



Rewarding Learning

ADVANCED
General Certificate of Education
2015

GCE Applied Business

Assessment Unit A2 7

assessing

Finance

[A6B11]

MONDAY 22 JUNE, MORNING

MARK
SCHEME

General Marking Instructions

Introduction

Mark schemes are published to assist teachers and students in their preparation for examinations. Through the mark schemes teachers and students will be able to see what examiners are looking for in response to questions and exactly where the marks have been awarded. The publishing of the mark schemes may help to show that examiners are not concerned about finding out what a student does not know but rather with rewarding students for what they do know.

The Purpose of Mark Schemes

Examination papers are set and revised by teams of examiners and revisers appointed by the Council. The teams of examiners and revisers include experienced teachers who are familiar with the level and standards expected of students in schools and colleges.

The job of the examiners is to set the questions and the mark schemes; and the job of the revisers is to review the questions and mark schemes commenting on a large range of issues about which they must be satisfied before the question papers and mark schemes are finalised.

The questions and the mark schemes are developed in association with each other so that the issues of differentiation and positive achievement can be addressed right from the start. Mark schemes, therefore, are regarded as part of an integral process which begins with the setting of questions and ends with the marking of the examination.

The main purpose of the mark scheme is to provide a uniform basis for the marking process so that all the markers are following exactly the same instructions and making the same judgements in so far as this is possible. Before marking begins a standardising meeting is held where all the markers are briefed using the mark scheme and samples of the students' work in the form of scripts. Consideration is also given at this stage to any comments on the operational papers received from teachers and their organisations. During this meeting, and up to and including the end of the marking, there is provision for amendments to be made to the mark scheme. What is published represents this final form of the mark scheme.

It is important to recognise that in some cases there may well be other correct responses which are equally acceptable to those published: the mark scheme can only cover those responses which emerged in the examination. There may also be instances where certain judgements may have to be left to the experience of the examiner, for example, where there is no absolute correct response – all teachers will be familiar with making such judgements.

1 (a) Janet's Income Statement for the year ended 31 March 2015

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	£	£
Sales Revenues		10,000
LESS: COST OF SALES		
Opening Inventory	10	
Add Purchases	2,000	
Less Closing Inventory	<u>50</u>	
Cost of Sales		<u>1,960</u>
GROSS PROFIT		8040
LESS EXPENSES		
Depreciation of equipment		1,000
Advertising		200
Rent		120
Telephone		620
Insurance		180
Wages		3,800
Administration expenses		90
Electricity		300
Total Expenses		6310
NET PROFIT		1730

([1] × 19) [1] for each figure marked in bold; OFR only applicable to calculation of Net Profit figure.

[5]

(b) Janet's statement of Financial Position as at 31 March 2015

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	Cost (£)	Depreciation (£)	Written Down Value (£)
NON-CURRENT ASSETS			
Equipment	10,000	1,000	9,000
Total Non-current Assets	10,000	1,000	9,000
CURRENT ASSETS			
Closing Inventory			50
Trade Receivables			790
Prepayments			10
			850
TOTAL CURRENT ASSETS			
			850
TOTAL ASSETS			9,850
EQUITY AND LIABILITIES			
Opening Capital			8,000
Add: Net Profit			1,730
Less: Drawings			1,940
TOTAL OWNER'S CAPITAL			7,790
CURRENT LIABILITIES			
Trade Payables			1,000
Accruals			60
Bank			1,000
TOTAL CURRENT LIABILITIES			2,060
TOTAL EQUITY AND LIABILITIES			9,850

([1] × 19) [1] for each figure marked in bold; OFR applies.

[19]

(c) Final accounts are required to determine financial position in terms of profits/ losses and total assets/net worth, thus depreciation is required for two reasons:

- Depreciation is an expense of running a business, therefore the inclusion of depreciation (£1,000) will reduce profits (by £1,000) and increase costs of running the business, in addition to providing a more accurate estimate of profit for the trading period;
- Non-current assets should be shown at the written down value (or book value) reflecting the fall in value derived from the use of such assets in the business (£9,000), which would assist determination of net worth of the total assets in event of disposal/sale of either the non-current asset or the business;
- Other relevant answers accepted.

[2] × 2; [2] knowledge/understanding; [2] application.

[4]

28

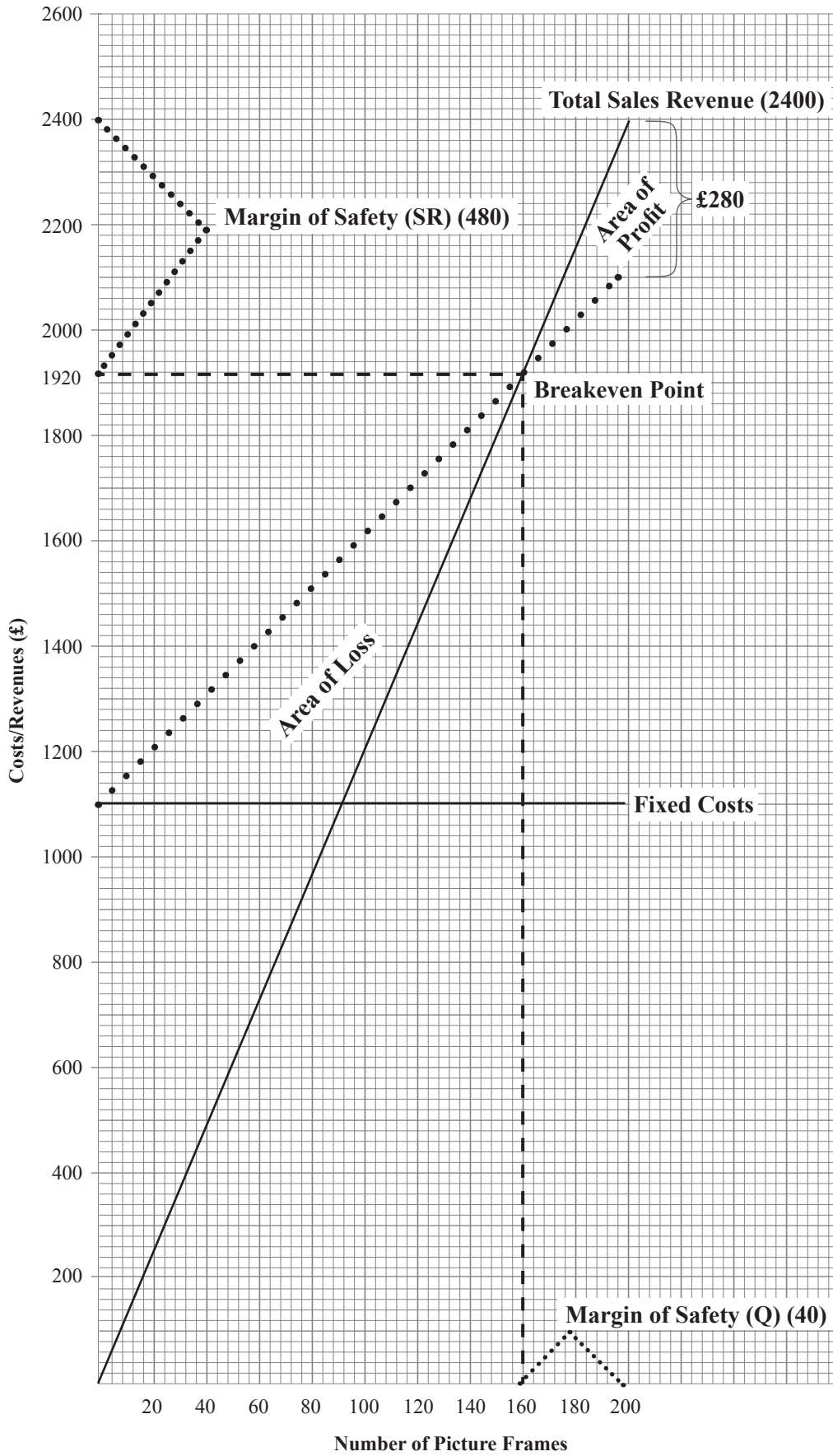
AVAILABLE
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- 2 (a) (i) Fixed costs:**
- Costs which do not vary in proportion to output levels;
- Examples: rates/rent/depreciation.
 [1] knowledge/understanding; [1] application.
 (2 × [1]) [2]
- (ii) Variable costs:**
- Costs which vary in direct proportion to output levels;
- Examples: material/labour.
 [1] knowledge/understanding; [1] application.
 (2 × [1]) [2]
- (b) (i) Total Sales Revenue** $\text{£}12.00 \times 200 = \text{£}2400$ [1]
- (ii) Breakeven Point**
- Quantities = 160 picture frames ($\text{£}1120/\text{£}7$) [1]
 Sales Revenue = $160 \times \text{£}12 = \text{£}1920$ [1]
- (iii) Total Profit:**
 $2400 - 2120 = \text{£}280$ [1]
- (iv) Margin of Safety:**
- Sales Quantities $(200 - 160) = 40$ [1]
 Sales Revenues $\text{£}480 (40 \times \text{£}12)$ or $(\text{£}2400 - \text{£}1920)$ [1]

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(c) See graph

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(6 × [1])

OFR not applicable.

[6]

- (d)
- Enables owners to determine sales prices and estimate costs, e.g. fixed costs estimated at £1,120.
 - Facilitates pricing decisions per frame, e.g. £12
 - Enables calculation of breakeven point, at which point the business makes neither a profit nor a loss, e.g. 160 frames.
 - Enables owners to plan for future profitability, e.g. reduce cost or increase prices.
 - Analysis only valid within relevant range of output, i.e. total 200 sales of frames.
 - Assumes a linear relationship between costs/revenues.
 - Analysis cannot be extrapolated beyond relevant range as cost behaviour patterns change, i.e. beyond 200 frames.

	AO1 Knowledge and Understanding	AO2 Application	AO3 Analysis	AO4 Evaluation
Level 2	2 marks Candidate demonstrates a satisfactory understanding of the usefulness of breakeven analysis. Candidate makes good use of specialist vocabulary when it is appropriate.	2 marks Candidate demonstrates a satisfactory attempt to apply knowledge.	2 marks Candidate demonstrates a satisfactory attempt to analyse the breakeven position.	2 marks Candidate demonstrates a satisfactory attempt to evaluate the breakeven position. Satisfactory level of spelling, punctuation and grammar.
Level 1	1 mark Candidate demonstrates a limited understanding of the usefulness of breakeven analysis. Candidate makes good use of specialist vocabulary when it is appropriate.	1 mark Candidate demonstrates a limited attempt to apply knowledge.	1 mark Candidate demonstrates a limited attempt to analyse the breakeven position.	1 mark Candidate demonstrates a limited attempt to evaluate the breakeven position. Limited level of spelling, punctuation and grammar.
Level 0	0 marks Candidate demonstrates no understanding of the usefulness of breakeven analysis. Candidate makes no use of specialist vocabulary when it is appropriate.	0 marks Candidate does not attempt to apply knowledge	0 marks Candidate demonstrates no attempt to analyse the breakeven position.	0 marks Candidate demonstrates no attempt to evaluate the breakeven position.

[8]

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3 (a)

Table 1

Chatty Limited Production Overhead Analysis and Apportionment Table

Overhead	Basis of Apportionment	Total Cost (£)	Manufacturing	Assembly Dept, (£)	Distribution	Stores Dept. (£)
Indirect Material	Direct	10 000	4000	3000	2000	1000
Indirect Wages	Direct	10 000	2500	2500	2500	2500
Canteen Costs	Direct	10 000	3000	3000	3000	1000
Rates	Area	5000	2500	2000	250	250
Depreciation	Plant Cost	2500	500	500	1250	250
Energy Expenses	Power Use	7500	3500	2500	500	1000
Water Charges	Area	5000	2000	2000	500	500
Health/Safety Costs	No. of Staff	5000	3000	1000	500	500
		55,000	21000	16500	10500	7000
Stores	Stores Issues	0	4000	1500	1500	-7000
Total Overheads		55,000	25000	18000	12000	0

[1] for each figure marked in bold; ([1] × 11). OFR applies.

[11]

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(b)

	Manufacturing Dept.	Assembly Dept.	Distribution Dept.
Direct Labour Hours	75,000	20,000	5,000
Total Overheads (£)	25,000	18,000	12,000
Overhead Rate per Direct Labour Hour (£)	£0.33	£0.90	£2.40

([1] × 6); [1] for each figure marked in bold; OFR applies.

[6]

(c) The rate at which staff engaged in direct production activities are paid per hour (direct wages per hour). Examples: Using Chatty Ltd, the rates applicable are Manufacturing Department (£7), Assembly Department (£8), and Distribution Department (£7), respectively.

[3]

- (d) • Leasing allows a business such as Chatty Ltd., to acquire new non-current assets.
- Non-current assets can be acquired with only minimal payments needed each month, i.e. monthly lease payment – facilitates easier management of cash flows.
 - Leasing company usually maintains the asset until the end of the contract.
 - Leasing can be expensive – it is a long term commitment.
 - Company such as Chatty Ltd., never owns the asset but has the option to purchase it at the end of the contract.

	AO1 Knowledge and Understanding	AO2 Application	AO3 Analysis	AO4 Evaluation
Level 2	2 marks Candidate demonstrates a satisfactory understanding of the usefulness of leasing to Chatty Ltd. Candidate makes good use of specialist vocabulary when it is appropriate.	2 marks Candidate demonstrates a satisfactory attempt to apply knowledge.	2 marks Candidate demonstrates a satisfactory attempt to analyse the usefulness of leasing to Chatty Ltd.	2 marks Candidate demonstrates a satisfactory attempt to evaluate the usefulness of leasing to Chatty Ltd. Satisfactory level of spelling, punctuation and grammar.
Level 1	1 mark Candidate demonstrates a limited understanding of the usefulness of leasing to Chatty Ltd. Candidate makes good use of specialist vocabulary when it is appropriate.	1 mark Candidate demonstrates a limited attempt to apply knowledge.	1 mark Candidate demonstrates a limited attempt to analyse the usefulness of leasing to Chatty Ltd.	1 mark Candidate demonstrates a limited attempt to evaluate the usefulness of leasing to Chatty Ltd. Limited level of spelling, punctuation and grammar.
Level 0	0 marks Candidate demonstrates no understanding of the usefulness of leasing to Chatty Ltd. Candidate makes no use of specialist vocabulary when it is appropriate.	0 marks Candidate does not attempt to apply knowledge.	0 marks Candidate demonstrates no attempt to analyse the usefulness of leasing to Chatty Ltd.	0 marks Candidate demonstrates no attempt to evaluate the usefulness of leasing to Chatty Ltd.

[8]

Total

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28

80