

# OCR

Oxford Cambridge and RSA

**January 2016**

**10331 Level 4 Certificate in Management Consulting**

**Unit 2 Analysing financial statements and reports**

**MARK SCHEME**

**Duration:** 1 hour and 30 minutes

**MAXIMUM MARK    60**

**DRAFT**

Version: **7** Last updated: **06/11/2015**

**(FOR OFFICE USE ONLY)**

**This document consists of 11 pages**

**PREPARATION FOR MARKING ON-SCREEN**

1. Make sure that you have accessed and completed the relevant training packages for on-screen marking: *scoris assessor Online Training* and the *OCR Essential Guide to Marking*.
2. Make sure that you have read and understood the Instructions for On-Screen Marking and the mark scheme and the question paper for this unit. These are posted on the RM Cambridge Assessment Support Portal <http://www.rm.com/support/ca>.
3. Login to scoris and mark the **required number** of practice responses and the **required number** of standardisation responses.

**PREPARATION FOR PAPERBASED MARKING**

1. Make sure that you have accessed and completed the relevant training for paperbased marking.
2. Make sure that you have read and understood the Instructions for Specialist Marking and the mark scheme and the question paper for this unit.
3. Before the Standardisation meeting you must mark at least 10 scripts from several centres. Use **pencil** and follow the **mark scheme**. Bring these **marked scripts** to the meeting.

**MARKING INSTRUCTIONS – FOR MARKING ON-SCREEN AND FOR PAPERBASED MARKING**

1. Mark strictly to the mark scheme.
2. Marks awarded must relate directly to the marking criteria.
3. The schedule of dates is very important. It is essential that you meet the scoris 50% and 100% (traditional 40% Batch 1 and 100% Batch 2) deadlines. If you experience problems, you must contact your Team Leader (Supervisor) without delay.
4. If you are in any doubt about applying the mark scheme, consult your Team Leader by telephone or the scoris messaging system, or by email.
5. Work crossed out:
  - a. where a candidate crosses out an answer and provides an alternative response, the crossed out response is not marked and gains no marks
  - b. if a candidate crosses out an answer to a whole question and makes no second attempt, and if the inclusion of the answer does not cause a rubric infringement, the assessor should attempt to mark the crossed out answer and award marks appropriately
6. Always check the pages (and additional objects if present) at the end of the response in case any answers have been continued there. If the candidate has continued an answer there then add a tick to confirm that the work has been seen.
7. There is a NR (No Response) option. Award NR (No Response)  
if there is nothing written at all in the answer space  
OR if there is a comment which does not in anyway relate to the question (e.g. 'can't do', 'don't know')  
OR if there is a mark (e.g. a dash, a question mark) which isn't an attempt at the question  
Note: Award 0 marks for an attempt that earns no credit (including copying out the question).
8. The scoris **comments box** is used by your team leader to explain the marking of the practice responses. Please refer to these comments when checking your practice responses. **Do not use the comments box for any other reason.**  
If you have any questions or comments for your team leader, use the phone, the scoris messaging system, or e-mail.

9. For answers marked by levels of response:
- a. **To determine the level** – start at the highest level and work down until you reach the level that matches the answer
  - b. **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

10. These are the annotations (including abbreviations), including those used in scoris, which are used when marking.

Annotation	Meaning of annotation

11. Here are the subject-specific instructions for this question paper.

Subject-specific marking instructions that apply across the whole question paper must appear here. These must be compatible with the OCR Marking Instructions above. Include here any instructions for marking when a candidate has infringed the rubric.

12. Here is the mark scheme for this question paper.

Question		Answer/Indicative content				Mark	Guidance																								
1	a	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;"></th> <th style="width: 25%; text-align: center;">2015</th> <th style="width: 10%;"></th> <th style="width: 10%;"></th> <th style="width: 25%; text-align: center;">2014</th> <th style="width: 15%;"></th> </tr> </thead> <tbody> <tr> <td>Current ratio</td> <td style="text-align: center;"><math>\frac{\pounds 102000 + \pounds 115000}{\pounds 97000 + \pounds 36000}</math></td> <td style="text-align: center;">1.63 : 1</td> <td style="text-align: center;">(1)</td> <td style="text-align: center;"><math>\frac{\pounds 87000 + \pounds 76000}{\pounds 58000 + \pounds 23000}</math></td> <td style="text-align: center;">2.01 : 1 (1)</td> </tr> <tr> <td>Quick ratio</td> <td style="text-align: center;"><math>\frac{\pounds 115000}{\pounds 97000 + \pounds 36000}</math></td> <td style="text-align: center;">0.86 : 1</td> <td style="text-align: center;">(1)</td> <td style="text-align: center;"><math>\frac{\pounds 76000}{\pounds 58000 + \pounds 23000}</math></td> <td style="text-align: center;">0.94 : 1 (1)</td> </tr> </tbody> </table>					2015			2014		Current ratio	$\frac{\pounds 102000 + \pounds 115000}{\pounds 97000 + \pounds 36000}$	1.63 : 1	(1)	$\frac{\pounds 87000 + \pounds 76000}{\pounds 58000 + \pounds 23000}$	2.01 : 1 (1)	Quick ratio	$\frac{\pounds 115000}{\pounds 97000 + \pounds 36000}$	0.86 : 1	(1)	$\frac{\pounds 76000}{\pounds 58000 + \pounds 23000}$	0.94 : 1 (1)	4	One mark for each correct calculation up to a maximum of four calculations.						
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	b	<p><b>Indicative content:</b></p> <ul style="list-style-type: none"> <li>• current ratio</li> <li>• quick ratio</li> <li>• liquidity ratio deteriorates</li> <li>• current ratio below the benchmark 2:1</li> <li>• quick ratio below the benchmark 1:1</li> </ul> <p><b>Exemplar response:</b>            Current ratio decreases from 2.01:1 to 1.63:1 (1). Quick ratio also decreases from 0.94:1 to 0.86:1 (1). It is concluded that the liquidity of Yulang Ltd has deteriorated (1). The poor liquidity indicates that Yulang Ltd is unable to meet its current liabilities when they fall due.(1).</p>				4	One mark for each correct explanatory statement up to a maximum of <b>four</b> such statements, but allow development marks.  OFR applies. The comparison is based on the results from part (a).																								
	c	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;"></th> <th style="width: 25%; text-align: center;">2015</th> <th style="width: 10%;"></th> <th style="width: 10%;"></th> <th style="width: 25%; text-align: center;">2014</th> <th style="width: 15%;"></th> </tr> </thead> <tbody> <tr> <td>Stock turnover</td> <td style="text-align: center;"><math>\frac{\frac{1}{2}(\pounds 87000 + \pounds 102000) \times 365}{\pounds 480000}</math></td> <td style="text-align: center;">71.86 days</td> <td style="text-align: center;">(1)</td> <td style="text-align: center;"><math>\frac{\frac{1}{2}(\pounds 81000 + \pounds 87000) \times 365}{\pounds 447000}</math></td> <td style="text-align: center;">68.59 days (1)</td> </tr> <tr> <td>Debtor turnover</td> <td style="text-align: center;"><math>\frac{\pounds 115000 \times 365}{\pounds 814000}</math></td> <td style="text-align: center;">51.57 days</td> <td style="text-align: center;">(1)</td> <td style="text-align: center;"><math>\frac{\pounds 76000 \times 365}{\pounds 752000}</math></td> <td style="text-align: center;">36.89 days (1)</td> </tr> <tr> <td>Creditor turnover</td> <td style="text-align: center;"><math>\frac{\pounds 97000 \times 365}{\pounds 495000^* (1)}</math></td> <td style="text-align: center;">71.53 days</td> <td style="text-align: center;">(1)</td> <td style="text-align: center;"><math>\frac{\pounds 58000 \times 365}{\pounds 453000^* (1)}</math></td> <td style="text-align: center;">46.73 days (1)</td> </tr> </tbody> </table> <p>* Purchases <math>\pounds 480000 + \pounds 102000 - \pounds 87000 = \pounds 495000</math> <math>\pounds 447000 + \pounds 87000 - \pounds 81000 = \pounds 453000</math></p>					2015			2014		Stock turnover	$\frac{\frac{1}{2}(\pounds 87000 + \pounds 102000) \times 365}{\pounds 480000}$	71.86 days	(1)	$\frac{\frac{1}{2}(\pounds 81000 + \pounds 87000) \times 365}{\pounds 447000}$	68.59 days (1)	Debtor turnover	$\frac{\pounds 115000 \times 365}{\pounds 814000}$	51.57 days	(1)	$\frac{\pounds 76000 \times 365}{\pounds 752000}$	36.89 days (1)	Creditor turnover	$\frac{\pounds 97000 \times 365}{\pounds 495000^* (1)}$	71.53 days	(1)	$\frac{\pounds 58000 \times 365}{\pounds 453000^* (1)}$	46.73 days (1)	8	One mark for each correct calculation of stock turnover and debtor turnover; plus up to two marks for each correct calculation of creditors turnover.
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Question	Answer/Indicative content	Mark	Guidance
d	<p><b>Indicative content:</b></p> <ul style="list-style-type: none"> <li>• stock turnover</li> <li>• debtor turnover</li> <li>• creditor turnover</li> <li>• increase in bank overdraft</li> <li>• slow-moving stock</li> <li>• long collection period</li> <li>• long payment period</li> <li>• short-term insolvency</li> <li>• short-term credit risk</li> </ul> <p><b>Exemplar response:</b></p> <p>Working capital comprises stock, debtor and creditors. The efficiency of managing working capital is measured by the number of days required to sell stock and the number of days required to collect trade debts, etc. <b>[L1]</b></p> <p>Compared with 2014, Yulang Ltd takes longer in 2015 to sell goods (from 69 days to 72 days); longer to collect trade debts (from 37 days to 52 days) and longer to pay off its trade creditors (from 47 days to 72 days) <b>[L2]</b>. Increase in sales suggests that Yulang Ltd may stock more goods to meet the customers' demand; increase in sales also suggests that Yulang Ltd may have loosened its credit policy in order to solicit more sales <b>[L3]</b>. However, the payment period increasing from 47 days to 72 days is not a good sign. It does not necessarily mean that Yulang Ltd has a stronger bargaining power to extend the payment period; on the contrary, the increase in the bank overdraft suggests that Yulang Ltd has difficulty in paying off its current liabilities by cash generated from sales of goods; it has to rely on an external short-term loan. Longer period in holding stock and collecting trade debt requires more funds in financing working capital. Yulang Ltd does not manage its working capital well in 2015 <b>[L4]</b>.</p>	8	<p><b>Level of response</b></p> <p><b>Level 4 (7-8 marks)</b> Candidate assesses Yulang Ltd's efficiency of managing working capital.</p> <p><b>Level 3 (5-6 marks)</b> Candidate analyses Yulang Ltd's efficiency of managing working capital.</p> <p><b>Level 2 (3-4 marks)</b> Candidate explains Yulang Ltd's efficiency of managing working capital.</p> <p><b>Level 1 (1-2 marks)</b> Candidate identifies Yulang Ltd's efficiency of managing working capital.</p> <p>OFR applies. The comparison is based on the results from part (c).</p>

Question	Answer/Indicative content	Mark	Guidance
e	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• short-term credit</li> <li>• liquidity</li> <li>• solvency</li> <li>• ability to pay interest</li> <li>• ability to settle bank overdraft</li> </ul> <p>Exemplar response:                      A bank overdraft is a short-term credit <b>(1)</b>. A company applying for a bank overdraft is required to submit financial information to support its application. The bank needs the information to assess the company’s solvency/liquidity <b>(1)</b>. For example, whether the company has the ability to pay interest and settle the bank overdraft in the short-term <b>(1)</b>.</p>	3	<p><b>One</b> mark for each correct explanatory statement up to a maximum of <b>three</b> such statements, but allow development marks.</p>
<b>Total marks for Question 1</b>		<b>27</b>	

Question		Answer/Indicative content	Mark	Guidance
2	a	<p>Gross profit margin <math>\frac{\pounds 936000 - \pounds 518000}{\pounds 936000}</math> 44.66% (1)</p> <p>Return on capital employed <math>\frac{\pounds 48000 + \pounds 14500}{\pounds 300000 + \pounds 82000 + \pounds 150000}</math> (1) 11.75%</p> <p>Return on equity <math>\frac{\pounds 48000}{\pounds 300000 + \pounds 82000}</math> 12.57% (1)</p> <p>Earnings per share <math>\frac{\pounds 48000}{\pounds 300000}</math> 16p (1)</p> <p>Price/earnings ratio <math>\frac{\pounds 2.40}{16\text{p (OFR)}}</math> 15 (OFR) (1)</p> <p>Dividend yield <math>\frac{(\pounds 18000 / 300000)}{\pounds 2.40}</math> (1) 2.5%</p>	8	<p>Up to <b>eight</b> marks as indicated.</p> <p>OFR for Price/earnings ratio, based on Earnings per share calculation.</p>
	b	<p><b>Indicative content</b></p> <ul style="list-style-type: none"> <li>relationship between market price of a share and current earnings per share</li> <li>expected high growth in the future has high PE ratio</li> <li>expected low growth in the future has low PE ratio</li> <li>low PE ratio may mean that the share price is under-estimated</li> </ul> <p><b>Exemplar response:</b> PE ratio is the relationship between the market price of a share and its current earnings per share. It indicates the investors' confidence in the future growth of the business. Apparently, the PE ratio of Jetcos plc is lower than the industry average [L1]. This suggests that the performance of Jetcos plc is below the industry average performance. The investors perceive that the potential for growth at Jetcos is not as good as that of its counterparts, leading to a lower market price. This results in a low PE ratio for Jetcos plc. However, a low PE ratio may also mean that the market price of Jetcos plc is under-estimated [L2].</p>	4	<p><b>Level 2 (3-4 marks)</b> Candidate explains the comparison of the PE ratios.</p> <p><b>Level 1 (1-2 marks)</b> Candidate identifies the comparison of the PE ratios.</p> <p>OFR applies. The comparison is based on the results from part (a).</p>
<b>Total marks for Question 2</b>			<b>12</b>	



Question		Answer/Indicative content	Mark	Guidance
3	a	<p><b>Indicative content:</b></p> <ul style="list-style-type: none"> <li>• not provided by outsiders</li> <li>• not distributed as dividend</li> <li>• retained in the business</li> <li>• generated within the business</li> </ul> <p><b>Exemplar response:</b> A company makes profit when its revenue exceeds its expenses. Therefore, profit is internally generated. <b>(1)</b> When the company makes a profit, part of its profit is distributed as dividend to the shareholders in the form of cash. The profit not distributed is retained in the business for future use. The retained profit is an internal source of finance which is cheaper than the external sources, e.g. bank loan <b>(1)</b>.</p>	2	Up to <b>two</b> marks.
	b	<p><b>Indicative content:</b></p> <ul style="list-style-type: none"> <li>• increase the operating capacity</li> <li>• purchase non-current assets</li> <li>• purchase inventory</li> <li>• financing working capital</li> <li>• reduce bank overdraft / loan</li> </ul> <p><b>Exemplar response:</b> Retained profit can be used to purchase non-current assets, e.g. plant and machinery which can generate future economic benefit to the business. <b>(1)</b></p>	3	<b>One</b> mark for each correct calculation up to a maximum of three identifications.
<b>Total marks for Question 3</b>			<b>5</b>	

Question	Answer/Indicative content	Mark	Guidance
4	<p><b>Indicative content:</b></p> <ul style="list-style-type: none"> <li>• revenue</li> <li>• cost of sales</li> <li>• gross profit</li> <li>• administrative expenses</li> <li>• distribution costs</li> <li>• finance costs</li> <li>• taxation</li> <li>• net profit</li> </ul> <p><b>Exemplar response:</b>                      Profit and loss account starts from revenue. <b>(1)</b> Revenue of a trading business is generated from sale of goods. Revenue of a service company is generated from provision of services. <b>(1)</b></p>	6	<p><b>One</b> mark for each correct identification up to a maximum of <b>three</b> identifications, plus further <b>one</b> mark for each of <b>three</b> developments.</p>
<b>Total marks for Question 4</b>		6	

Question			Answer/Indicative content	Mark	Guidance
5	a	i	Cash flows from operating activities are primarily derived from the principal revenue-producing activities <b>(1)</b> of the entity. For example, cash receipts from the sale of goods <b>(1)</b> .	<b>6</b>	Up to <b>two</b> marks for each of <b>three</b> explanations.
		ii	Cash flows from investing activities are the disposal of long-term assets <b>(1)</b> . For example a cash payment to acquire property <b>(1)</b> , plant and equipment, or cash receipts from the sale of property, plant and equipment.		
		iii	Cash flows from financing activities are activities that which result in changes in the size and composition of the contributed equity and borrowings <b>(1)</b> of the entity. For example, issue and redemption of shares <b>(1)</b> .		
	b		<p><b>Indicative content:</b></p> <ul style="list-style-type: none"> <li>• whether the company has net cash inflows from operating activities which are the life blood of the business</li> <li>• planning for cash surplus</li> <li>• planning for cash deficits</li> </ul> <p><b>Exemplar response:</b> The management needs to know whether the business has net cash inflows or outflows <b>(1)</b> from operating activities. Net cash outflows from operating activities indicate that the payments for operating activities are more than the receipts from the revenue-producing activities <b>(1)</b>. Management has to make the decision to cut the operating costs without hampering the revenue <b>(1)</b>. For example, outsourcing manufacturing/operating activities without affecting the quality of products/services <b>(1)</b>.</p>	<b>4</b>	<b>One</b> mark for each correct explanatory statement, up to a maximum of four such statements, but allow development marks.
<b>Total marks for Question 5</b>				<b>10</b>	