

GCE

Business Studies

Unit **F294**: Accounting

Advanced GCE

Mark Scheme for June 2014

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All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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Annotations

Abbreviations, annotations and conventions that are used in this Mark Scheme vary from paper to paper. The following annotations are available for this paper.

Annotation	Meaning
BP	Blank Page – this annotation must be used on all blank pages within an answer booklet (structured or unstructured) and on each page of an additional object where there is no candidate response.
✓	Correct
x	Incorrect
?	Not sure what the candidate is trying to say or it does not make sense. It can also be used with a level descriptor when considering BOD
BOD	Benefit of doubt given
L1, L2, L3, L4	Levels of response awarded at this point
OFR	Own figure rule
TV	Too vague
NAQ	Not answered the question
NUT	Not used the context (generic)
REP	Repetition. The candidate has merely restated what has already been said and so no further credit given.
SEEN	The page has been seen. This can be used on pages where no other annotation is appropriate and MUST be placed on each blank page

Question	Answer			Mark	Guidance																																				
1			<table border="1"><tr><td></td><td></td><td></td></tr><tr><td>Revenue</td><td></td><td>41,200</td></tr><tr><td>Cost of sales</td><td></td><td>18,000</td></tr><tr><td>Gross Profit (Loss)</td><td></td><td>23,200</td></tr><tr><td></td><td></td><td></td></tr><tr><td>Motor vehicle insurance</td><td>500</td><td></td></tr><tr><td>Depreciation of motor vehicle</td><td>1,500</td><td></td></tr><tr><td>Motor vehicle maintenance</td><td>1,000</td><td></td></tr><tr><td>General overheads</td><td>1,000</td><td></td></tr><tr><td>Salary</td><td>25,000</td><td></td></tr><tr><td>Total overheads</td><td></td><td>29,000</td></tr><tr><td>Profit (Loss) before interest and taxation</td><td></td><td>(5,800)</td></tr></table>				Revenue		41,200	Cost of sales		18,000	Gross Profit (Loss)		23,200				Motor vehicle insurance	500		Depreciation of motor vehicle	1,500		Motor vehicle maintenance	1,000		General overheads	1,000		Salary	25,000		Total overheads		29,000	Profit (Loss) before interest and taxation		(5,800)	4	<p>Up to four marks An answer of (£5800) with no working gains full marks</p> <p>Award 3 marks if negative sign or bracket is missing from net profit/loss figure.</p> <p>OFR applies when marking the answer for gross profit and net profit/loss. Therefore, the maximum mark for OFR is 2 marks.</p>
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	<p>Sales revenue = 50weeks x 40 hours x £20.60=£41,200 (1) Cost of sales = 50weeks x 40 hours x £9.00 = £18,000 (1) Gross profit = Sales revenue – cost of sales = £23,200 (1) Net loss = Gross profit – Total overheads = (£5,800) (1)</p>																																								

Question	Answer	Mark	Guidance	Levels of response
2	<p>Break even = $\frac{\text{Total fixed costs}}{(\text{Unit selling price} - \text{unit variable cost})}$ In context: $\frac{\text{£29000}}{\text{£20.60} - \text{£9.00}} = 2,500$ hours per annum</p> <p>There is no margin of safety, using the context and table 2, Denise is only planning to work 40 hours per week for 50 weeks of the year. This equals 2,000 hours. In other words, she will be 500 hours below the Break-even level.</p> <p>The accuracy of the break-even should be questioned, e.g. how has Denise calculated the unit selling price and unit variable cost? A major variable cost will be fuel this is clearly an almost impossible cost to predict. Therefore the break even could be wildly inaccurate.</p> <p>However the largest figure forecast by Denise is her salary of £25,000. The break-even would be significantly reduced if she decided to decrease her level of salary.</p> <p>The break-even analysis would therefore be of use to Denise in terms of establishing what level of salary she could realistically take from the business.</p> <p>In addition it would be of use to Denise in terms of her establishing a pricing strategy. If she was unwilling to decrease her level of salary then she would have to raise the average unit selling price. The new hourly price would have to be £23.50</p>	13	<p>Bottom of Level 3 for correct answer and answer must be in hours.</p> <p>Default Level 3 for establishing the fact. (no margin of safety).</p> <p>Bottom of L4 for a well argued one sided answer which demonstrates evaluative skills</p> <p>Top of Level 4 for both sides of the argument which demonstrate evaluative skills.</p>	<p>Level 4: 13-9 marks Candidate demonstrates evaluative skills when considering whether break even analysis could have helped Denise in her decision to set up a driving school business</p> <p>Level 3: 8-6 marks Candidate demonstrates analytical skills when considering whether break even analysis could have helped Denise in her decision to set up a driving school business.</p> <p>Level 2: 5-3 marks Candidate demonstrates understanding of the use of break even analysis to make decisions whether a business should be set up or not. No context required.</p> <p>Level 1: 2-1 marks Candidate demonstrates only theoretical knowledge of the use of break even analysis to make decisions whether a business should be set up or not.</p> <p>Default marks</p> <p>L4 – 11 L3 – 7 L2 – 4 L1 – 2</p>

Question	Answer	Mark	Guidance	Levels of response
3	<p><u>Time</u> In the short term, would Denise have to take a significant amount of time coming to grips with the IT package? This might be critical at a time when she is looking to develop DRL's sales revenue. In the long term, the IT might save Denise considerable time and allow her to focus on generating revenue.</p> <p><u>Cost</u> Initial purchase cost of the accounting software, would it need to be a bespoke or an off-the-shelf package? What would be the training implications for Denise?</p> <p><u>Presentation</u> DRL's accounts will be presented in a clear, consistent and recognised format. This might be of use when presenting financial Information to key stakeholders, e.g. DRL's bank</p> <p><u>Meeting audit requirements and accuracy</u> In the early days of the business, IT should help Denise avoid basic accounting errors and ensure that DRL meets accounting conventions and rules. IT might also help to reduce the cost of auditing if DRL's accounts are well prepared.</p> <p><u>Management decision making</u> The IT package should enable Denise to conduct financial modeling e.g. cash flow forecasting break even analysis, budgeting, investment appraisal.</p>	6	<p>2 ways analysed = 6 marks 1 way analysed = 5 marks 2 ways understood = 4 marks 1 way understood = 3 marks 2 way stated = 2 marks 1 way stated = 1 mark</p>	<p>Level 3: 6-5 marks Candidate demonstrates analytical skills when considering one/two possible ways in which the application of information technology would impact on DRL's accounting function.</p> <p>Level 2: 4-3 marks Candidate demonstrates understanding of ways in which the application of information technology would impact on a business' accounting function. No context required.</p> <p>Level 1: 2-1 marks Candidate demonstrates only theoretical knowledge of information technology.</p> <p><u>Default marks</u> L3 – 6 L2 – 4 L1 – 2</p>

Question	Answer	Mark	Guidance	Levels of response
4	<p>The two methods of calculating depreciation which should be discussed are: straight line and declining balance methods.</p> <p>The simplicity of the straight line method is one of the key advantages to using this method. It also means that the impact on a business' level of profit is consistent. As Denise is inexperienced in terms of accounting, it might be a sensible approach to select the simplest depreciation method.</p> <p>Discussion of the declining method should include the issue of its complexity of calculation when compared to the straight line method.</p> <p>The context/purpose of the fixed asset is one of the deciding factors when selecting a method e.g. a fixed asset with a limited expected life because of the rate of technical obsolescence or where a fixed asset is heavily used in its first few years of use. The question is whether these factors apply to motor vehicles?</p> <p>The context and figures in the case study indicate that a straight line method of depreciation has been used by MSML (see Table 3). This might indicate that this is common practice for a driving school?</p> <p>DRL has depreciated its motor vehicle by £1500 (see table 1). As this is straight line, a change to a declining balance method would show a greater depreciation charge, this would have two impacts:</p> <ol style="list-style-type: none"> 1. the number of hours which Denise would have to work would increase. 2. the forecasted loss for DRL would be higher in it's first year of trading. <p>This change might have altered Denise's decision to set up DRL. Likewise the method employed by MSML might have a significant impact on the decision to purchase it and the price which Denise offers.</p>	13	<p>Top of Level 3 for both sides of the argument which demonstrate analytical skills.</p> <p>Top of Level 4 for both sides of the argument which demonstrate evaluative skills.</p>	<p>Level 4: 13-9 marks Candidate demonstrates evaluative skills when considering the methods of calculating the depreciation on DRL's motor vehicle.</p> <p>Level 3: 8-6 marks Candidate demonstrates analytical skills when considering the methods of calculating the depreciation on DRL's motor vehicle</p> <p>Level 2: 5-3 marks Candidate demonstrates understanding of the methods of depreciation. No context required.</p> <p>Level 1: 2-1 marks Candidate demonstrates only theoretical knowledge of methods of depreciation.</p> <p><u>Default marks</u></p> <p>L4 – 11 L3 – 7 L2 – 4 L1 – 2</p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
5		<p>The size of the company determines the complexity of reporting. DRL 's turnover, balance sheet value and number of employees means that it is classed as a small company. This simplifies the requirements. DRL would have to file abbreviated accounts with the Registrar. There is no requirement for DRL to have an AGM. There must be a director's report which discloses DRL'S transactions, e.g. loans from the company to them. Directors' remuneration should be included. A small company such as DRL must deliver to the Registrar</p> <ul style="list-style-type: none"> • copy of balance sheet • copy of the profit and loss account • copy of the directors' report-this might disclose transactions, e.g. loans from the company. <p>So a small company can manage to provide a limited amount of information. However, the key issue for Denise is that ensuring accounts are filed with the Registrar on time. Late filing is likely to lead to the company being 'struck off'.</p> <p>This could be a problem for Denise because of her workload and lack of financial experience.</p> <p>Appointing an auditor to file accounts would seem to be an appropriate solution but at an additional cost.</p>	6		<p>Level 3: 6-5 marks Candidate demonstrates analytical skills when considering why Denise should have an understanding of annual reports and disclosure requirements before making the decision to trade as a private limited company.</p> <p>Level 2: 4-3 marks Candidate demonstrates understanding of why a business should have an understanding of annual reports and disclosure requirements before making the decision to trade as a private limited company. No context required.</p> <p>Level 1: 2-1 marks Candidate offers only theoretical knowledge of annual reports and disclosure requirements</p> <p><u>Default marks</u></p> <p>L3 – 6 L2 – 4 L1 – 2</p>

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*6	<p>Accounting issues MSML's financial performance</p> <table border="1" data-bbox="338 316 842 564"> <thead> <tr> <th>RATIOS</th> <th>2012</th> <th>2013</th> </tr> </thead> <tbody> <tr> <td>GPM</td> <td>62.00%</td> <td>60.72%</td> </tr> <tr> <td>NPM</td> <td>1.74%</td> <td>1.36%</td> </tr> <tr> <td>ROE</td> <td>21.97%</td> <td>16.07%</td> </tr> <tr> <td>Gearing</td> <td>19.69%</td> <td>5.61%</td> </tr> <tr> <td>Debt:Equity</td> <td>16.45%</td> <td>5.31%</td> </tr> <tr> <td>CR</td> <td>0.65</td> <td>1.27</td> </tr> <tr> <td>AT</td> <td>0.58</td> <td>1.04</td> </tr> </tbody> </table> <p>Despite a large GPM,MSM has a very small NPM and Denise must be sure that combining the two businesses will serve to improve NPM.</p> <p>All of MSML's profitability ratios have fallen. The decrease in gearing is hardly consolation for the profitability ratios. Liquidity ratios are improving but cash flow should not be a major issue for a business that generates day-to-day cash.</p> <p>Funding the proposed purchase DRL has only been trading for a few years, the first year's forecasted results were far from promising! Has its actual performance been better and has DRL been profitable enough to build up financial reserves? If the answer to the questions is no then how does Denise propose to fund the purchase? Reference to accounting concepts would help the candidate to illustrate this point.</p>	RATIOS	2012	2013	GPM	62.00%	60.72%	NPM	1.74%	1.36%	ROE	21.97%	16.07%	Gearing	19.69%	5.61%	Debt:Equity	16.45%	5.31%	CR	0.65	1.27	AT	0.58	1.04	18	<p>An answer which only includes or does not include accounting should only be awarded the lowest mark in the appropriate level.</p> <p>A one-sided argument cannot achieve a L4 mark.</p> <p>Poor QWC cannot prevent a candidate from accessing any level, but within any individual level QWC can affect, by up to 2 marks, the final mark given.</p>	<p>Level 4: 18-13 marks Candidate demonstrates evaluative skills when considering whether DRL should purchase MSM.</p> <p>Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.</p> <p>Level 3: 12-7 marks Candidate demonstrates analytical skills when considering whether DRL should purchase MSM.</p> <p>Relatively straight forward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.</p> <p>Level 2: 6-3 marks Candidate demonstrates understanding of whether a business should purchase another business. No context required.</p>
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		<p>Valuation</p> <p>The value of assets is a starting point when identifying the worth of a business. Much depends upon how these assets have been valued e.g. depreciation methods, debtors, stock etc. The key valuation relates to the motor vehicles.</p> <p>The balance sheets do not reflect the value of Intangible assets especially the goodwill which might have been developed over the years of successful trading-this would seem to be particularly relevant to MSM after many years of trading and its good reputation. So, the valuation of assets is a starting point when considering the worth of any business but there are many other factors to take into account such as goodwill, market prospects (future projections for numbers of learner drivers), the general economic climate, cost of vehicle insurance for young drivers etc.</p> <p><u>Other issues</u></p> <p>Marketing</p> <p>MSM appears to have a good reputation and gains customers through word of mouth. This means that the business will avoid the cost of Operations</p> <p>The quality of MSM's main assets-vehicles, is questionable however Denise's observations are only from a distance and the vehicles might be well maintained and reliable.</p> <p>expensive promotion. This reputation might also mean that MSM is able to charge a higher price for lessons.</p>	16		<p>Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.</p> <p>Level 1: 2-1 marks</p> <p>Candidate offers relevant knowledge only.</p> <p>Some simple ideas have been expressed. There will be some errors of spelling, punctuation and</p> <p>Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive. grammar which will be noticeable and intrusive. Writing may also lack legibility.</p> <p><u>Default marks</u></p> <p>L4 – 16 L3 – 10 L2 – 5 L1 – 2</p>

Question		Answer	Marks	Guidance	
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		<p>Denise would be well advised to seek some professional advice about the quality of the vehicles before making a formal offer for MSM.</p> <p>People. Denise is concerned about the turnover of driving instructors. How does this level of staff turnover compare to industry averages? Does the owner’s autocratic leadership style impact on the level of turnover or are there other factors to consider? Up until this time, it would appear that, Denise has operated DRL on her own. If MSM is a it means she will have the extra task of managing employees, organising work schedules, payroll, recruitment etc.</p> <p>Objectives Denise appears to be ambitious but her objectives are not stated e.g. does she view the purchase of MSM as an immediate opportunity to improve profitability or a short-term strategy to grow the market share?</p> <p>A summary of the key contextual issues is vital here. Possible ideas/answers are best set out in terms of the four functional areas, highlighting the context available in the case study. The likely issues that may lead to evaluative answers may also be useful here.</p>			

OCR (Oxford Cambridge and RSA Examinations)
1 Hills Road
Cambridge
CB1 2EU

OCR Customer Contact Centre

Education and Learning

Telephone: 01223 553998

Facsimile: 01223 552627

Email: general.qualifications@ocr.org.uk

www.ocr.org.uk

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Head office
Telephone: 01223 552552
Facsimile: 01223 552553

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