Candidate does not attempt to apply knowledge.	<b>0 Marks</b> Candidate does not analyse the limitations.	<b>0 Marks</b> Candidate does not attempt to evaluate the limitations presented.
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[12]

	<b>AVAILABLE MARKS</b>
	32
<b>Total</b>	<b>80</b>