



**General Certificate of Education (A-level) Applied
January 2012**

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: 25 marks

1 (a) Explain the purpose of a purchase order. (2 marks)

Relevant answers might include the following:

- a purchase order ensures that the supplier (hotel in this case) knows that the order from the customer (tour operator in this case) is official
- the hotel wants the tour operator to commit to the rooms it is booking so that the hotel knows how many rooms it has left to let to other people.

One mark for identifying a feature and additional mark for explanation

1 (b) Using **Item A**, explain **one** reason why Mike believes that *Great Embley Hotel* should concentrate on the tour operator bookings. (4 marks)

Level	Descriptor	Marks	Assessment Objective
2	Explains why Mike believes that <i>Great Embley Hotel</i> should concentrate on the tour operator market.	4–3	AO2
1	Identifies reason(s) for Mike wanting to concentrate on the tour operator market.	2–1	AO1

Possible reasons for concentrating on the tour operator market include:

- sales to this market have been increasing and they are now 86% of the hotel's business
- tour operators buy in bulk and keep returning, bringing in 20-50 people in each booking
- no need to carry out refurbishment.

1 (c) Using **Item A**, explain how focusing on the private guest market might affect the hotel's cash flow. (7 marks)

Level	Descriptor	Marks	Assessment Objective
3	Uses Item A to analyse the impact on cash flow.	7–6	AO3
2	Uses Item A to describe the effect on cash flow.	5–3	AO2
1	Demonstrates understanding of cash flow.	2–1	AO1

Relevant answers might include the following:

- the tour operators pay in full on average 10 days after their guests stay, whereas private guests pay on average 24 days before their stay at the hotel – this means it takes longer for the hotel to receive money for the rooms from the tour operators
- focusing on the private guest market may therefore allow cash income to be received sooner thus helping the cash flow
- private guests are charged more per room than tour operators so improving the cash flow
- however, as most of the business is based on tour operators, if focusing on the private guest market led to fewer tour operators using the hotel this would adversely affect income and thus cash flow
- if the hotel can gain more additional sales from private guests than it loses from tour operators cash flow should improve and this will make it easier for the hotel to finance its operations or growth.

1 (d) Do you agree with Mike’s view that Great Embley Hotel should continue to focus on the tour operator market? Use **Item A** and **Figure 1** to justify your answer. (12 marks)

Level	Descriptor	Marks	Assessment Objective
3	Analyses whether Mike is correct to focus on the tour operator market.	5–4	AO3
2	Explains whether Mike is correct to focus on the tour operator market.	3–2	AO2
1	Identifies some impacts of focusing on the tour operator market.	1	AO1

Relevant answers might include the following:

- the tour operator market is over 85% of their total sales and so without it the business would be in real trouble, but it could be argued that the business is too reliant on one market which may not be robust long term
- the tour operator market is growing whilst the number of private bookings has been falling suggesting that focusing on the private market would have been a mistake
- however, the tour operator market has lower profit margins and causes cash flow problems
- the business has to make a choice of which market to focus on, but the decision also has to make business sense in terms of being viable (profits) and feasible (cash flow).

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	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: 29 marks

2 (a) (i) Explain how a business decides over how many years it depreciates an asset. (2 marks)

Depreciation should be charged over the asset's useful life so that at the end of its useful life its value in the accounts is equal to its scrap value.

1 mark for identification of useful life and **1 mark** for development.

2 (a) (ii) Explain how Justine's decision to depreciate the fixtures and fittings for the lodges over 10 years, rather than 5 years, affects her forecasted profits. (4 marks)

Level	Descriptor	Marks	Assessment Objectives
2	Explains the effect of depreciation on profits.	4–2	AO2
1	Demonstrates understanding of depreciation.	1	AO1

Justine's decision will:

- reduce the amount of depreciation from £40 000 per annum to £20 000 per annum
- this will increase the profit she has estimated for the lodges by £20 000 – thus using the hotel's convention of 5 years the profit in 2014 would be £160 000 and not £180 000.

2 (b) Using **Item B**, analyse the possible financial benefits to Great Embley Hotel of investing in the lodges. (9 marks)

Level	Descriptor	Marks	Assessment Objectives
3	Analyses potential financial benefits for the hotel.	9–6	AO3
2	Explains potential financial benefits for the hotel.	5–3	AO2
1	Identifies some possible financial benefits.	2–1	AO1

Investing in the lodges will:

- increase turnover which will allow the hotel to grow
- increase sales to private guests who pay more and also pay earlier which may help cash flow
- increase profits (although may not be as much as Justine claims)
- increase the profit margin which makes the business more secure
- increase the assets and net worth of the hotel in the medium to long term.

2 (c) *To what extent do you agree that Justine’s figures are a realistic basis for making the investment in the lodges? Use **Item B** to justify your answer.*
(14 marks)

Level	Descriptor	Marks	Assessment Objectives
3	Uses Item B to analyse issues relating to the investment in the lodges.	7–5	AO3
2	Uses Item B to describe issues relating to the investment in the lodges.	4–2	AO2
1	Demonstrates understanding of the financial data.	1	AO1

Relevant answers might include the following:

- Justine has depreciated the fixtures and fittings over 10 years rather than 5 which will have the effect of increasing the forecasted profit
- if the tour operators reduce their number of bookings during 2013 on what basis does Justine think that the tour operators will return in 2014?
- will the new facilities increase the private guest market from the 2012 turnover figure?
- if the figures are based on the market research they should form a good basis for the forecasted figures
- the projected 2014 figures show an improved net profit margin and current ratio and so justify the proposed investment.

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 as to how accurate the financial data may be.

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: 26 marks

3 (a) *Explain why Sonia's accountant wanted her to record the use of electricity in her own house as a sale from Lower Hill Camping Ltd. (4 marks)*

Level	Descriptor	Marks	Assessment Objectives
3	Explains the impact that business entity has on how Sonia should record her private use of electricity.	4	AO3
2	Explain what is meant by the principle of business entity.	3–2	AO2
1	Identifies why there is a problem with including her own use of electricity as a cost saved.	1	AO1

Business entity means that only those items which relate to the business (and not Sonia's private house) should be recorded as business transactions because she is a separate legal entity from the limited company she runs.

If Sonia uses some of the power generated by the solar panels, she should pay the business for this energy and so it should be recorded as a sale.

3 (b) *Use **Item C** to calculate the annual return on each investment option. Show your calculations. (8 marks)*

Option A

Operating Profit

Correct Answer = 11 000 (3 marks)

For incorrect answers

Additional income = 23 000 (1)

Additional costs = 12 000 (1)

Operating profit = 23 000 – 12 000 = 11 000 (1)

ROCE

Correct Answer = 27.5% (3 marks)

For incorrect answers

Additional net profit = 23 000 – 12 000 (1)

Capital employed = 40 000 (1)

ROCE = (23 000 – 12 000) / 40 000 x 100 = 27.5%

Option B

Operating Profit

Correct Answer = 4 500 (5 marks)

For incorrect answers

Additional income / savings = 4 000 + 200 (1) + 600 (cost saving on campsite (1)) = 4 800 (1)

Additional costs = 300 (maintenance) (1)

Operating profit = 4 500 (1)

ROCE

Correct Answer = 11.25% (5 marks)

For incorrect answers

Additional net profit = 4 000 + 200 (1) + 600 (1) – 300 (1)

Capital employed = 40 000 (1)

ROCE = (4 000 + 200 (1) + 600 (1) – 300 (1)) / 40 000 (1) = 11.25%

3 (c) Which option do you think Sonia should invest in? Use **Item C** to justify your answer. (14 marks)

Level	Descriptor	Marks	Assessment Objectives
3	Uses Item C to analyse the impact of an option(s) on Sonia.	7–6	AO3
2	Uses Item C to describe an effect of an option(s) on Sonia.	5–3	AO2
1	Identifies some advantages or disadvantages of one or both options.	2–1	AO1

Relevant answers might include the following:

- investing in the solar panels would produce a profit of £4 500 before depreciation of the panels, 11.3% which is quite good if the solar panels last for many years
- investing in the extra pitches could increase profits by £11 000 per year before depreciation, assuming that Sonia can fill them all every week of the summer season
- the profit from the extra pitches is higher but also potentially more risky if she does not get the extra business
- Sonia would need to estimate the depreciation for each investment to produce more robust figures. She would need to look in detail at market research to determine whether the income figures for the extra pitches are as secure as she projects.

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 made on which option Sonia should invest in.

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	

