



**General Certificate of Education (A-level) Applied
June 2011**

Applied Business

BS15

**(Specification
8611/8613/8616/8617/8619)**

**Unit 15: Financial Accounting for Managers
(External Test)**

Mark Scheme

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 events which all examiners participate in and is the scheme which was used by them in this examination. The standardisation process 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 standardisation each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, examiners encounter unusual answers which have not been raised 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: 26 marks

1 (a) Explain **two** reasons why accurate financial records are important to a business. (4 marks)

One mark for identifying a valid reason:

- the accounts will be unreliable
- the records of the business will be incomplete.

Additional mark for development or consequence:

- the business won't be able to produce accounts for tax purposes
- will not have accounts on which to base decisions
- that credit accounts are not paid on time
- not have the records for potential investors / lenders.

Apply twice.

1 (b) (i) In producing the Sunnyvale Plants' accounts, Miranda used the straight line method of depreciation.
Calculate the amount of depreciation per year for a new van costing £10 000, which will be used for three years and then sold for £4 000. (3 marks)

Relevant answers might include the following:

Award three marks for correct answer: £2000

- straight line depreciation = (net purchase price – scrap value)/expected years of use (1 mark)
- in this case (£10 000 – £4000) = £6000 depreciation (1 mark)
- over three years (1 mark)

- 1 (b) (ii)** *Miranda would like to use a reducing balance method of depreciation at 25% for the van.*
- Explain the effects that this would have on the business's financial statements. Use calculations to support your answer. (7 marks)*

Level	Descriptor	Marks	Assessment Objective
3	Explains the effect the change in calculating depreciation has on the business' accounts.	7–6	AO2
2	Describes the effect the change in calculating depreciation has on the business' accounts.	5–4	
1	Demonstrates understanding of depreciation.	3–1	AO1

Relevant answers might include the following:

- changing the method of depreciation used will change the amount charged to depreciation in the accounts
- reducing balance method charges more in the early years of a machine's life than in later years
- the depreciation charge on the business is therefore higher in early years (but lower in later years), which both makes initial taxable profits lower and reduces fixed assets in the business faster, but is also a better reflection of how machinery falls in value in reality.

Students can use their own calculations to illustrate what this change may mean.

- 1 (c)** *Miranda has suggested two ways to address the cash flow problems at Sunnyvale Plants (lines 23 to 26).*
*Recommend which of these two ways you think Hannah should adopt **first**.*
*Use **Item A** to justify your recommendation.* (12 marks)

Level	Descriptor	Marks	Assessment Objective
3	Uses Item A to analyse the impact on cash flow.	5–4	AO3
2	Uses Item A to describe the effect on cash flow.	3–2	AO2
1	Demonstrates understanding of cash flow.	1	AO1

Relevant answers might include the following:

Reduce credit made available to business customers:

- reducing the credit given to business customers is a quick and easy way to reduce the amount of money which the business has, in effect, lent to its customers
- however, reducing trade credit may also lead to some customers reducing the amount which they buy from *Sunnyvale Plants*. This may mean that sales and profits fall, but may also lead to the business having more money invested in stock which is negative for its cash flow.

Develop new products to extend the season:

- developing new products to extend the season is a good long-term way to benefit the business's cash flow
- it will though take time to implement and so will not solve short-term cash flow concerns. In fact in the short term, it may make cash flow problems worse if it requires investment.

Decision:

- neither approach is ideal, and whereas it is tempting to reduce trade credit as this has the fastest impact, in the long term, the business is probably better to change its product range so that it can make a lasting impact on its cash flow problems.

See next page for Evaluation Grid.

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.

Judgement is being made on how effective the option(s) will be in helping cash flow issues.

To access Level 3, judgement must be made on which option should be used first.

Level	Descriptor	Marks	Assessment Objective
E3	Offers judgement with weighted justification. 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.	7–6	AO4 and Quality of written communication
E2	Offers judgement with supported justification. Ideas are communicated using a logical structure, with some appropriate technical terms. There are occasional errors in accepted conventions of written communication.	5–3	
E1	Offers limited judgement. 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	

2

Total for this question: 27 marks

- 2 (a)** Using **Figure 1**, calculate the following ratios for Sunnyvale Plants for **2011**.
- 2 (a) (i)** Current ratio (2 marks)
- 2 (a) (ii)** Net profit margin (3 marks)

(i) Current ratio

$$37\,000 / 27\,000 (1) = 1.15 (1)$$

2 marks for just stating the correct answer.

(ii) Net profit margin

$$(-11\,000 (1) \times 100) / 180\,000 (1) = -6.1\% (1)$$

3 marks for just stating the correct answer.

2 marks if not shown as a negative answer.

- 2 (b)** Using **Item B** and your answer to **Question 2(a)**, analyse the financial position of Sunnyvale Plants. (8 marks)

Level	Descriptor	Marks	Assessment Objectives
4	Analyses <i>Sunnyvale's</i> financial position.	8–7	AO3
3	Explains aspects of <i>Sunnyvale's</i> financial position.	6–5	
2	Describes <i>Sunnyvale's</i> financial position.	4–3	AO2
1	Identifies factors relating to a business's financial position.	2–1	AO1

Relevant answers might include the following:

- the current business is financially weak with static or declining sales, falling profits and a decline in shareholder funds
- sales have been falling but costs have not fallen as fast as the decline in sales leading to a big decline in profitability
- the profit margin has been falling and the business made a loss in 2010 and 2011
- the current ratio is falling (2.0 in 2009, 1.58 in 2010 and projected 1.15 in 2011) – this is a rapid deterioration and, if it continues, will lead to cash flow problems
- the fixed assets are falling in value as no investment is being made
- shareholders' funds are declining.

The business is not bankrupt, but its position is declining quickly and it requires decisive action to prevent major problems in the future.

2 (c) *Recommend to Hannah whether she should invest £120 000 in the new glasshouse or sell the business to Frank Smith. Use **Item B** to justify your answer.* (14 marks)

Level	Descriptor	Marks	Assessment Objectives
3	Uses Item B to analyse the impact of an option(s) on Hannah.	7–5	AO3
2	Uses Item B to describe an effect of an option(s) on Hannah.	4–2	AO2
1	Identifies factors relating to investing in or selling a business.	1	AO1

Relevant answers might include the following:

- the proposed investment is very large given the current status of the business and is therefore risky
- Hannah has also not run a business before and does not seem very sure of what to do
- Hannah's plans are currently quite sketchy and she needs far more detail on the financial impacts to make an informed decision
- the business does though have an established site with a regular repeat customer base, and if a successful expansion of facilities could be undertaken this could lead to significant growth and possibly profits
- selling the business for £140k looks like a good deal for a business which only has about £40k of shareholders' funds and has been making losses (although as with most businesses this is probably lower than the true value of all the assets)
- Hannah has to decide whether to take the money on offer or whether to go for longer term and more risky profits which might come from re-investing in the business.

See next page for Evaluation Grid.

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.

Judgement is being made on the significance of the benefits to Hannah of the option(s).

Level	Descriptor	Marks	Assessment Objective
E3	Offers judgement with weighted justification. 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.	7–6	AO4 and Quality of written communication
E2	Offers judgement with supported justification. Ideas are communicated using a logical structure, with some appropriate technical terms. There are occasional errors in accepted conventions of written communication.	5–3	
E1	Offers limited judgement. 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: 27 marks

- 3 (a)** Explain the possible impact of using trade credit to purchase materials on:
- 3 (a) (i)** DB's cash flow (3 marks)
- 3 (a) (ii)** DB's costs. (3 marks)

(i) Cash flow

If DB delays paying for materials for two months with purchases of £45 000 per month, this will increase the available cash in the business by £90 000.

However, in the long term, this will offset because costs will increase and this extra cost will reduce available cash.

Showing understanding of trade credit. (1 mark)

Identifying it has a short-term and quick impact. (1 mark)

Identifying improvement on business cash flow. (1 mark)

(ii) Costs

Delaying payment means:

DB will lose the 5% discount for payment on delivery. (1 mark)

5% of £540 000 = £27 000 per year or £2250 per month in increased costs. (1 mark)

Impact of increased costs. (1 mark)

- 3 (b)** Using **Item C**, analyse why David is concerned about financing the building contract through the sale of assets. (7 marks)

Level	Descriptor	Marks	Assessment Objectives
4	Uses Item C to analyse the significance of selling assets.	7–6	AO3
3	Uses Item C to explain the effect of selling assets.	5–4	
2	Uses Item C to describe the effect of selling assets.	3–2	AO2
1	Identifies impacts of selling assets.	1	AO1

Relevant answers might include the following:

- selling assets would release funds to support the house building contract which is potentially quite lucrative
- current assets would rise after a sale which would increase funds to build the new houses
- sales of assets would reduce the security available to the business to fund future borrowing if the business needs to expand or fund developments
- fixed assets would be reduced
- whilst the short-term benefits of selling assets are attractive it has some negative long-term impacts on the business.

3 (c)	<p><i>Recommend which option you think DB should use to raise the money needed to build the houses:</i></p> <ul style="list-style-type: none"> • <i>sell some building plots for £100 000 each</i> <p>or</p> <ul style="list-style-type: none"> • <i>sell the office block.</i> <p><i>Use Item C to justify your answer.</i></p>	<i>(14 marks)</i>
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Level	Descriptor	Marks	Assessment Objectives
3	Uses Item C to analyse the suitability of method(s) of raising the required amount of money.	7–5	AO3
2	Uses Item C to describe the suitability of method(s) to raise money.	4–2	AO2
1	Identifies issue relating to raising money.	1	AO1

Relevant answers might include the following:

- selling the building plots would be a quick solution that would inject money back into the business and reduce its gearing
- the business could also choose to only sell as many plots as it needs to raise the £600 000 needed to build the new houses
- however, the sale of the plots means the future ability of the business to keep developing new houses would be severely constrained and this would affect the business's future
- selling the office block would release £1m into the business and more than pay for the costs of developing the new houses
- selling the office block would also not affect the number of plots owned and this means the business can continue to build other houses
- the downside of selling the office block is that it is producing £100k per annum of profits on £1m investment which is 10% and a good rate of return

There is no correct answer as to what *DB* should do as both options have short-term advantages but have a potentially negative impact on the business in the long term.

See next page for Evaluation Grid.

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.

Judgement is being made on which option *DB* should use to raise money.

Level	Descriptor	Marks	Assessment Objective
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E2	Offers judgement with supported justification. Ideas are communicated using a logical structure, with some appropriate technical terms. There are occasional errors in accepted conventions of written communication.	5–3	
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