



**General Certificate of Education (A-level) Applied
January 2013**

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 students' 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 student's 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	Students demonstrate knowledge and understanding of the specified content and relevant business skills.
AO2 Application of knowledge, skills and understanding	Students apply knowledge and understanding of the specified content and relevant business skills.
AO3 Research and analysis	Students use appropriate methods in order to obtain and select information from a range of sources to analyse business problems.
AO4 Evaluation	Students evaluate evidence to reach reasoned judgements.
Quality of Written Communication	<p>The quality of written communication is assessed in all assessment units where students are required to produce extended written material. Students 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)	<i>Explain why FBH's customers, such as the Ministry of Defence, are sent a monthly statement of account.</i>	<i>(4 marks)</i>
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Level	Descriptor	Marks	Assessment Objective
2	Uses Item A to explain use of statement of account with customers.	4–3	AO2
1	Demonstrates generic understanding of statement of account.	2–1	AO1

Relevant answers might include the following:

- a monthly statement allows all transactions between two businesses to be collated to create a single monthly payment
- this can reduce administration costs and means only one transfer of funds is needed which can reduce bank costs and also makes cash flow planning easier
- the MoD's account would potentially have many transactions in the month but they would only want one financial transaction per month.

1 (b) Using **Item A**, analyse **two** ways in which the financial performance of *FBH* has improved since 2010. (8 marks)

Level	Descriptor	Marks	Assessment Objective
4	Analyses the significance of the improvement(s) in <i>FBH</i> 's financial performance since 2010.	8–7	AO3
3	Explains the improvement(s) in <i>FBH</i> 's financial performance since 2010.	6–5	AO2
2	Describes the financial performance of <i>FBH</i> since 2010.	4–3	
1	Demonstrates understanding of financial performance.	2–1	AO1

Relevant answers might include the following:

- the gearing ratio is improving which means proportionately less of the company's assets are borrowed which reduces the financial pressure on the business
- sales have grown which is a positive trend
- profits have grown from a loss to a profit with a good trend of increasing profits since 2010
- the business has managed to reduce the money tied up in stock which means there is more money to help run the business and this is also reflected in a reduction in current liabilities which suggests it has paid its suppliers faster
- *FBH* has reduced its long-term liabilities which is positive and the shareholders' funds have grown.

Overall, the company has improved its financial position since 2010, but profits as a % of sales are still fairly low which means a deterioration in trade could put the company back into problems. Debt levels have been reduced and the trends in assets and creditors is positive, but the company still owes a lot of money to the bank, its only long-term creditor, which is potentially dangerous.

1 (c) Do you think that the FBH Board should reduce borrowings **before** investing in new products? Use **Item A** to justify your answer. (14 marks)

Level	Descriptor	Marks	Assessment Objective
3	Uses Item A to analyse the possible links between borrowing and investing in new products.	7–6	AO3
2	Uses Item A to explain the financial effect(s) of borrowing or investing in new products on <i>FBH</i> .	5–3	AO2
1	Demonstrates generic understanding of how borrowing or new product development affects a business.	2–1	AO1

Relevant answers might include the following:

- high levels of borrowings are a burden as interest has to be paid and the debt has to be repaid
- investment in new products will normally increase short-term borrowing as the costs of development are incurred before sales are made
- it could be argued that the business has returned to profit with sales up, and with investment in new products to recognise the change in the market it can succeed. In this sense, the threats are manageable and the priority should be on investment in new products
- it could alternatively be argued that the levels of debt carried by the business are still substantial and this makes it very risky if there was another recession or if costs rose quickly. In this sense, the business is currently unstable and has to find ways to reduce its debt burden before it tries to invest in new products which may or may not succeed.

Students can argue for their point of view.

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

Note that AO4 also assesses students' quality of written communication. When deciding on the AO4 level to be awarded, consider the degree to which the student orders and communicates his/her ideas.

Judgement is being made on whether *FBH* should focus on reducing borrowings before investing in new products.

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)	<i>Explain why FBH would be likely to have a cash flow problem if it invested in the camping trailer market.</i>	<i>(4 marks)</i>
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Level	Descriptor	Marks	Assessment Objective
2	Explains possible impact of the investment on <i>FBH</i> cash flow.	4–3	AO2
1	Demonstrates generic understanding of how increased costs or seasonal sales may affect cash flow.	2–1	AO1

Relevant answers might include the following:

- the trailer market is very seasonal and this means *FBH* will hold a lot of stock at some stages in the year if it produces the trailers all year
- the stock will have incurred costs in manufacturing putting pressure on the cash flow
- the cost of investing in the new production line plus the very seasonal nature of the camping market will increase the cash flow pressure.

2 (b) Analyse why the FBH Board might be concerned by Sue's possible lack of prudence. You should use calculations to support your answer. (9 marks)

Level	Descriptor	Marks	Assessment Objective
3	Analyses the possible impact on <i>FBH</i> of Sue's assumptions being unrealistic.	9–7	AO3
2	Explains why Sue's assumptions might be unrealistic.	6–4	AO2
1	Demonstrates generic understanding of prudence in financial planning.	3–1	AO1

Relevant answers might include the following:

- Sue has gone for the highest level of sales and lowest costs and this may not be achievable in practice
- prudence means being cautious with the figures used so that sound decisions can be made based on realistic figures
- if actual costs are higher, as the Board thinks, this could reduce profits to £300 000 which is a return of under 9.4%, not the 16% Sue is predicting, and if the sales volumes are only 800 trailers (not the 1000 Sue has used) the profit falls to £400 000
- if both costs are higher and sales are lower, the profits are only £240 000 which is only 7.5% return and not the 16% Sue is predicting
- Sue has also not taken account of the cash flow costs of having 600 trailers in stock at the start of spring which, at a cost of £1 500 – £1 700 per trailer suggests that they need to find £900 000 – £1 020 000 of extra finance to hold this stock. This is much higher than the extra working capital requirement Sue has indicated in her business plan
- Sue has also not allowed for storage for the 600 trailers they have in stock which may also increase costs further
- the Board is afraid Sue's plan will expose the business to more risk and lower profits which may affect dividends or future investment
- the extra cash flow required will be difficult to achieve given the liquidity position of the company and could lead to problems financing the new trailers.

2 (c) Do you think that FBH should invest in the production of camping trailers?
Use **Item B** to justify your answer. (14 marks)

Level	Descriptor	Marks	Assessment Objective
3	Analyses the possible impact of investing in the new trailers on the financial performance of <i>FBH</i> .	7–5	AO3
2	Describes how investing in the new trailers might affect <i>FBH</i> .	4–2	AO2
1	Identifies a factor which any business might consider before investing.	1	AO1

Relevant answers might include the following:

- based on Sue's figures the return on capital appears to be good at 16% and the market also looks large enough in terms of units or turnover to be a significant addition to the company
- a new venture which could produce £0.5m per annum of additional profit is significant.
- however, the Board thinks Sue's figures are over optimistic as regards sales and how easy it will be to control costs
- at the more modest sales figures, the return on capital is much lower
- the new market requires a substantial capital investment and also needs substantial additional cash flow funding each winter/spring which the Board may be concerned at as they had concerns about indebtedness.

There is no correct answer; students can argue for or against the investment.

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

Note that AO4 also assesses students' quality of written communication. When deciding on the AO4 level to be awarded, consider the degree to which the student orders and communicates his/her ideas.

Judgement is being made on whether *FBH* should invest in making camping trailers.

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)	<i>Explain why an overdraft facility is important to TopLawns.</i>	<i>(4 marks)</i>
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Level	Descriptor	Marks	Assessment Objective
2	Explains why an overdraft is important to <i>TopLawns</i> .	4–3	AO2
1	Identifies reason(s) for having an overdraft.	2–1	AO1

Relevant answers might include the following:

- an overdraft is needed to pay for operational costs to ensure a business can meet its short-term debts and commitments
- because *TopLawns* supplies business customers, most customers will not pay for any work until afterwards but Wayne will still have to pay his costs
- using the overdraft up to pay for long-term assets, machines in this case, means Wayne cannot now meet his current liabilities.

3 (b)	<i>Using Figure 3, analyse <i>TopLawns</i>' liquidity position.</i>	<i>(9 marks)</i>
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Level	Descriptor	Marks	Assessment Objective
3	Analyses the liquidity problems <i>TopLawns</i> has.	9–7	AO3
2	Describes <i>TopLawns</i> ' liquidity position.	6–4	AO2
1	Identifies factor(s) affecting liquidity or demonstrates understanding of liquidity.	3–1	AO1

Relevant answers might include the following:

- *TopLawns* has a positive overall balance of assets which means Wayne can, in theory, cover all his liabilities if the business is liquidated so the business is solvent
- however, the business has a short-term funding problem because it cannot meet its current liabilities as they fall due
- his acid test ratio is well below the recommended level and thus shows very poor liquidity
- the debtors' figure is quite high which suggests customers are taking too long to pay their bills
- the next month may see the business run out of money because its expenses are higher than its expected receipts and the overdraft is already dangerously close to its limit
- Wayne has a business credit card bill he now cannot pay which will attract interest and which will have to be paid back – the interest rate on this borrowing is also likely to be very high.

3 (c) *The contract with the hotel is profitable but has caused liquidity problems for TopLawns. Do you think that Wayne should have taken the contract? Use **Item C** to justify your answer.* (14 marks)

Level	Descriptor	Marks	Assessment Objective
3	Analyses the possible impact of the contract on TopLawns' future financial position.	7–5	AO3
2	Describes the financial advantage(s) or disadvantage(s) of the contract.	4–2	AO2
1	Identifies a possible financial effect of expansion for any business.	1	AO1

Relevant answers might include the following:

- a profitable contract is useful as it can allow a company to expand and produce larger profits
- however, a company also has to be able to pay its bills and if it expands too fast this may not be possible
- Wayne could have made the expansion easier if he had secured longer term funding to help support the expansion, so it could be argued that the problem is not caused by the expansion but by the way in which Wayne decided to fund it
- the expansion was a very big move for the company because it would potentially double the turnover and increase costs. Wayne should therefore have taken longer to plan how this would affect his liquidity position.

See next page for Evaluation.

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

Note that AO4 also assesses students' quality of written communication. When deciding on the AO4 level to be awarded, consider the degree to which the student orders and communicates his/her ideas.

Judgement is being made on whether Wayne should have taken the new contract or not.

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	