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**General Certificate of Education
January 2011**

Applied Business **BS15**
Financial Accounting for Managers
Unit 15

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 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: 24 marks

1 (a)	<i>Explain why it is important for invoices to match the delivery notes issued by Chennell's Flowers Ltd.</i>	<i>(3 marks)</i>
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Level	Descriptor	Marks	Assessment Objective
2	Explains the importance of invoices matching the delivery note.	3–2	AO1
1	Demonstrates understanding of an invoice or delivery note.	1	

Relevant answers might include the following:

- a delivery note records the goods received, and once signed shows that the customer has accepted that the goods were received in good order
- an invoice details the goods delivered and prices to be paid for them
- in this case, because there is claimed to be a discrepancy between the details on the delivery note and the invoice, a dispute has resulted which has stopped payment being made.

1 (b)	<i>Explain how the accounting concept of prudence would apply to making provision for the money owed by HLP Bouquets.</i>	<i>(4 marks)</i>
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Level	Descriptor	Marks	Assessment Objective
2	Explains why it is prudent for <i>Chennell's Flowers Ltd</i> to make provision for bad debt in its accounts.	4–3	AO2
1	Demonstrates understanding of prudence and/or bad debts.	2–1	AO1

Relevant answers might include the following:

- prudence is an accounting principle which states that losses are provided for immediately within the accounts of a company
- in this case, the company has been told the debt will not be repaid, it is therefore sensible (prudent) to record this money as having been lost so that a realistic view of the company's financial position can be taken
- this will allow decisions about the company to be made based on a true picture of the company's position.

1 (c) Using **Item A**, explain the possible impact to Chennell's Flowers Ltd of not receiving the money owed by HLP Bouquets. (5 marks)

Level	Descriptor	Marks	Assessment Objective
3	Explains how the bad debt may impact on the future of the business.	5	AO2
2	Describes possible effect of bad debt on the business.	4–3	
1	Demonstrates understanding of bad debt.	2–1	AO1

Relevant answers might include the following:

- bad debt has to be paid out of profits in full because the costs have already been incurred
- the bad debt represents nearly 2/3 of the previous year's profits
- low profits created by the bad debt will restrict the ability of the business to invest, pay dividends to shareholders and grow
- bad debt will create a negative impact on the company's cash flow.

1 (d) *Should Chennell's Flowers Ltd concentrate on increasing sales to other customers rather than to Advent Trading Ltd? Use **Item A** to justify your answer. (12 marks)*

Level	Descriptor	Marks	Assessment Objective
3	Analyses the consequence(s) of focusing on either Advent Trading Ltd or other customers.	5	AO3
2	Explains effect(s) of focusing on either Advent Trading Ltd or other customers.	4–3	AO2
1	Identifies effect(s) of focusing on either Advent Trading Ltd or other customers.	2–1	AO1

Relevant answers might include the following:

- it is easy to work with an existing customer and as Advent Trading Ltd has always paid its bills it does not appear to be much of a risk despite the recent slowing in paying invoices
- in contrast, if Advent Trading Ltd did stop trading, the loss would be very high
- it is hard work to get new customers but it would help to spread the business risk and may be a more secure way to grow the business.

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.

Level	Descriptor	Marks	Assessment Objective
E3	Makes a reasoned judgement as to whether to focus on new customers rather than Advent Trading Ltd. 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	Judges whether to focus on new customers rather than Advent Trading Ltd. 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	Judges with limited evidence whether to focus on new customers rather than Advent Trading Ltd. 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: 29 marks

2 (a) Using **Item B**, complete the shaded boxes below to calculate Chennell's Flowers Ltd's projected profit if it goes ahead with the expansion by purchasing the new equipment. (8 marks)

Item	2011 projected profit with expansion (£)	
Turnover	4 600 000	
Cost of sales	3 450 000	
Gross profit		1 150 000 (1)
Expenses	940 000	
Depreciation of the new equipment	50 000 (3)	
Interest on the bank loan	15 000 (2)	
Total expenses		1 005 000 (1) OFR
Net profit before tax		145 000 (1) OFR

Depreciation (3 marks):

1 mark for selecting straight line depreciation, 1 mark for selecting right figures from item, 1 mark for correct calculation (OFR).

Interest on the bank loan (2 marks):

1 mark for selecting right figures from item, 1 mark for correct calculation.

2 (b) Chennell's Flowers Ltd will not have to make any capital repayments on the bank loan for the first year. Analyse the impact that this might have on its cash flow during the period of the loan. (7 marks)

Level	Descriptor	Marks	Assessment Objective
3	Analyses how the delayed repayments will affect Chennell's Flowers Ltd's cash flow.	7–5	AO3
2	Describes how the delayed repayments will affect Chennell's Flowers Ltd's cash flow.	4–2	AO2
1	Identifies the impact of loan repayments on cash flow.	1	AO1

Relevant answers might include the following:

- delaying capital repayments will help Tom's cash flow position during the first year of expansion
- Tom will, therefore, have more flexibility to provide working capital for the development
- the major risk is that once capital repayments do start in year two they will be higher and thus put more pressure on the business
- there is a risk that Tom will face a big increase in the amount of cash leaving his business in year two which he may find difficult to support
- if the payments prove too much for Tom in year two his options will be very limited because he will be committed to the new equipment and enlarged business.

2 (c) *Should Chennell's Flowers Ltd go ahead with the proposed expansion to secure the contract with the supermarket? Use **Item B**, and your answer to **Question 2(a)**, to justify your answer.* (14 marks)

Level	Descriptor	Marks	Assessment Objectives
3	Analyses possible effect(s) of expansion on <i>Chennell's Flowers Ltd</i>	7–6	AO3
2	Describes possible effect(s) of expansion on <i>Chennell's Flowers Ltd</i> .	5–2	AO2
1	Identifies an impact of business expansion.	1	AO1

Relevant answers might include the following:

- expansion is a significant step for Tom because the proposed growth will double the size of the business
- expansion will require Tom to significantly increase his borrowings which increases his risk substantially
- it is also quite risky to expand on the strength of one contract with one customer, if Tom lost this contract he would be faced with bigger costs and no market for much of his extra output
- expansion will however allow Tom to increase his profits - the projected profits are £60 000 per annum higher under the expansion scenario
- in the long term, Tom may be in a stronger position to reduce his overheads per unit of output, grow further or to win new contracts if he expands.

For **AO4**, you should award marks using the scheme below

Note that AO4 also assesses candidates' quality of written communications. 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	Assessment Objective
E3	Makes a reasoned judgement as to whether <i>Chennell's Flowers Ltd</i> should go ahead with the expansion. 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	Judges whether <i>Chennell's Flowers Ltd</i> should go ahead with the expansion. 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	Judges with limited evidence whether <i>Chennell's Flowers Ltd</i> should go ahead with the expansion. 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) Using Item C , analyse the performance of Avon Machinery Ltd during the three-year period from 2008–2010. (9 marks)

Level	Descriptor	Marks	Assessment Objective
4	Uses Item C to analyse the overall financial performance of the business.	9–8	AO3
3	Uses Item C to explain the aspect(s) of the financial performance of the business.	7–6	
2	Describes the financial performance of the business.	5–4	AO2
1	Demonstrates understanding of how financial performance is measured.	3–1	AO1

Relevant answers might include the following:

From the summary accounts the following key issues can be identified:

- turnover fell by approximately 40% when the recession arrived (but the wider car market fell by 50% so this is a good performance in the circumstances)
- turnover has since started to recover
- Jake embarked on a major cost cutting programme which he has continued even once sales began to increase again in 2010
- current assets have increased, this is probably because clients are taking longer to pay for goods delivered
- current liabilities increased during 2009, probably because the overdraft increased, but has since started to fall back
- the business had to take out a £1 million bank loan and this has substantially increased its long-term debt
- the onset of the recession hit shareholders funds very hard but these have since started to recover as the business moved back in profit.

This analysis suggests the business:

- was quite quick to react to the recession but as in most situations turnover fell faster than costs and this caused a short-term loss in 2009
- has made some sensible changes to the business in the situation but is still faced with very low profits for the size of the business and needs to do more to secure its future.

3 (b) Using **Item C**, explain the impact that selling the Cardiff Road site would have on Avon Machinery Ltd's assets and liabilities. (4 marks)

Level	Descriptor	Marks	Assessment Objectives
2	Explains the impact that selling the Cardiff Road site would have on assets and/or liabilities.	4–3	AO2
1	Demonstrates understanding of assets and/or liabilities.	2–1	AO1

Relevant answers might include the following:

- long-term liabilities would reduce if the bank loan was cleared
- there would also be extra funds after paying the bank loan to either reduce current liabilities or increase current assets
- the fixed assets of the business would reduce.

3 (c) Using **Item C** and all the information available to you, make a recommendation to Jake on whether he should sell the Cardiff Road site. Justify your answer.
(14 marks)

Level	Descriptor	Marks	Assessment Objective
3	Analyses how the sale could affect the future of the business.	7–5	AO3
2	Describes how the sale could affect the business.	4–3	AO2
1	Identifies some advantages or disadvantages of selling fixed assets.	2–1	AO1

Relevant answers might include the following:

Selling the Cardiff Road site has both positives and negatives:

- it will release capital which will allow the business to repay the bank loan early and improve its short-term financial position, this:
 - reduces the pressure on the business until the automotive market returns to normal
 - but also gives more capacity to expand later into new markets as the company has money to invest in production
 - it can therefore be argued that the sale would increase flexibility.
- the item identifies that closing the site will save the business £200 000 per annum in operational costs which will:
 - help to enhance profits in the short term
 - it may also potentially make the business more straightforward to run as it would then all be on one site
- selling the property at the end of the recession may not realise the best price and selling in the short term may mean that the full value of the Cardiff Road site is not realised, which reduces the long-term capital value of the business
- if Jake sells the Cardiff Road site he may not have as much factory capacity to expand quickly if the car market recovers fully and he needs to expand production.

Analysis

- there is no correct answer and candidates must make a judgement based on the evidence in the item, arguing for or against the proposed sale in the advice they give to Jake.

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.

Level	Descriptor	Marks	Assessment Objective
E3	Makes a reasoned judgement as to whether a sale of the Cardiff Road site would benefit the business. 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	Judges whether a sale of the Cardiff Road site would benefit the business. 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	Judges with limited evidence whether a sale of the Cardiff Road site would benefit the business. 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	