

**GCE**

**Business Studies**

Unit **F294**: Accounting

Advanced GCE

**Mark Scheme for June 2015**

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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
✓	Correct
✘	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
<b>BOD</b>	Benefit of doubt given
<b>L1, L2, L3, L4</b>	Levels of response awarded at this point
<b>OFR</b>	Own figure rule
<b>TV</b>	Too vague
<b>NAQ</b>	Not answered the question
<b>NUT</b>	Not used the context (generic)
<b>REP</b>	Repetition. The candidate has merely restated what has already been said and so no further credit given.
<b>SEEN</b>	The page has been seen. This can be used on pages where no other annotation is appropriate and <b>MUST</b> be placed on each blank page

### Subject-specific Marking Instructions

Highlighting is also available to highlight any particular points on the script.

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 the following questions should be annotated with ticks to show where marks have been awarded in the body of the text:  
Question\_\_\_\_\_ ]**

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

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

Question		Answer			Mark	Guidance
1			July	August	September	<p>4</p> <p>One mark for each correctly calculated and inserted figure up to a maximum of four marks.</p> <p>Penalise only once, if brackets/minus sign omitted where appropriate.</p> <p>OFR applies. Therefore the maximum mark for OFR is three marks.</p>
		Inflows				
		Sales Receipts*	72911	64810	56709	
		Total Cash Inflow	72911	64810	56709	
		Outflows				
		Stock Purchases**	52500	60800	68400	
		Salaries	14583	14583	14583	
		Wages	15680	17640	19712	
		Lease	0	0	4000	
		Other Expenses	8500	9500	10200	
		Total Cash Outflow	91263	102523	<b>116895</b>	
		Net Cash Outflow	-18352	-37713	<b>-60186</b>	
		Opening Balance	54520	36168	<b>-1545</b>	
		Closing Balance	36168	-1545	<b>-61731</b>	

Question		Answer	Marks	Guidance										
				Content	Levels of response									
2		<p>The significant change in cash flow is during August but the accumulative impact of two months negative cash flow has seen a £97,899 change in the balance.</p> <p>The most significant figures to focus on are sales receipts and stock purchase.</p> <p>Sales receipts have fallen by 22.2%. Stock purchases have risen by 30.3%</p> <p>Have sales receipts fallen because of a quiet quarter 4? Why does SEDL give 60 days credit? Would a change in terms to 30 days help future cash flow positions? Could SEDL consider factoring its debts?</p> <p>Does SEDL need to stockpile for the anticipated surge in demand in Quarter 2? Can it re-negotiate credit terms with major suppliers especially if it has an established relationship with them?</p> <table border="1"> <thead> <tr> <th></th> <th>2013</th> <th>2014</th> </tr> </thead> <tbody> <tr> <td>Debtors Days</td> <td>48.0</td> <td>52.3</td> </tr> <tr> <td>Creditors Days</td> <td>34.5</td> <td>36.5</td> </tr> </tbody> </table>		2013	2014	Debtors Days	48.0	52.3	Creditors Days	34.5	36.5	6	<p>2 methods analysed = 6 marks 1 method analysed = 5 marks 2 methods understood = 4 marks 1 method understood = 3 marks 2 methods stated = 2 marks 1 method stated = 1 mark</p> <p>Marks rewarded for methods of improving cash flow NOT simply identifying cash flow problems.</p>	<p><b>Level 3: 6–5 marks</b> Candidate demonstrates analytical skills when considering one/two possible methods SEDL can use to improve its cash flow position.</p> <p><b>Level 2: 4–3 marks</b> Candidate demonstrates understanding of one/two possible ways in which cash flow position can be improved.</p> <p>No context required.</p> <p><b>Level 1: 2–1 marks</b> Candidate demonstrates only theoretical knowledge of cash flow.</p>
	2013	2014												
Debtors Days	48.0	52.3												
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Question	Answer			Marks	Guidance	
					Content	Levels of response
3		<b>2013</b>	<b>2014</b>	13	<p>Top of L4 for both sides of the argument which demonstrate evaluative skills.</p> <p>L3 for effective use of ratio analysis.</p> <p>Reward at L4 for an answer which compares and contrasts the difference between profitability and liquidity.</p> <p>Reward at L3 for an answer which compares and contrasts the difference between GPM and NPM.</p>	<p><b>Level 4: 13–9 marks</b> Candidate demonstrates evaluative skills when considering how Kirsty might view SEDL's financial performance.</p> <p><b>Level 3: 8–6 marks</b> Candidate demonstrates analytical skills when considering how Kirsty might view SEDL's financial performance.</p> <p><b>Level 2: 5–3 marks</b> Candidate demonstrates understanding of financial performance. No context required.</p> <p><b>Level 1: 2–1 marks</b> Candidate demonstrates only theoretical knowledge of financial performance.</p> <p><b>Default marks</b></p> <p>L4 – 11 L3 – 7 L2 – 4 L1 – 2</p>
	GPM	41.44%	36.82%			
	NPBIT	4.72%	8.29%			
	NPAIT	3.65%	6.48%			
	EPS (after tax/interest)	£2.71	£7.86			
	EPS (before tax/interest)	£3.50	£10.05			
	ROE/ROCE	21.6%	45.5%			
	debtors days	48.03	52.31			
	creditors days	34.5	36.5			
	stock turnover	58.55	60.25			
	current ratio	2.03	1.47			
	acid test	1.30	0.95			
	Interest cover	40.93 times	29.01 times			
	dividend yield	1.00	2.00			
	<p><u>Other data</u> Sales revenue has risen by 63.3% Unit sales have risen by 47% This implies that SEDL has secured higher prices for its production.</p> <p>Production workers pay has increased from £24500 to £26500 but output per worker has fallen from 124.25 to 115.43. Less experienced workers and/or more re-work?</p> <p>Is this reflected in the fall in GPM ? However both NPMs have improved, looks like SEDL is benefitting from economies of scale? ROE, dividend yield and EPS have shown impressive increases and should encourage Kirsty.</p>					

Question			Answer	Marks	Guidance	
					Content	Levels of response
			<p>However, there are ominous signs of deterioration in terms of the liquidity and efficiency ratios. Perhaps these demonstrate a business which is growing too quickly and it is why Kirsty is concerned.</p> <p>The cash flow statement would support her worries? Same applies to the 'runaway' costs shown for the batch of five desks.</p> <p>Take into account that the balance sheet date is probably at the point of time in the year when SEDL has the highest level of stock and lowest level of cash.</p>			

Question		Answer	Marks	Guidance	
				Content	Levels of response
4		<p>Kirsty estimates that the set up cost of this project is £20000. This is the initial negative cash flow. She does not appear to be too confident about figures relating to future positive cash flows and would be advised to carry out market research to identify the level of demand likely to be generated by the e-showroom.</p> <p>If SEDL has not used the such techniques before, it might be best to stick to payback method for its simplicity.</p> <p>Payback  Year 0 (20000)  Year 1 6000  Year 2 6000  Year 3 6000  Year 4 6000</p> <p><b>Payback period is 3 years 4 months or 3.3 years</b></p> <p>ARR might be used if SEDL is more familiar with comparing percentage returns.</p> <p><math>(6000 \times 4 = 24000) - 20000 = 4000</math>  <math>4000/4 = 1000</math>  <math>(1000/20000) \times 100 = 5 \%</math>  <b>ARR is 5%</b></p> <p>The problem with investment appraisal techniques for SEDL is that it has no benchmark with which to compare these results.</p> <p>Neither of these techniques takes into account the changing value of money over time and so Kirsty might be advised to attempt using a DCF technique.</p> <p>Ultimately, it depends on her level of accounting knowledge and expertise and the impact these have on the quality of the data she has prepared.</p>	13	<p>Top of L4 for both sides of the argument which demonstrate evaluative skills.</p> <p>L3 for effective use of investment appraisal.</p> <p>L4 requires considering at least <b>TWO</b> methods of investment appraisal.</p> <p>Reward comparison with DCF method(s) in L4</p>	<p><b>Level 4: 13–9 marks</b>  Candidate demonstrates evaluative skills when considering different methods of investment appraisal which Kirsty could use.</p> <p><b>Level 3: 8–6 marks</b>  Candidate demonstrates analytical skills when considering different method(s) of investment appraisal which Kirsty could use.</p> <p><b>Level 2: 5–3 marks</b>  Candidate demonstrates understanding of different method(s) of investment appraisal.  No context required.</p> <p><b>Level 1: 2–1 marks</b>  Candidate demonstrates only theoretical knowledge of method(s) of investment appraisal.</p> <p><b><u>Default marks</u></b></p> <p>L4 – 11  L3 – 7  L2 – 4  L1 – 2</p>

Question		Answer	Marks	Guidance																			
				Content	Levels of response																		
5		<p>Table 6 is the obvious source of contextual evidence. Analysis of the variance between the actual and estimated cost of producing the oak table demonstrates good analysis. I could be used to explain why setting a production budget would be a good method to reduce costs and so achieve more financial success. Analysis of any of the individual variances in costs is a valid approach (see table below).</p> <table border="1"> <thead> <tr> <th>Cost</th> <th>Variance (£)</th> <th>Variance (%)</th> </tr> </thead> <tbody> <tr> <td>Oak</td> <td>142A</td> <td>21.8</td> </tr> <tr> <td>Sundry materials</td> <td>13A</td> <td>86.7</td> </tr> <tr> <td>Direct labour</td> <td>24A</td> <td>15.4</td> </tr> <tr> <td>Direct labour - overtime</td> <td>27A</td> <td>150.0</td> </tr> <tr> <td>TOTAL</td> <td>206A</td> <td>41.4</td> </tr> </tbody> </table> <p>Clearly the most significant variance is on the cost of oak. Therefore, this would be the most significant cost to budget for and achieve much greater financial success.</p>	Cost	Variance (£)	Variance (%)	Oak	142A	21.8	Sundry materials	13A	86.7	Direct labour	24A	15.4	Direct labour - overtime	27A	150.0	TOTAL	206A	41.4	6	<p>Only award L3 for reference to a <b>production budget</b> for SEDL.</p> <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><b>Level 3: 6–5 marks</b> Candidate demonstrates analytical skills when considering one way in which setting a production budget would help SEDL to achieve financial success.</p> <p><b>Level 2: 4–3 marks</b> Candidate demonstrates understanding of one way in which setting a production budget would help a business to achieve financial success. No context required.</p> <p><b>Level 1: 2–1 marks</b> Candidate demonstrates only theoretical knowledge of budgets.</p> <p><b>Default marks</b></p> <p>L3 – 6 L2 – 4 L1 – 2</p>
Cost	Variance (£)	Variance (%)																					
Oak	142A	21.8																					
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Question	Answer	Marks	Guidance	
			Content	Levels of response
*6	<p><b><u>Accounting issues</u></b></p> <p>The key question is how will SEDL fund the re-location, it requires £240,000 if the showroom is included? There are certainly no cash reserves to finance the plan; however, SEDL has no long-term borrowing. A detailed business plan would have to be constructed in order to convince any potential financier whether it was a bank, venture capitalist, new shareholder or peer-to-peer. How could Gerry and Kirsty contribute to the financing of the move? Forfeit their dividend of £20,000 – this would, at least, pay for the showroom?</p> <p>At present one share is worth £25.16 (see balance sheet). This valuation does not include goodwill and so a share could be worth much more. The excellent EPS and dividend yield support a much higher valuation.</p> <p>At £25.16, this could raise £251,600 and so easily cover the purchase price. But what level of control would any new shareholder demand? A bank loan would not compromise control of the business but what about the level of interest likely to be charged and what about the long term prospect of rising interest rates?</p> <p>The alternative for SEDL is to look for a larger unit which is leased and then there are no issues over control or worries over changes in interest rates.</p> <p><b><u>Other issues</u></b> <b>Marketing</b></p> <p>According to Gerry, this is one of the key reasons to re-locate. Is the showroom just an ‘ego trip’ or will it really generate more sales? There does not appear to be a promotional strategy.</p>	18	<p>An answer which only includes <b>or</b> 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><b>Level 4: 18–13 marks</b> Candidate demonstrates evaluative skills when considering whether SEDL should move its business operations to the site proposed by Gerry.</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><b>Level 3: 12–7 marks</b> Candidate demonstrates analytical skills when considering whether SEDL should move its business operations to the site proposed by Gerry.</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>

Question			Answer	Marks	Guidance	
					Content	Levels of response
			<p>Perhaps the business should do both projects –the actual and virtual showroom?</p> <p><b>Operations</b> The implication is that SEDL is struggling to cope with the higher levels of demand and stock holding. Perhaps the rising level of re-work is a direct result of cramped manufacturing conditions?</p> <p><b>People</b> The cramped working conditions seem to be having a detrimental effect on motivation. Kirsty believes one of the two employees leaving SEDL is doing so because of the poor conditions. Despite higher average pay is this a case of Herzberg’s hygiene factors? If recruitment becomes an issue, would a better environment be important. Is the proposed new location easier/cheaper to commute to?</p> <p><b>Objectives</b> As already discussed, SEDL does not appear to have any SMART objectives. Should Gerry and Kirsty discuss long term objectives before making this major investment?</p>			<p><b>Level 2: 6–3 marks</b> Candidate demonstrates understanding of factors when a business is considering moving its business operations.</p> <p>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><b>Level 1: 2–1 marks</b> 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><b><u>Default marks</u></b></p> <p>L4 – 16 L3 – 10 L2 – 5 L1 – 2</p>

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