



**General Certificate of Education**

**Applied Business 8616/8619**

**BS15      Financial Accounting for Managers**

**Mark Scheme**

*2008 examination - June series*

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 meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting 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 the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

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	<b>Assessment Objectives</b>
	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.
<b>Quality of Written Communication</b>	<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"> <li>• select and use a form and style of writing appropriate to purpose and complex subject matter</li> <li>• organise relevant information clearly and coherently, using specialist vocabulary when appropriate</li> <li>• ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear.</li> </ul> <p>The assessment of the quality of written communication is included in Assessment Objective 4.</p>

**1****Total for this question: 15 marks**

(a) Using **Item A**, calculate the correct value of the invoice that Top Tapas Ltd should have sent to Taste of the Mediterranean for the meals ordered on 5 February 2008. (3 marks)

$\text{£}480 - \text{£}24 = \text{£}456$  (1)  
 $\text{£}456 \times 17.5\% = \text{£}79.80$  (1)  
 $\text{£}456 + \text{£}79.8 = \text{£}535.80$  (1)

(b) Explain how incorrectly completed invoices could cause a delay in Top Tapas Ltd receiving payment from customers. (3 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate fully explains reason for the delay.	3	AO2
2	Candidate partially explains reason for the delay.	2	AO1
1	Candidate states reason for the delay.	1	

**Relevant answers might include the following:**

- time taken to sort out disputes
- customers will not pay an incorrect invoice
- invoice will be returned
- a new invoice will need to be raised and the stated credit terms will still be the same (for example 30 days).

(c) *Maria now ensures that invoices are correctly completed. Identify and explain **one** suitable action that Top Tapas Ltd could take to ensure that customers pay their invoices promptly.* (6 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate explains suitability of action.	4–6	AO3
2	Candidate explains action.	2–3	AO2
1	Candidate states action.	1	AO1

**Relevant answers might include the following:**

**Suitable arguments likely to centre on cash discounts or improved credit control.**

**Action in context might include:**

- cash discounts. *Top Tapas Ltd* sells a premium/expensive product so customers might be prepared to buy more as well as settle earlier with a discount
- charging interest on overdue accounts. Customers would still buy on credit which will improve *Top Tapas Ltd's* sales but there will be a disincentive for late payment
- credit checks of customers before allowing trade credit or limiting the amount of credit given would be a sensible precaution. Prevention is better than cure
- analysis of debtors. Aged debtors. Computer software could help with this identifying how long individual debtors are taking to pay would allow prompt action to be taken for example, sending out reminder letters automatically. Appropriate for *Top Tapas Ltd* as it still allows custom to be attracted by allowing trade discount but minimising late payments.

**Less suitable:**

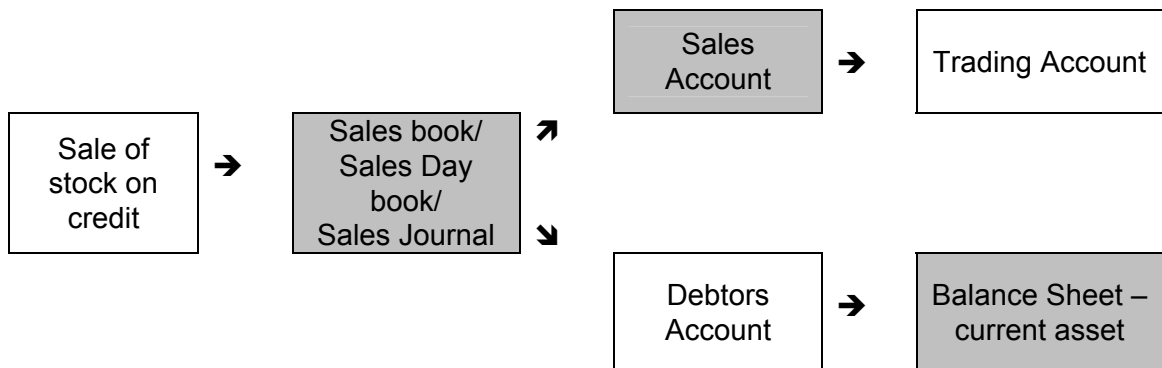
- allow a shorter credit period. Less suitable as it discourages sales. Customers may use other suppliers who allow longer period of credit
- do not sell on credit. Less suitable as it discourages sales. Customers may use other suppliers who allow credit.

- (d) The flow chart below shows how a recent transaction at Top Tapas Ltd would have been recorded in the business's accounting system.

Complete the flow chart for the situation set out below by filling in the shaded boxes with the correct information. (3 marks)

Transaction	Book of Original Entry	Ledger Account involved	Where the Account appears in Final Accounts
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(i)



(3 marks)

2

Total for this question: 35 marks

(a) Using **Item B**, complete the shaded boxes in the manufacturing account below. (9 marks)

**Top Tapas Ltd**  
**Manufacturing account**  
**for the year ended 31 May 2008**

	£
Stock of raw materials at 1 June 2007	60 000
Add purchases of raw materials	520 000
	580 000
Less stock of raw materials at 31 May 2008	80 000
Cost of raw materials consumed	500 000(1)
Direct labour	140 000
<b>Prime Cost</b>	640 000(1) <b>OFR</b>
Factory power	100 000(2)
Factory insurance	22 000(2)
Depreciation of factory machinery	50 000(2)
Production cost of goods completed	812 000(1) <b>OFR</b>

(b) *After completing the final accounts it was discovered that the purchase of factory machinery of £10 000 had not been recorded in the accounts of Top Tapas Ltd.*

(i) *Identify what type of error has been made and explain why this error would **not** be revealed by a trial balance.* (3 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate fully explains error.	3	AO2
2	Candidate partially explains error.	2	
1	Candidate identifies error.	1	AO1

**Relevant answers might include the following:**

**Error of Omission:**

- no debit and credit entries have been made. Entries should have been made in the factory machinery account and the cash book or creditors account.

(ii) *Explain why making this error would be of concern to Maria and José.* (3 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate fully explains consequence.	3	AO3
2	Candidate partially explains consequence.	2	AO2
1	Candidate states consequence of error.	1	AO1

**Relevant answers might include the following:**

- the production cost is lower than it should be, therefore the profit will be reported higher than it should be. Managers may make incorrect decisions as a result
- assets and depreciation will be lower than they should be
- if bought on credit there may be issues with the supplier of the business
- there will be a cost to rectifying the error.



(c) Using **Item B**, and question **2(a)**, analyse the possible impact of a fall in the value of the Pound against the Euro in 2008, on the financial performance of *Top Tapas Ltd*.  
(8 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate evaluates impact(s).	6–8	AO3
2	Candidate analyses impact(s).	3–5	AO2
1	Candidate states impact(s).	1–2	AO1

**Relevant answers might include the following:**

- the cost of production will rise, but it could fall in the future. What is likely to happen in the long term?
- effect on profit of increased costs. Can *Top Tapas Ltd* pass the cost onto customers?
- Competition?
- *Top Tapas Ltd* is very vulnerable to changes in the exchange rate as the highest proportion of its costs is in the cost of its ingredients
- candidates could use the manufacturing account to attempt to quantify changes
- the chilled meals *Top Tapas Ltd* sell are a premium product. Less likely to suffer from price fluctuations.

(d) Using **Item B**, discuss whether *Top Tapas Ltd* should make provision for bad or doubtful debts of 10%. You should use accounting concepts to justify your answer. (12 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate uses <b>Item B</b> to analyse a reason to agree/disagree with creating a provision for bad and doubtful debts.	3–5	AO3
2	Candidate uses <b>Item B</b> to explain a reason to agree/disagree with creating a provision for bad and doubtful debts.	2	AO2
1	Candidate identifies a reason to agree/disagree with creating a provision for bad and doubtful debts.	1	AO1

**Relevant answers might include the following:**

**For having a provision:**

- the business is facing a problem with business closures, it is likely that existing customers may be having difficulties and that they owe money to *Top Tapas Ltd*. If the economy is in recession this situation could get worse so it would be prudent to have provision for bad debts
- could use accruals concept to agree with the need for a provision. The provision would put the expense in the correct year
- would make the final accounts more realistic
- not providing for bad debts would be window dressing.

**For the rate of 10% provision:**

- if the economy is in recession the rate will need to be significant
- as closures are running at 10% it would be sensible for the rate of provision to be 10%
- it would be more prudent to opt for 10% than a lower figure.

**Against the rate of 10% provision:**

- a rate of 10% may be too low; if closures are running at 10% and there is a recession should it not be higher?
- the rate of 10% could be too high; if there are new restaurants starting up profits will not be affected in the long run
- if *Top Tapas Ltd* gets its credit control right then the effect should be less than 10%
- if 10% is used it will reduce profit more than a lower rate, making the business less attractive to investors, possibly unfairly.

In addition (and separately) award marks for evaluation using the grid below.

**Note:** 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
3	Evaluates, using accounting concept(s), reason(s) for/against provision for bad and doubtful debts. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in conventions of written communication.	6–7	AO4 and Quality of written communication
2	Judges, with some use of accounting concept(s), reason(s) for/against provision for bad and doubtful debts. Ideas are communicated in a logical structure with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	3–5	
1	Judges, using limited evidence, possible reason(s) for/against provision for bad and doubtful debts. Ideas are communicated with some structure evident with occasional use of appropriate technical terms. There are some errors in accepted conventions of written communication.	1–2	

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**3****Total for this question: 30 marks**

(a) Complete La Tasca Group plc's balance sheet by filling in the missing figures. (4 marks)

**La Tasca Group plc**  
**Extracts from the Balance Sheet for April 2006 and 2005**

	<b>2006 £000s</b>	<b>2005 £000s</b>
Fixed assets	51 266	43 726
Current assets		
Stock	758	536
Debtors	3 117	2 300
Cash	277	2 420
<b>Total current assets</b>	4 152	5 256
Current liabilities	(12 405)	(8 931)
Net current liabilities (working capital)	(8 253)	(3 675)
<b>Total assets less current liabilities (net assets)</b>	43 013	40 051
Creditors; amounts falling due after more than one year (long-term liabilities)	(16 472)	(16 973)
Provisions for liabilities	(2 045)	(1 500)
Net assets	24 496	21 578
<b>Capital and reserves</b>		
Called up share capital	2 454	2 454
Share premium account	17 829	17 766
Capital redemption reserve	589	589
Profit and loss account	3 624	769
<b>Capital employed</b>	24 496	21 578

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(b) *Using **Item C**, discuss whether accounting ratios provide sufficient information for the Directors of La Tasca Group plc to make decisions regarding the expansion of the business.* (12 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate uses <b>Item C</b> to analyse sufficiency of accounting ratios.	3–5	AO3
2	Candidate uses <b>Item C</b> to explain importance / unimportance of ratios.	2	AO2
1	Candidate describes purpose / limitations of ratios in general.	1	AO1

**Relevant answers might include the following:**

**In favour of using only accounting ratios that have been calculated:**

**Accounting ratios allow:**

- analysis of relative performance between different years
- comparisons with other businesses
- benchmarking of profit
- provide measures of solvency
- accepted business measurements.

**Against using only accounting ratios:**

- there is no information provided on competitors (either actual or ratios)
- ratios do not show size of the market (market research information can provide this. Could use statistics from **Item C**)
- ratios do not take into account the prevailing economic conditions. Could mention current economic climate
- accounting ratios are based on the past not the future
- do not indicate morals / values / objectives of organisation
- do not show the ability of staff.

In addition (and separately) award marks for evaluation using the grid below.

**Note:** 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
3	Evaluates, with reference to accounting ratios, the sufficiency of information. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in conventions of written communication.	6–7	AO4 and Quality of written communication
2	Judges, with some reference to accounting ratios, the sufficiency of information. Ideas are communicated in a logical structure with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	3–5	
1	Judges, using limited evidence, possible reason(s). Ideas are communicated with some structure evident with occasional use of appropriate technical terms. There are some errors in accepted conventions of written communication.	1–2	

(c) *The Chief Executive of La Tasca Group plc has commented that it has been another good year for the company.*

*Using the information on pages 12 and 13, decide whether or not you agree with his view.  
You should justify your decision. (14 marks)*

Level	Descriptor	Marks	Assessment Objective
3	Candidate analyses significance of information.	5–7	AO3
2	Candidate explains meaning of information.	3–4	AO2
1	Candidate identifies relevant point(s).	1–2	AO1

**NB:** If candidate only discusses **one side** of the question, **award maximum Level 2.**

**Relevant answers might include the following:**

#### **Solvency**

- the current ratio and acid test ratios are both well below the recommended levels and are considerably worse than 2005
- the gearing ratio has reduced meaning that the business whilst highly geared is less highly geared than 2005
- current liabilities have increased greatly. Cash has decreased.

#### **Profitability**

- all ratios have increased indicating that the business is more profitable
- if the business is growing with the associated costs, the ratios suggest that *La Tasca Group* could be doing well
- ROCE is higher in 2006 and higher than bank rates.

#### **Efficiency**

- debt collection period has decreased slightly but within recommended guidelines
- asset turnover has reduced slightly.



In addition (and separately) award marks for evaluation using the grid below.

**Note:** 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
3	Candidate offers judgement, with full justification, using the information available. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in conventions of written communication.	6–7	AO4 and Quality of written communication
2	Candidate offers judgement and limited justification from the information available. Ideas are communicated in a logical structure with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	3–5	
1	Candidate offers underdeveloped judgement from the information available. Ideas are communicated with some structure evident with occasional use of appropriate technical terms. There are some errors in accepted conventions of written communication.	1–2	