

Mark Scheme (Results) Summer 2010

Principal Learning

Business, Administration and Finance
BA304 Business Finance and Accounting

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Summer 2010

Publications Code DP023607

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General marking guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, ie if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Mark Scheme BA304 June 2010

| Question number | Answer | Mark |
|-----------------|--------|------|
| 1 | B | 1 |

| Question number | Answer | Mark |
|-----------------|--------|------|
| 2 | B | 1 |

| Question number | Answer | Mark |
|-----------------|--------|------|
| 3 | C | 1 |

| Question number | Answer | Mark |
|-----------------|--------|------|
| 4 | D | |

| Question number | Answer | Mark |
|-----------------|--------|------|
| 5 | A | 1 |

| Question number | Answer | Mark |
|-----------------|--|------|
| 6 | 1 mark for correct total, 1 mark for workings. Answers: £52.24 (1) £350.78 x 35/235 (1) Accept any appropriate formula | 2 |

| Question number | Answer | Mark | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|-----------------------------------|--|----------|-----------------|----------|-----------------|------------------------------|---|--|--|-----------------------------------|-----|--|--|------------------------------|--|---|--|-------------------------------|---|--|--|--------------------------|--|--|-----|----------------------|--|--|-----|---|
| 7a | 1 mark for each correctly identified. (X) indicates correct answer. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <table border="1"> <thead> <tr> <th></th> <th>Spreadsheet</th> <th>Database</th> <th>Word Processing</th> </tr> </thead> <tbody> <tr> <td>Calculating monthly expenses</td> <td>X</td> <td></td> <td></td> </tr> <tr> <td>Constructing cash flow statements</td> <td>(X)</td> <td></td> <td></td> </tr> <tr> <td>Maintaining supplier records</td> <td></td> <td>X</td> <td></td> </tr> <tr> <td>Producing break-even analysis</td> <td>X</td> <td></td> <td></td> </tr> <tr> <td>Producing delivery notes</td> <td></td> <td></td> <td>(X)</td> </tr> <tr> <td>Contacting customers</td> <td></td> <td></td> <td>(X)</td> </tr> </tbody> </table> | | Spreadsheet | Database | Word Processing | Calculating monthly expenses | X | | | Constructing cash flow statements | (X) | | | Maintaining supplier records | | X | | Producing break-even analysis | X | | | Producing delivery notes | | | (X) | Contacting customers | | | (X) | 3 |
| | Spreadsheet | Database | Word Processing | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Calculating monthly expenses | X | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Constructing cash flow statements | (X) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Maintaining supplier records | | X | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Producing break-even analysis | X | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Producing delivery notes | | | (X) | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Contacting customers | | | (X) | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Question number | Answer | Mark |
|-----------------|--|------|
| 7b | 1 mark for each task identified, max 2. <ul style="list-style-type: none"> ➤ Input invoices onto the computer, ➤ Match invoices against goods received and delivery dockets, ➤ Checking prices against records, ➤ Resolving purchase ledger queries, ➤ Making bank deposits <p>Accept any other appropriate financial tasks.</p> | 2 |

| Question number | Answer | Mark |
|-----------------|---|------|
| 8a | Marks are awarded as follows: 1 mark for basic explanation 1 mark for extended explanation. Possible answers: Trading income is income from normal trading activities (1). <ul style="list-style-type: none"> • Taking cash from working capital (1). OR • It does not include one-off/exceptional activities e.g. disposal of an asset (1). | 2 |

| | | |
|--|---|---|
| | <p>Bank loan A bank loan is usually extended for a fixed term with a pre-agreed schedule of interest and capital repayments (1). Interest is usually payable on the initial amount borrowed, regardless of the falling balance as repayments are made (1).</p> | 2 |
|--|---|---|

| Question number | Answer | Mark |
|-----------------|--|------|
| 8b(i) | <p>1 Mark for each advantage (max 2)</p> <ul style="list-style-type: none"> • The advantages of securing VC are: • it can provide large sums of equity finance • may bring a wealth of expertise to the business. • it may be easier to secure further funding from other sources. <p>Consider other appropriate advantages</p> | 2 |

| Question number | Answer | Mark |
|-----------------|--|------|
| 8b(ii) | <p>1 Mark for each disadvantage (max 2)</p> <ul style="list-style-type: none"> • The disadvantages are: • securing VC can be a long and complex process. • A detailed business plan will have to be prepared, including financial projections for which you're likely to need professional help. • If you get through to the deal negotiation stage, you'll have to pay legal and accounting fees, whether or not you're successful in securing funds. <p>Consider other appropriate disadvantages.</p> | 2 |

| Question number | Answer | Mark | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|--|-------|-------|-------|--|------|-------------------|-----|--|-----------|------|--|-------------------|-------|--|---------------|--|----------|--------------|--|----------------|----------------|--------|--|--------------------|--------|--|--|--|----------|------------|--|---------------|--|--|--|------|
| 9 | <table border="1" data-bbox="338 389 1299 1003"> <thead> <tr> <th data-bbox="338 389 976 501">Hearthstone Ltd Income Statement for period ended 30th June 2010</th> <th data-bbox="976 389 1150 501">£ 000</th> <th data-bbox="1150 389 1299 501">£ 000</th> </tr> </thead> <tbody> <tr> <td data-bbox="338 501 976 539">Sales</td> <td data-bbox="976 501 1150 539"></td> <td data-bbox="1150 501 1299 539">6710</td> </tr> <tr> <td data-bbox="338 539 976 577">Opening Inventory</td> <td data-bbox="976 539 1150 577">226</td> <td data-bbox="1150 539 1299 577"></td> </tr> <tr> <td data-bbox="338 577 976 616">Purchases</td> <td data-bbox="976 577 1150 616">2994</td> <td data-bbox="1150 577 1299 616"></td> </tr> <tr> <td data-bbox="338 616 976 654">Closing Inventory</td> <td data-bbox="976 616 1150 654">(230)</td> <td data-bbox="1150 616 1299 654"></td> </tr> <tr> <td data-bbox="338 654 976 692">Cost of sales</td> <td data-bbox="976 654 1150 692"></td> <td data-bbox="1150 654 1299 692">2990 (2)</td> </tr> <tr> <td data-bbox="338 692 976 770">Gross profit</td> <td data-bbox="976 692 1150 770"></td> <td data-bbox="1150 692 1299 770">3720 (3) OF</td> </tr> <tr> <td data-bbox="338 770 976 808">Admin expenses</td> <td data-bbox="976 770 1150 808">(1824)</td> <td data-bbox="1150 770 1299 808"></td> </tr> <tr> <td data-bbox="338 808 976 846">Distribution costs</td> <td data-bbox="976 808 1150 846">(1044)</td> <td data-bbox="1150 808 1299 846"></td> </tr> <tr> <td data-bbox="338 846 976 884"></td> <td data-bbox="976 846 1150 884"></td> <td data-bbox="1150 846 1299 884">2868 (2)</td> </tr> <tr> <td data-bbox="338 884 976 963">Net Profit</td> <td data-bbox="976 884 1150 963"></td> <td data-bbox="1150 884 1299 963">852 (2) OF</td> </tr> <tr> <td data-bbox="338 963 976 1003"></td> <td data-bbox="976 963 1150 1003"></td> <td data-bbox="1150 963 1299 1003"></td> </tr> </tbody> </table> <p data-bbox="338 1037 1155 1077">One mark for putting the figures in the correct order (1)</p> | Hearthstone Ltd Income Statement for period ended 30th June 2010 | £ 000 | £ 000 | Sales | | 6710 | Opening Inventory | 226 | | Purchases | 2994 | | Closing Inventory | (230) | | Cost of sales | | 2990 (2) | Gross profit | | 3720 (3) OF | Admin expenses | (1824) | | Distribution costs | (1044) | | | | 2868 (2) | Net Profit | | 852 (2) OF | | | | (10) |
| Hearthstone Ltd Income Statement for period ended 30th June 2010 | £ 000 | £ 000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sales | | 6710 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Opening Inventory | 226 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Purchases | 2994 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Closing Inventory | (230) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cost of sales | | 2990 (2) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Gross profit | | 3720 (3) OF | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Admin expenses | (1824) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Distribution costs | (1044) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | 2868 (2) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Net Profit | | 852 (2) OF | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Question number | Answer | Mark |
|-----------------|---|------|
| 10 | <p>1 mark for each general use/purpose of budgeting (maximum 3).</p> <p>Possible answers: Helps financial planning and forecasting (1) will help control finances (1) and can be used to motivate people (1).</p> <p>1 mark for each example of planning, control or other budgeting feature related to given information (maximum 6).</p> <p>Possible answers: Planning and forecasting: eg, the purchase of new machines (capital expenditure budget) (1), the cost of marketing and advertising (marketing budget) (1), the cost of labour needed to make the product (production budget) (1).</p> <p>Control: eg, comparing the actual cost of raw materials with the budgeted cost (variance analysis) (1). If the variance is adverse, review reasons such as price/increased wastage/quality (1), take action to change supplier or improve staff efficiency (1).</p> <p>Motivation: employee involvement in setting budgets can motivate staff (1). Use variance analysis to set targets to further motivate employees (1), setting realistic targets to avoid demotivation of staff (1).</p> | 8 |

| Question number | Answer | Mark |
|-----------------|--|------|
| 11a | <p>1 mark for variable costs, 1 mark for contribution, 1 mark for formula, 1 mark for correct BEP.</p> <p>Variable costs = £51.00 (1) Contribution = £54.50 (1) $\text{£1300} / (\text{£105.50} - (\text{£25.00} + \text{£15.00} + \text{£11.00}))$ (1) BEP = 24 units. (1) OFR</p> | 4 |

| Question Number | Answer | Mark |
|-----------------|---|------|
| 11b | <p>1 mark for correct answer, 1 mark for an appropriate method.</p> <p>30 - 24 (1) = 6 units margin of safety (1) OF.</p> | 2 |

| Question number | Answer | Mark |
|-----------------|--|------|
| 11c | <p>1 marks for each appropriate limitation, 1 mark for explaining why.</p> <p>Possible answers:</p> <ul style="list-style-type: none"> ➤ Based on a single product (1). ➤ Decisions on costs may be arbitrary in a multi-product business (such as Hearthstone Ltd) (1). ➤ Assumes fixed costs will remain static (1) but in reality this is unlikely. ➤ Assumes unit variable costs do not change (1) but in practice they do change (1). ➤ Assumes selling price is constant across all sales (1) but selling price can fluctuate (1). ➤ Supply side analysis only (1) and ignores Hearthstone's ability to sell the product (1). ➤ Assumes number sold equals the number sold (1) but in reality there will be stock build up (1). | 4 |

| Question number | Answer | Mark | | | | | | | | |
|-----------------------------|--|------|------|-----------------------|-----|--|------|-----------------------------|-------|-------------------|
| 12 a | <p>Marks are available as follows:</p> <p>Trading profit margin 1 mark for the formula 1mark for the calculation</p> <table border="1" style="width: 100%;"> <tr> <td></td> <td>2009</td> </tr> <tr> <td>Trading profit Margin</td> <td>13%</td> </tr> </table> <p>Liquidity 1 mark for the formula 1mark for the calculation</p> <table border="1" style="width: 100%;"> <tr> <td></td> <td>2009</td> </tr> <tr> <td>Liquidity ratio (acid test)</td> <td>0.6:1</td> </tr> </table> | | 2009 | Trading profit Margin | 13% | | 2009 | Liquidity ratio (acid test) | 0.6:1 | <p>2</p> <p>2</p> |
| | 2009 | | | | | | | | | |
| Trading profit Margin | 13% | | | | | | | | | |
| | 2009 | | | | | | | | | |
| Liquidity ratio (acid test) | 0.6:1 | | | | | | | | | |

| | | |
|------|---|---|
| 12 b | <p>Profitability: analysis (accept OF points)</p> <ul style="list-style-type: none">➤ Reduction in NP margin suggests lower profitability (1).➤ The reduction could be due to strong competition but not passing on price increases (1).➤ Candidate may note that the GP margin has fallen by the same amount and attribute it to increased competition (1)➤ Candidate may suggest that the difference is due to increased administrative and selling costs (1).➤ The candidate might comment on industry standards and their relevance to this company (1). <p>Liquidity: analysis (accept OF points)</p> <ul style="list-style-type: none">➤ Current ratio has improved by 0.1 (1) and the acid test by the same amount (1).➤ Evidence that the liquidity position has improved (1) but it is below the text-book levels of 1:1 (1).➤ The candidate might comment on industry standards and their relevance to this company (1).➤ Candidate may explore the increase in inventory and the ability to sell their product (1). <p>Alternative answer to 12b Accept other relevant points not listed here.</p> <p>Liquidity: analysis (accept OF points)</p> <ul style="list-style-type: none">➤ Current ratio has increased by 0.1 (1) and the acid test has decreased by the same amount (1).➤ Evidence that the liquidity position has decreased (1) but it is below the text-book levels of 1:1 (1).➤ The candidate might comment on industry standards and their relevance to this company (1).➤ Candidate may explore the increase in inventory and the ability to sell their product (1). | 8 |
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