

---

A-LEVEL

# Applied Business

BS15 Financial Accounting for Managers  
Mark scheme

---

8610  
June 2015

---

Version 1.0 Final

---

---

Mark schemes are prepared by the Lead Assessment Writer 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 associates 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 associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Assessment Writer.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Further copies of this mark scheme are available from [aqa.org.uk](http://aqa.org.uk)

	<b>Assessment Objectives</b>
	The Assessment Objectives represent those qualities which can be demonstrated in students' 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.
<b>Quality of Written Communication</b>	<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"> <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 <b>Assessment Objective 4</b>.</p>

---

**1****Total for this question: 25 marks**

**1**      *Sustawrap Ltd has received a cheque in payment from one of its customers.*

**(a) (i)**   *State the book of original entry where this transaction will be recorded.*

**[1 mark]**

**(a) (ii)**   *Name the two ledger accounts that will be involved in recording this transaction.*

**[2 marks]**

- (a) (i)**   The book of original entry is:
- the cash book/cash

Award **one mark** for a correct answer.

- (a) (ii)**   The two ledger accounts are:
- bank/bank account/cheque account/cash book/cash
  - debtor/trade receivables/customer's account

Award **one mark** for each correct answer.

Marker's note: international accounting terms are acceptable throughout this paper.

**1 (b)** Using **Item A**, explain why the trial balance did not identify the accounting errors in the first draft of the 2014 final accounts.

**[7 marks]**

Level	Descriptor	Marks	Assessment Objective
4	Uses <b>Item A</b> to explain why error(s) that occurred at Sustawrap Ltd were not identified by the trial balance.	7–6	3
3	Uses <b>Item A</b> to describe relevant error(s) committed by Sustawrap Ltd in compiling accounts.	5–3	2
2	Describes weaknesses of/causes of error(s) in the trial balance.	2	1
1	Demonstrates knowledge of trial balance/errors	1	

**Relevant answers might include the following:**

**Knowledge and application:**

- the trial balance is a summary of all the individual accounts in the ledgers
- the trial balance acts as an arithmetic check on the accuracy of the double-entry bookkeeping system
- the trial balance will not identify errors of commission, omission, principle, compensating errors, original entry or errors of reversal
- the finance department had failed to record information relating to payment received from a customer of £37 500
- data input error reading a purchase invoice as £67 000 rather than £6 700
- the errors in Sustawrap Ltd's accounts were errors of omission and errors of original entry.

**Analysis:**

- the trial balance did not identify the failure to record the payment of £37 500 because no evidence of it appears in the accounts as a credit or a debit item. Therefore there is not an imbalance between the debit and credit sides of the trial balance
- the error in recording a purchase of £6 700 as £67 000 would not be revealed by the trial balance because the incorrect figure would be entered in the correct ledger accounts (purchases and creditors) and the two figures would balance and have no impact on the trial balance.
- NB: To award 5 marks in L3, candidates must have described both errors.

- 1 (c)** Sam believes that the most important reason for preparing accurate financial statements is to show Sustawrap Ltd's profits. Do you agree with her?  
Use **Item A** to justify your view.

**[15 marks]**

Level	Descriptor	Marks	Assessment Objective
3	Analyses importance of accurate financial statements to Sustawrap Ltd's profits/ability using <b>Item A</b> .	8–7	3
2	Uses <b>Item A</b> to explain the implications for Sustawrap Ltd's profits/ability to pay debts of inaccurate financial statements. (1 aspect only = 3 to 4 marks)	6–3	2
1	Demonstrates knowledge of financial statements/profits.	2–1	1

**Relevant answers might include the following:**

**Knowledge and application:**

- the balance sheet and the trading and profit and loss accounts are key financial statements for a business
- profits measure the surplus of a business's revenues over its expenditure over a specific period of time
- if a business has less cash than it believes it has, it may not be able to make payments to suppliers on time
- businesses need to know the level of profits they are earning to allow managers to make important decisions and for shareholders/owners to assess the business's performance
- Sustawrap Ltd has a major bank loan which requires regular repayments
- Sustawrap Ltd hopes to undertake a major expansion in the future and will require share capital to achieve this
- the errors on the financial statements would have resulted in Sustawrap Ltd's profits being understated
- Sustawrap Ltd's profitability has declined in recent years.

**Analysis:**

- if it is to raise funds through share capital to fund its planned expansion it is vital to present its financial position, and especially its profits, accurately. Shareholders are more likely to invest if they can see the company is profitable and accurate data is essential to allow them to assess this
- Sustawrap Ltd's management team will be making a decision regarding expansion in the future. It is essential that the team can assess the company's profits as part of its decision as to whether and how the company can raise the funds needed to go ahead
- the company's profitability has declined in recent years and understating its profits in this way may worry its stakeholders, including the bank to whom it owes the balance of £2.75 million
- the bank will be concerned about the company's ability to repay its loan as it falls due. Therefore it is important that the company's financial statements also reflect its true cash position to allow the bank to judge this accurately
- there have been unnecessary delays in paying invoices from some suppliers because the company thought it had less cash than it actually did. This has incurred extra charges and may result in less favourable credit terms in the future

- as a limited company, Sustawrap Ltd has a legal obligation to produce true and fair financial records to protect its stakeholders' interests. Failure to do this could result in a loss of confidence amongst some of the company's key stakeholders such as creditors and investors / legal action as regards non-compliance.

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.

A judgement is being made as to whether or not the most important reason for wanting accurate financial statements is to assess the company's profits. Students may judge this against other factors, most likely assessing the company's ability to settle its debts.

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.	7–5	4
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.	4–3	
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	

#### Points for Evaluation:

- Sam is correct (at least from her point of view) because profitability is a key issue for this company at the moment. Unless it can provide accurate data and show its actual profits, it will find it difficult to raise funds for expansion
- paying suppliers promptly is important for this business, especially with plans to expand and to order more supplies in the future. Having accurate data on the company's cash position can be reassuring for managers, creditors and suppliers
- inaccurate financial statements may worry key stakeholder groups in terms of the company's ability to manage its financial affairs whether it is cash or profitability. In this case, stakeholders may worry about both and it is impossible to make a decision
- financial statements do more than just show profits, they offer a range of financial information which assist stakeholders in assessing a business's performance.

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

**2 (a)** Calculate Sustawrap Ltd's gross and net profit margins for the 2014 financial year.  
**[5 marks]**

**(a) (i) Gross profit margin correct answer: 33.19% (3 marks)**

Gross profit margin is the percentage of sales revenue which is gross profit.

The formula is  $\frac{\text{Gross profit}}{\text{Sales revenue}} \times 100$

Gross profit = £23.41m - £15.64m = £7.77m

GPM =  $\frac{£7.77m}{£23.41m} \times 100$  (1 mark for assembling data correctly) = **33.19%** Also accept: 33%, 34%, 33.1%, 33.2%

Award one mark for each of the following:

- calculating gross profit correctly
- assembling the data correctly into the formula
- calculating the correct answer (NB OFR on basis of gross profit figure), which must be a percentage.

Award a single mark to students who define gross profit margin or who state the correct formula for gross profit margin.

**(a) (ii) Net profit margin correct answer: 9.35% (2 marks)**

Net profit margin is the percentage of sales revenue which is net profit.

The formula is  $\frac{\text{Net profit}}{\text{Sales revenue}} \times 100$

NPM =  $\frac{£2.19m}{£23.41m} \times 100$  = **9.35%** Also accept: 9%, 10%, 9.3%, 9.4%

Award one mark for each of the following:

- assembling the data correctly into the formula
- calculating the correct answer, which must be expressed as a percentage.

Award a single mark to students who define net profit margin or who state the correct formula for net profit margin.



**2 (b)** Using **Item B**, analyse why it is important for Sustawrap Ltd to depreciate its fixed assets consistently and prudently.

**[10 marks]**

Level	Descriptor	Marks	Assessment Objective
3	Uses <b>Item B</b> to analyse importance of accurate depreciation for Sustawrap Ltd.	10–8	3
2	Uses <b>Item B</b> to explain reasons for Sustawrap Ltd depreciating its fixed assets.	7–4	2
1	Demonstrates knowledge of depreciation/fixed assets.	3–1	1

**Relevant answers might include the following:**

**Knowledge and application:**

- fixed assets are those assets that are retained within a business for a period of more than 1 year and are used repeatedly
- depreciation is a method of allocating the cost of a fixed asset to the accounting periods in which it is used by the business
- charging the cost of an asset over its useful life provides a more accurate picture of a business's profitability over a period of time
- the accruals or matching accounting concept requires businesses to allocate costs to the period in which they were incurred
- Sustawrap Ltd invests heavily in fixed assets and depreciation is a significant sum for the company and the implications of an incorrect approach could be harmful
- the company's profitability has declined in recent years and it is important to provide a correct figure for depreciation as this is a part of the calculation of profits.

**Analysis:**

- the company's FD takes a prudent approach to depreciation and this may reassure stakeholders such as the company's suppliers. Any change in this approach without good justification may be seen as window dressing and create doubt as to the accuracy of the accounts and may make suppliers less willing to grant further trade credit, especially as accounting problems have already caused delays in payments.
- the company may find it difficult to attract further investment if it changes its depreciation policy without good reason and this may threaten Sam's ambitious expansion plans. Investors may doubt the accuracy of the business's accounts and be unwilling to take the risk of lending it money
- the company has always taken a prudent and consistent approach and this consistency will enable the managers to make effective comparisons about the performance of the business over time. This will help them to assess the impact of past decisions, such as investing heavily in technology, and to make good decisions in the future.
- NB: In L1 award max 2 for one idea.  
In L2, candidates must explain in terms of consistency and prudence for 6-7 marks.  
In L3, award 10 only if consistency and prudence analysed.

**2 (c)** *Do you think that Sam's decision to increase prices by 10% to improve Sustawrap Ltd's profitability is a good idea? Use **Item B** to justify your view.* **[15 marks]**

Level	Descriptor	Marks	Assessment Objective
3	Uses <b>Item B</b> to analyse the effects on Sustawrap Ltd's profits/profitability.	8–7	3
2	Uses <b>Item B</b> to describe likely effects on Sustawrap Ltd's profits/profitability. (3-4 for profits, 5-6 for profitability).	6–3	2
1	Demonstrates knowledge of profitability/effects of price increases.	2–1	1

**Relevant answers might include the following:**

**Knowledge and application:**

- a price increase is likely to reduce the volume of sales achieved by a business
- profitability measures the profits achieved by a business in relation to some other measure, for example sales revenue
- the effect on profits will depend on how many sales are lost in relation to the price increase
- Sustawrap Ltd's products are distinctive and the price increase may not harm sales too much
- a 10% rise in prices is significant and may harm the company's sales if large numbers of customers go elsewhere
- a competitor is introducing a line of environmentally-friendly packaging which may lead to a heavy loss of sales, reducing profits
- there is some evidence that Sustawrap Ltd's customers have their own financial problems and a price rise may persuade them to stop buying environmentally-friendly packaging products
- the company's raw material costs are rising meaning that, without a price rise, profits will fall.

**Analysis:**

- the price rise will be likely to increase Sustawrap Ltd's profitability so long as its costs rise by a lower figure than 10%. However, it may not increase the company's profits if it provokes a large decline in sales
- the company's profits are rising, even though its net profit margin is declining. It may have been better to seek to reduce the company's expenses, perhaps by reviewing its method of depreciation for future purchases of fixed assets, rather than risking customer loyalty by increasing prices substantially
- the entry of a large competitor into this niche of the packaging market could pose a significant threat as it may have the resources to offer similar products at what could be much lower prices, at least in the short term, hitting Sustawrap Ltd's sales badly
- the company's products are distinctive, at least at the moment, and this may mean that sales are not highly sensitive to price changes. Thus, the price rise might increase profits as well as profitability
- for some struggling customers, such a large price increase may drive them away from using environmentally-friendly packaging. The loss of one or more of the company's customers (it only has 110) would have a considerable effect on its sales resulting in a significant reduction in profits
- the company has plans to make a major investment in the near future and an increase in profitability may make it more attractive to potential investors as they would recognise its increased ability to repay debts or to pay dividends.

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.

A judgement is being made as to whether or not the 10% price rise is a good idea for this business.

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.	7–5	4
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.	4–3	
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	

#### Points for Evaluation:

- a key issue in making this decision is the likely reaction of Sustawrap Ltd's customers to this increase and this may depend heavily on the decision to be made by the large competitor. A large price rise will make this niche market more attractive and this suggests it is not a good idea
- Sustawrap Ltd is an established seller of environmentally-friendly packaging products, has declining profitability and faces rising costs. It has to raise prices and maybe one large increase is better than several smaller ones, so this is a good idea
- the company sold its products at "competitive prices" before this price increase, so the 10% price rise might not have such an impact on sales and profits and profitability may improve making it a good idea
- the decision on whether or not it is a good idea must depend on how sensitive sales are to price levels. This will determine the impact on the company's financial position; hopefully Sam will have completed some market research before making this major decision.

3

Total for this question: 25 marks

- 3 (a)** Using **Item C** and **Figure 2**, analyse the possible effects on Sustawrap Ltd of a decision to use loans to raise the £3.25 million needed for its expansion plan. You should use relevant calculations to support your answer.

[10 marks]

Level	Descriptor	Marks	Assessment Objective
3	Uses <b>Item C</b> to analyse the impact of using loans.	10–7	3
2	Uses <b>Item C</b> to explain relevant points or to carry through undeveloped, relevant calculations.	6–3	2
1	Demonstrates knowledge of share and loan capital or relevant financial ratios.	2–1	1

**Relevant answers might include the following:**

**Knowledge and application:**

- loan capital is finance used in a business that has been borrowed from external sources such as banks
- share capital is raised by selling a part of the ownership of a limited company to investors known as shareholders
- using loan capital would commit the company to regular interest payments, whereas using share capital would not
- gearing is the percentage of capital employed that is financed by long-term borrowing
- ROCE measures net profit as a percentage of capital employed
- Sam owns 60% of the shares currently and controls the company - raising capital through loans would not affect her control of the business
- Sustawrap Ltd's gearing has risen from 44.03% to 44.67%
- the return on capital has risen slightly from 24.68% to 25.09%
- Sustawrap Ltd already has one large loan with its bank (£2.75 million) and will already be making substantial interest payments
- the company may face difficulties arranging a further loan with its bank as its profitability has fallen slightly over the past 2 years.

**Analysis:**

- the company may discover that it is not able to arrange a further large loan. Its gearing ratio rose slightly in 2014, and is closer to 50% which would make further borrowing risky in case interest rates rise
- Sustawrap Ltd's gearing ratio would rise to 59.68% if it borrowed the full £3.25 million required to finance the expansion. It is unlikely that a bank would be willing to lend this amount in these circumstances because of the risk of defaulting on repayment, and this may prevent the expansion going ahead
- similarly, a decision to finance the expansion in this way may result in the bank refusing a loan because the company's return on capital has changed little, although its profits have risen
- the use of loan capital to finance the expansion would not result in Sam losing control of the company and she would be able to pursue her expansion plans unchallenged. She currently owns 60% of the £4.83 million - £2.898 million. If she sold shares (without buying any herself) her shareholding would fall to £2.898 million of £8.08 million or 35.87%. This would see her lose control of the company's future direction and is a strong positive outcome of a decision to use loan capital.

NB: In L2, candidates must explain two areas for 5-6 marks.  
In L3, candidates must analyse two areas for 9-10 marks.

**3 (b)** *Do you think that Sustawrap Ltd's board of directors should support Sam's expansion plan to supply the supermarket? Use **Item C** to justify your answer. You should use relevant calculations to support your answer.*

**[15 marks]**

Level	Descriptor	Marks	Assessment Objective
3	Uses <b>Item C</b> to analyse consequences of Sam's expansion plans. (1 analysis = 6-7, 2 = 8)	8–6	3
2	Uses <b>Item C</b> to explain possible implications of Sam's expansion plans. (1 explanation = 3-4, 2+ explanations = 5)	5–3	2
1	Demonstrates knowledge of relevant factors such as cost of finance.	2–1	1

**Relevant answers might include the following:**

**Knowledge and application:**

- the expansion plan would be worth supporting if the company can raise the finance successfully and relatively cheaply
- whether or not to go ahead with the expansion plan depends on whether it will increase the company's profits/profitability
- the supermarket is expanding and this should result in further sales for Sustawrap Ltd as it grows
- the supermarket's order is forecast to be worth £25 million over 3 years and to generate an additional £4.8 million in net profit over that period boosting Sustawrap Ltd's profits significantly at a time when they had been scarcely rising
- the initial contract with the supermarket is only for 3 years and could be risky - what happens after this?

**Analysis:**

- the net profit margin on this contract is 19.2% over the first 3 years, which greatly exceeds the 9.35% the company achieved in 2014. The size of this order, together with the high NPM would increase the company's profitability significantly removing some of Sam's financial worries
- the return on capital employed (ROCE) from this investment would be 49.2% per year over the 3 year term. In 2014, the company's overall ROCE was 25.09%. This investment appears to generate a very much better rate of return, which would be attractive to shareholders and will help to fund Sam's expansion plans
- the supermarket's ROCE figure has been rising steadily and this is forecast to continue. This may allow Sustawrap Ltd to increase its prices in the future increasing the level of return from this contract
- this large order requires Sustawrap Ltd to invest heavily in increasing its capacity, but the contract is only for 3 years. If the supermarket does not renew it, the company may face high costs from unused facilities and its financial performance could suffer

- the environmentally-friendly packaging market could become increasingly competitive and having a large contract such as this may help to protect Sustawrap Ltd's overall sales from the effects of one large competitor selling similar products
- it may be a struggle for Sustawrap Ltd to raise the £3.25 million required to fund this investment. It already has high borrowing levels and potential shareholders may be worried about the relatively short-term nature of the contract on offer
- there will be significant liquidity implications arising from agreeing this contract. The new facilities will have to be in place by January 2016, but the company will not start to earn any revenue from its investment until later. Given the size of the investment, this may create liquidity problems.

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.

A judgement is being made as to whether the board of directors should approve Sam's expansion plan to supply the supermarket.

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.	7–5	4
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.	4–3	
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	

#### Points for Evaluation:

- if Sustawrap Ltd can raise the capital, this is a potentially highly profitable investment and one which it should accept to address some of its financial weaknesses
- this is a huge investment for a company of this size, representing an increase in scale of nearly 40%. Is this a reasonable decision to take for a contract of just 3 years? The board of directors should insist on a 5 year contract
- if Sustawrap Ltd does not accept this contract, it is likely to go to another business, possibly its larger rival, giving it a strong foothold in this niche market.