

**OXFORD CAMBRIDGE AND RSA EXAMINATIONS**

**LEVEL 4 CERTIFICATE IN MANAGEMENT CONSULTING 10331**

**UNIT 2 ANALYSING FINANCIAL STATEMENTS AND REPORTS**

**SPECIMEN**

**TIME: 1 HOUR 30 MINUTES**

**INSTRUCTIONS TO CANDIDATES**

Fill in all the boxes below. Use CAPITAL LETTERS.

**CENTRE DETAILS**

Centre Number	Centre Name

**COMPUTER REF**

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**CANDIDATE DETAILS**

Surname or Family Name	First Name	Initials of Other Forenames	DATE OF BIRTH							
			D	D	M	M	Y	Y	Y	Y

- **DO NOT** open the booklet until told to do so by the invigilator.
- Answer **ALL** questions.
- Write your answers in the spaces provided on the question paper.
- Additional paper may be used if necessary but you must clearly show your candidate number, centre number and question number(s).
- Use black ink.
- You may use a calculator.

**INFORMATION FOR CANDIDATES**

The number of marks is given in brackets at the end of each question or part question.

The total number of marks for this paper is 60.

FOR EXAMINERS' USE ONLY	
1	
2	
3	
4	
<b>TOTAL =</b>	

Answer **all** questions.

- 1 Robert Parker, Finance Director of Alpha Ltd, is concerned about the profitability and liquidity of the company. Before he studied the recent financial statements of the company, his initial thoughts were:  
 'Since sales turnover in 2012 has increased by 50%, the profitability and liquidity for 2012 will also have improved.'

The following financial statements relate to Alpha Ltd for the last two years.

**Profit and Loss Account for the year ended**  
**31 December 2012**                      **31 December 2011**

	£	£
Sales Turnover	900,000	600,000
Cost of Sales	<u>540,000</u>	<u>330,000</u>
Gross Profit	360,000	270,000
Administration and Selling Expenses	265,000	210,000
Interest	<u>20,000</u>	<u>—</u>
Net Profit	<u><u>75,000</u></u>	<u><u>60,000</u></u>

**Balance Sheet as at**

	£	£	£	£
<b>Fixed Assets</b>		534,000		320,000
<b>Current Assets</b>				
Stock	114,000		42,000	
Debtors	143,000		60,000	
Bank	<u>3,000</u>		<u>2,000</u>	
	260,000		104,000	
<b>Current Liabilities</b>				
Creditors	<u>149,000</u>		<u>54,000</u>	
Working Capital		111,000		50,000
<b>Long-term Liabilities</b>				
10% Bank Loan		<u>200,000</u>		<u>—</u>
		<u><u>445,000</u></u>		<u><u>370,000</u></u>
<b>Financed by</b>				
Share Capital (£1 per share)		300,000		300,000
Profit and Loss Account		<u>145,000</u>		<u>70,000</u>
		<u><u>445,000</u></u>		<u><u>370,000</u></u>

(a) Calculate to two decimal places the following ratios for **each** of the two years.

(i) Return on capital employed.

2011 \_\_\_\_\_

\_\_\_\_\_

2012 \_\_\_\_\_

\_\_\_\_\_

**(2 marks)**

(ii) Gross profit margin.

2011 \_\_\_\_\_

\_\_\_\_\_

2012 \_\_\_\_\_

\_\_\_\_\_

**(2 marks)**

(iii) Net profit margin.

2011 \_\_\_\_\_

\_\_\_\_\_

2012 \_\_\_\_\_

\_\_\_\_\_

**(2 marks)**

(iv) Current ratio.

2011 \_\_\_\_\_

\_\_\_\_\_

2012 \_\_\_\_\_

\_\_\_\_\_

**(2 marks)**

(v) Quick (acid) ratio.

2011 \_\_\_\_\_

\_\_\_\_\_

2012 \_\_\_\_\_

\_\_\_\_\_

**(2 marks)**

**[Turn over**













(b) (i) What is meant by earnings per share (EPS)?

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**(2 marks)**

(ii) What is meant by the price/earnings (P/E) ratio?

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**(2 marks)**



**3** Explain **two** ways in which a business could use its profits to incentivise its employees.

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**(4 marks)**

**4** Outline the content of a statement of cash flows.

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**(6 marks)**

**(Total for paper 60 marks)**

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## **SPECIMEN ASSESSMENT MARK SCHEME**

Certificate in Management Consulting – 10331 – Level 4

Unit 2 Analysing Financial Statements and Reports

Duration: 1 hour 30 minutes

Maximum mark: 60

1. For answers marked by levels of response:
- To determine the level** – start at the highest level and work down until you reach the level that matches the answer.
  - To determine the mark within the level**, consider the following:

Descriptor	Award mark
On the borderline of this level and the one below	At bottom of level
Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
Consistently meets the criteria for this level	At top of level

Question		Answer/Indicative content				Marks	Guidance	
1	(a)	<b>2012</b>		<b>2011</b>				
		(i) <i>Return on capital employed</i>						
		$\frac{\pounds 75,000 + \pounds 20,000}{\pounds 445,000 + \pounds 200,000}$	=14.73%	[1]	$\frac{\pounds 60,000}{\pounds 370,000}$	= 16.22%	[1]	2
		(ii) <i>Gross profit margin</i>						
		$\frac{\pounds 360,000}{\pounds 900,000}$	=40%	[1]	$\frac{\pounds 270,000}{\pounds 600,000}$	=45%	[1]	2
		(iii) <i>Net profit margin</i>						
		$\frac{\pounds 75,000}{\pounds 900,000}$	=8.33%	[1]	$\frac{\pounds 60,000}{\pounds 600,000}$	=10%	[1]	2
(iv) <i>Current ratio</i>								
$\frac{\pounds 260,000}{\pounds 149,000}$	= 1.74 : 1	[1]	$\frac{\pounds 104,000}{\pounds 54,000}$	= 1.93 : 1	[1]	2		
(v) <i>Quick ratio</i>								
$\frac{\pounds 260,000 - \pounds 114,000}{\pounds 149,000}$	=0.98 : 1	[1]	$\frac{\pounds 104,000 - \pounds 42,000}{\pounds 54,000}$	= 1.15 : 1	[1]	2		
(vi) <i>Cash ratio</i>								
$\frac{\pounds 3,000}{\pounds 149,000}$	=0.02	[1]	$\frac{\pounds 2,000}{\pounds 54,000}$	=0.04	[1]	2		

Question	Answer/Indicative content	Marks	Guidance
(b)	<p>Indicative content :</p> <p><i>2012 as compared with 2011</i></p> <p><i>Profitability :</i></p> <ul style="list-style-type: none"> <li>• decrease in return on capital employed</li> <li>• decrease in gross profit margin</li> <li>• decrease in net profit margin</li> </ul> <p><i>Liquidity</i></p> <ul style="list-style-type: none"> <li>• decrease in current ratio</li> <li>• decrease in quick ratio</li> <li>• decrease in cash ratio</li> </ul> <p>Exemplar response :</p> <p>Gross profit margin decreased from 45% in 2011 to 40% in 2012 [1]. Alpha Ltd may have reduced the selling price in 2012 in order to stimulate more sales [1].</p> <p>Robert Parker's initial thoughts were incorrect [1] because both the profitability and liquidity in 2012 are worse than in 2011 [1]</p>	12	<p><b>One</b> mark for comparing each of the ratios up to a maximum of five ratios, plus a further <b>one mark</b> for an explanation of each of the five ratios, plus <b>one mark</b> for a conclusion and a further <b>one mark</b> for a statement supporting the conclusion reason.</p>
(c)	<p>Indicative content :</p> <p>Usefulness :</p> <ul style="list-style-type: none"> <li>• facilitates comparing companies of different size</li> <li>• facilitates comparing similar companies in the same industry</li> <li>• facilitates trend analysis of a company over the years</li> <li>• has diagnostic nature in highlighting important information relating to profitability, liquidity and efficiency</li> <li>• complex accounting figures are associated and simplified in ratio terms which is useful for planning, decision making and control</li> </ul> <p>Limitation :</p> <ul style="list-style-type: none"> <li>• companies may be under different business environments</li> <li>• companies may have different accounting year ends</li> <li>• ratio analysis is based on historical information which is not future oriented</li> <li>• ratio analysis is based on financial accounting information, some of which are estimates made according to the company's accounting policies. Companies may have different accounting policies</li> </ul>	12	<p><b>Levels of response</b></p> <p><b>Level 4 (10 – 12 marks)</b> An evaluation of the usefulness of ratio analysis when making such comparisons.</p> <p><b>Level 3 (7 - 9 marks)</b> An analysis of the usefulness of ratio analysis when making such comparisons.</p> <p><b>Level 2 (4 - 6 marks)</b> An understanding of the usefulness of ratio analysis when making such</p>

Question		Answer/Indicative content	Marks	Guidance
		Ratio analysis facilitates comparing the financial performance between companies <b>(L1)</b> . Ratio analysis is more meaningful if the size of the companies is different. Ratio analysis is based on the notion that the analysis of absolute amounts is not the ideal means of comparison <b>(L2)</b> . To make the comparison more meaningful, the use of percentage, which is referred to as common-size analysis is preferable to the use of absolute amounts. For example, the net profit of Company A and Company B is the same, both are £50,000 but the capital employed of each company differs, with Company A £500,000 and Company B £1,000,000. When we compare the absolute amounts, the performance of both companies is the same. If we compare the return on capital employed which is expressed in percentage, Company A's 10% is better than Company B's 5% <b>(L3)</b> . However, there are limitations in using ratio analysis. Companies may be under different business environments. For example, Company A in Country A may have a higher inflation rate than Company B in Country B. Therefore, we must be cautious in interpreting particular ratios in isolation. <b>(L4)</b>		comparisons.  <b>Level 1 (1 - 3 marks)</b> Some knowledge of the usefulness of ratio analysis when making such comparisons.
2	(a)	Indicative content : <ul style="list-style-type: none"> <li>employees are more interested in the profitability of the company</li> <li>a new supplier is more interested in the liquidity of the company</li> </ul> Exemplar response : Employees are interested in the profitability of the company <b>[1]</b> . If the company has made a good profit then the employees can ask for a pay rise. Employees' efforts will have made a contribution towards the company's profitability and, therefore, they might reasonably expect a pay rise or bonus in recognition of their contributions. <b>[2]</b>	6	<b>One</b> mark for identifying what each stakeholder is interested in, plus up to a further <b>two</b> marks for the explanation of each interest.
	(b) (i)	EPS = Net profit attributable to ordinary shareholders divided by weighted average number of outstanding ordinary shares <b>[1]</b> EPS measures the profitability per ordinary share <b>[1]</b>	2	Up to <b>two</b> marks.
	(ii)	PE ratio = Market price per share divided by EPS <b>[1]</b> PE ratio is a measure of investors' confidence in the company <b>[1]</b>	2	Up to <b>two</b> marks.
	(iii)	EPS <ul style="list-style-type: none"> <li>Michaelson plc – fluctuates over the years <b>[1]</b></li> <li>Brooke plc – upward trend over the years <b>[1]</b></li> </ul> P/E ratio	4	<b>One</b> mark for each comparative statement up to a maximum of four such statements but allow

Question			Answer/Indicative content	Marks	Guidance
			<ul style="list-style-type: none"><li>• Michaelson plc – fluctuates over the years [1]</li><li>• Brooke plc – upward trend over the years [1]</li></ul>		development
			<b>Total</b>	<b>14</b>	

Question	Answer/Indicative content	Marks	Guidance
3	<p>Indicative content :</p> <ul style="list-style-type: none"> <li>• to increase wages/salaries</li> <li>• to pay bonus</li> </ul> <p>Exemplar response Company can use profit to pay bonus to workforce [1]. This is a kind of incentive plan in order to motivate employee [1].</p>	4	<p><b>One</b> mark for each correct identification up to a maximum of two identifications, plus a further <b>one</b> mark for each of two explanations.</p>
4	<ul style="list-style-type: none"> <li>• cash flows from operating activities [1] – e.g. cash receipts from sale of goods; cash payments to suppliers [1]</li> <li>• cash flows from investing activities [1] – e.g. cash payment to acquire property, plant and equipment; cash receipts from sale of property, plant and equipment [1]</li> <li>• cash flows from financing activities [1] – e.g. cash proceeds from issuing shares; cash repayments of loan [1]</li> </ul> <p>Alternatively, it is also acceptable that the answer is in accordance with the ‘eight-heading’ format:</p> <ul style="list-style-type: none"> <li>• operating activities</li> <li>• returns on investments and servicing of finance</li> <li>• taxation</li> <li>• capital expenditure and financial investment</li> <li>• acquisitions and disposals</li> <li>• equity dividends paid</li> <li>• management of liquid resources</li> <li>• financing</li> </ul>	6	<p>EITHER:</p> <p><b>One</b> mark for each correct identification up to a maximum of three identifications, plus a further <b>one</b> mark for each of three explanations.</p> <p>OR</p> <p><b>One</b> mark for each correct identification up to a maximum of six identifications (from a range of eight possible identifications)</p>