

GCE

Business Studies

Unit **F294**: Accounting

Advanced GCE

Mark Scheme for June 2016

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.




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.

OCR will not enter into any discussion or correspondence in connection with this mark scheme.

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1. Annotations

Annotation	Meaning
	Correct
	Incorrect
	Not sure what the candidate is trying to say or it does not make sense.
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.

EVERY PAGE, INCLUDING BLANK PAGES (use the BP annotation), MUST HAVE SOME ANNOTATION

Please ensure that, wherever possible, annotations are placed in the margins and not over the candidate's answer. This makes it very difficult to read when the paper is printed out in black & white.

[Only Question 3 should be annotated with ticks to show where marks have been awarded in the body of the text]

IT IS VITAL THAT YOU SHOW AS MUCH ANNOTATION ON EACH PAGE AS POSSIBLE. IN PARTICULAR, WHERE LEVELS ARE REACHED.

2. Subject-specific Marking Instructions

Crossed out responses

Where a candidate has crossed out a response and provided a clear alternative then the crossed out response is not marked. Where no alternative response has been provided, examiners should give candidates the benefit of the doubt and mark the crossed out response where legible.

Contradictory responses

When a candidate provides contradictory responses, then no mark should be rewarded, even if one of the answers is correct.

Short answer questions (usually worth only **one mark per response**)

Where candidates are required to provide a set number of short answer responses then only the set number of responses should be marked. The response space should be marked from top to bottom until the required number of responses have been considered. The remaining responses should not then be marked. Examiners will have to apply judgement as to whether a 'second response' on a line is a development of the 'first response', rather than a separate, discrete response. *(The underlying assumption is that the candidate is attempting to hedge their bets and therefore getting undue benefit rather than engaging with the question and giving the most relevant/correct responses.)*

Question		Answer	Mark	Guidance	
				Content	Levels of response
1		<p>Benefits could include any of the following:</p> <ul style="list-style-type: none"> •There is no liability to external providers of funds i.e. no guarantees in terms of other personal assets. •There is no interest payable to an external provider of funds. •There is no dilution of control e.g. allocation of proportion of share capital to a business angel/venture capitalist. •The business retains a zero gearing position which might be a key priority for them. •Accountability and reporting to an external provider is removed, in other words, they are their own bosses and can focus on running the business the way they want to. 	6	<p>2 benefits analysed = 6 marks 1 benefit analysed = 5 marks 2 benefits understood = 4 marks 1 benefit understood = 3 marks 2 benefits stated = 2 marks 1 benefit stated = 1 mark</p>	<p>Level 3: 6-5 marks Candidate demonstrates analytical skills when considering benefit(s) to WIPL using personal savings to finance the purchase of the business unit.</p> <p>Level 2: 4-3 marks Candidate demonstrates understanding of benefit(s) of using personal savings to finance a business. No context required.</p> <p>Level 1: 2-1 marks Candidate demonstrates only theoretical knowledge of this source of finance.</p>

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2	<p>There are issues in terms of all aspects of the financial performance. In the case, Ruth and Eleanor seem to be particularly concerned by the overhead costs however the issues might actually start with the sales revenue and cost of sales (see below for analysis of Table 1).</p> <table border="1" data-bbox="327 416 1155 1394"> <thead> <tr> <th></th> <th>Actual</th> <th>Planned</th> <th>Percentage Variance</th> <th>Favourable(F) Adverse(A)</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td>203100</td> <td>220000</td> <td>-7.7</td> <td>A</td> </tr> <tr> <td>COS</td> <td>107643</td> <td>88000</td> <td>-22.3</td> <td>A</td> </tr> <tr> <td>GP</td> <td>95457</td> <td>132000</td> <td>-27.7</td> <td>A</td> </tr> <tr> <td>Administration Costs</td> <td>26100</td> <td>25000</td> <td>+4.4</td> <td>A</td> </tr> <tr> <td>Salaries</td> <td>52600</td> <td>40000</td> <td>+31.5</td> <td>A</td> </tr> <tr> <td>Sales/marketing</td> <td>11300</td> <td>10000</td> <td>+13.0</td> <td>A</td> </tr> <tr> <td>Other costs</td> <td>2600</td> <td>2000</td> <td>+30.1</td> <td>A</td> </tr> <tr> <td>Warehouse wages</td> <td>28300</td> <td>25000</td> <td></td> <td>A</td> </tr> <tr> <td>TOTAL</td> <td>120900</td> <td>102000</td> <td>+18.5</td> <td>A</td> </tr> <tr> <td>NPBIT</td> <td>-25443</td> <td>30000</td> <td>-184.9</td> <td>A</td> </tr> <tr> <td>Units sold</td> <td>45030</td> <td>44000</td> <td>+2.3</td> <td>F</td> </tr> </tbody> </table>		Actual	Planned	Percentage Variance	Favourable(F) Adverse(A)	Revenue	203100	220000	-7.7	A	COS	107643	88000	-22.3	A	GP	95457	132000	-27.7	A	Administration Costs	26100	25000	+4.4	A	Salaries	52600	40000	+31.5	A	Sales/marketing	11300	10000	+13.0	A	Other costs	2600	2000	+30.1	A	Warehouse wages	28300	25000		A	TOTAL	120900	102000	+18.5	A	NPBIT	-25443	30000	-184.9	A	Units sold	45030	44000	+2.3	F	13	<p>Top half of L4 for both sides of the argument which demonstrate evaluative skills.</p> <p>L3 for effective use of Table 1 to analyse variances.</p> <p>Level 4: 13-9 marks Candidate demonstrates evaluative skills when using variance analysis to look to improve the business' performance</p> <p>Level 3: 8-6 marks Candidate demonstrates analytical skills when using variance analysis to look to improve the business' performance</p> <p>Level 2: 5-3 marks Candidate demonstrates understanding of variance analysis. No context required.</p> <p>Level 1: 2-1 marks Candidate demonstrates only theoretical knowledge of variance analysis.</p> <p>Default marks L4 – 11 L3 – 7 L2 – 4 L1 – 2 The bottom mark in each level MUST only be used for a BOD answer at that level.</p>
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Question	Answer				Marks	Guidance	
	Average sale	4.51	5.00	-9.8	A		
	Unit cost	2.39	2.00	+19.5	A		
	Unit contribution	2.12	3.00	-29.3	A		
	<p>Analysis of Table 1 reveals that WIPL should prioritise its actions around the variances in sales & cost of sales per unit. In term of overheads the priorities to investigate & seek greater control are salaries where the variance is £12600 or 31.5%.</p> <p>To what extent the business can manage the sales & cost of sales per unit depends on external influences e.g. demand, availability of appropriate stock at costs in line with standard. The variance in selling price per unit equates to 9.8% and unit cost to 19.5%.</p> <p>What we don't know is whether Eleanor and Ruth decided to make the achievement of the sales forecast the main objective for the first year and achieved this by reducing the average price per unit and acquiring stock at higher average cost per unit.</p> <p>What appears to be more within their control is overhead expenditure and it seems clear that there was considerable overspend in certain areas i.e. salaries</p> <p>The other implication from the case study is that supply is sometimes of variable quality and 'outdated'? Is it possible to control these issues? If the answer is no then the variability in selling price per unit will be extenuated and difficult to set a standard for.</p>						

Question	Answer	Marks	Guidance
3	<p>(a) <u>Cost of Goods Sold</u> (Opening +Closing Stock) / 2</p> $\frac{363718}{(123819+185727)/2}$ <p><u>363718</u> = 2.35 times or 155.3 days 154773</p> <p>(b) Acid Test <u>Current assets less stock</u> Current Liabilities</p> $\frac{268734-185727}{133885} = \underline{\underline{0.62}}$	4	<p>One mark for correct formula.</p> <p>2 marks for correct answer.</p> <p>One mark for correct formula.</p> <p>2 marks for correct answer.</p>

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4	<p>This means that the working capital cycle is being lengthened, in other words, it is taking longer for WIPL to convert the cash spent on stock to be returned as cash received from sales.</p> <p>The extent of the impact on cash flow depends on the change in stock turnover.</p> <p>It does depend on WIPL's liquidity position and the acid test is some indication of this. At 0.62 it is some way below the 1.0 benchmark for this ratio.</p> <p>It might be noted that the acid test ratio when Robin purchased his shares was just 0.39.</p> <p>The impact on cash flow really depends upon whether this reduction in stock turnover is the beginning of a trend. If this was the case then WIPL's liquidity could become a problem.</p>	6	<p>Only one piece of evidence of a particular skill is necessary to score the top mark in any level. The mark at the bottom of the level should only be used for a BOD answer.</p> <p>OFR from Q3. Can still achieve level 3.</p> <p>Level 3: 6-5 marks Candidate demonstrates analytical skills when considering one way a worsening in WIPL's stock turnover could impact on its cash-flow position.</p> <p>Level 2: 4-3 marks Candidate demonstrates understanding of one way a worsening in WIPL's stock turnover could impact on its cash-flow position. No context required</p> <p>Level 1: 2-1 marks Candidate demonstrates only theoretical knowledge of stock turnover.</p> <p>The bottom mark in each level MUST only be used for a BOD answer at that level.</p>

Question	Answer	Marks	Guidance
5	<p>The book value of WIPL depends upon the valuation of its assets especially the highest value ones e.g. Is the value of the buildings and land accurate? Based on the price that Ruth and Eleanor paid £258,000, this asset has appreciated by 31.8 % over 7 years. What has happened to building and land prices in this period of time? The case implies that the property is located in an expensive area and so the appreciation in value might well be a true reflection of the asset's value.</p> <p>On the other hand, we are told early in the case that the building was in a poor state of repair. Has this improved over the years or does the building still need substantial investment to maintain its condition? It does represent 90.4% of the net asset value.</p> <p>The case also indicates that Eleanor had a few fruitless approaches for her shares. Was this because these potential investors discovered some issues with the business?</p> <p>The next most significant asset is stock. We are told in the case that stock consists of second hand books and the quality and re-saleability is sometimes problematic. Is the valuation of stock reliable?</p> <p>The other two questionable valuations relate to the motor vehicles and debtors e.g. with reference to the motor vehicles, what is the state of the assets? Age? What depreciation method has been used?</p> <p>With the debtors, how likely is that the debts will be repaid? Are there any likely bad debts? What percentage could be bad debts?</p> <p>Robin would have been advised to have sought answers to these questions before purchasing the shares.</p> <p>On the other hand, the book value of WIPL doesn't reflect any</p>	13	<p>Top half of L4 for both sides of the argument which demonstrate evaluative skills.</p> <p>L3 for effective use of balance sheet and other financial data.</p> <p>Level 4: 13-9 marks Candidate demonstrates evaluative skills when considering whether Robin Fothergill paid a reasonable financial value for his WIPL shares in 2013.</p> <p>Level 3: 8-6 marks Candidate demonstrates analytical skills when considering whether Robin Fothergill paid a reasonable financial value for his WIPL shares in 2013.</p> <p>Level 2: 5-3 marks Candidate demonstrates understanding of the financial valuation of a business. No context required.</p> <p>Level 1: 2-1 marks Candidate demonstrates only theoretical knowledge of the financial value of a business.</p> <p>Default marks L4 – 11 L3 – 7 L2 – 4 L1 – 2</p> <p>The bottom mark in each level MUST only be used for a BOD answer at that level.</p>

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	<p>amount for goodwill and the trading history of the business indicates that WIPL continues to be profitable.</p> <table border="1" data-bbox="327 316 925 914"> <thead> <tr> <th colspan="2" data-bbox="327 316 925 379">Ratios 2012</th> </tr> </thead> <tbody> <tr> <td data-bbox="327 379 736 448">Return on capital employed</td> <td data-bbox="736 379 925 448">26.2%</td> </tr> <tr> <td data-bbox="327 448 736 517">Dividend cover</td> <td data-bbox="736 448 925 517">2.19</td> </tr> <tr> <td data-bbox="327 517 736 585">Gearing</td> <td data-bbox="736 517 925 585">0</td> </tr> <tr> <td data-bbox="327 585 736 654">Current ratio</td> <td data-bbox="736 585 925 654">1.10</td> </tr> <tr> <td data-bbox="327 654 736 722">Acid test</td> <td data-bbox="736 654 925 722">0.39</td> </tr> <tr> <td data-bbox="327 722 736 791">Book value of 50% share capital</td> <td data-bbox="736 722 925 791">187950</td> </tr> <tr> <td data-bbox="327 791 736 860">GPM</td> <td data-bbox="736 791 925 860">69.0%</td> </tr> <tr> <td data-bbox="327 860 736 914">NPBIT</td> <td data-bbox="736 860 925 914">11.0%</td> </tr> </tbody> </table>	Ratios 2012		Return on capital employed	26.2%	Dividend cover	2.19	Gearing	0	Current ratio	1.10	Acid test	0.39	Book value of 50% share capital	187950	GPM	69.0%	NPBIT	11.0%			
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*6	<p><u>Accounting issues</u></p> <p>Based upon the profit and loss account for 2015, it would appear that both the retail outlet and cafe should be shut down. However there are two other accounting issues to consider: Both profit centres are making a positive contribution to overheads.</p> <p>Retail £90333 Cafe £25233</p> <p>The allocation of overheads to the profit centres could be inaccurate, at present overheads are split equally between the three profit centres. If the apportionment was changed to reflect sales the net profit/loss for the retail outlet and cafe changes as follows:</p> <table border="1" data-bbox="327 821 1153 1222"> <thead> <tr> <th></th> <th>Existing apportionment</th> <th>Apportionment by sales</th> <th>Change in apportionment</th> <th>New Net Profit/Loss</th> </tr> </thead> <tbody> <tr> <td>Internet</td> <td>112535</td> <td>286627</td> <td>+174092</td> <td>229751</td> </tr> <tr> <td>Retail</td> <td>112535</td> <td>37474</td> <td>(75061)</td> <td>(85141)</td> </tr> <tr> <td>Cafe</td> <td>112535</td> <td>13504</td> <td>(99031)</td> <td>(34271)</td> </tr> </tbody> </table> <p>So even with a new method of apportionment, the two profit centres still record a net loss.</p> <p>If WIFL relocated, there would be long term benefits due to the reduced overheads; one could assume that wage rates might</p>		Existing apportionment	Apportionment by sales	Change in apportionment	New Net Profit/Loss	Internet	112535	286627	+174092	229751	Retail	112535	37474	(75061)	(85141)	Cafe	112535	13504	(99031)	(34271)	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 should WIPL close down its retail warehouse and cafe.</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 should WIPL close down its retail warehouse and cafe.</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>
	Existing apportionment	Apportionment by sales	Change in apportionment	New Net Profit/Loss																			
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	<p>well be lower in an area with higher unemployment and/or lower cost of living figures. Early in the case study it implies that WIPL is located in an expensive area of the UK. Moving to a cheaper area might release significant capital for reinvestment.</p> <p>However there are likely to be immediate one off cost e.g. relocation of facilities, redundancy costs, recruitment and training.</p> <p>There are also cash flow implications whether WIPL relocates or not e.g. redundancy costs relating to the retail outlet and/or cafe.</p> <p>The latest liquidity ratios would need further investigation especially with regards to WIPL's cash reserves.</p> <p><u>Other issues</u></p> <p><u>Marketing</u> Robin implies that the retail outlet and cafe 'add value'. The cafe might assist the level of sales from the retail outlet but it is difficult to see how either profit centres adds value to the Internet part of WIPL. In Boston Matrix terms, is the retail outlet a 'dead dog'? Should WIPL be focusing on market share for the Internet sales? Does Robin mean that the CSR aspect of the cafe somehow adds value through increased sales? Do Internet customers really take into account WIPL's CSR policy when making a purchase?</p> <p><u>People and Operations Management</u> We are not made aware of staff turnover figures but we can assume that there are long serving employees who will be adversely affected by the proposal. Of course, relocation to another part of the country would probably mean that few employees would remain with WIPL. The implication for WIPL is that relocation would involve a</p>		<p>Level 2: 6-3 marks Candidate demonstrates understanding of factors when a business is considering moving its business operations. No context required.</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.</p> <p>Level 1: 2-1 marks Candidate offers relevant knowledge only.</p> <p>Some simple ideas have been expressed. There will be some errors of spelling, punctuation and 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	
	<p>period of transition. This would be due to the need to recruit and train a new workforce. There may well be a falloff in efficiency. The transition would have to be carefully managed to avoid disruption and potential loss of short term sales.</p> <p><u>External influences</u></p> <p>Market trends might play an important role when making the decision, is the long term future of retail sales likely to be poor? On the other hand, are the short term prospects for Internet sales strong and so should WIPL look to take full advantage of a growing market? WIPL could be wasting valuable warehouse space for the retail and cafe profit centres.</p> <p><u>Objectives</u></p> <p>Is there a significant conflict of interest between the two shareholders? Ruth seems focused on improving profitability whereas Robin is more aware of CSR.</p>			

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