

The maximum mark for this paper is 60.

QUALITY OF WRITTEN COMMUNICATION

Quality of written communication is assessed in questions that are indicated accordingly (*). Marks should be awarded for spelling, punctuation and grammar, use of appropriate form and style of writing, and for organising work clearly and coherently.

Question Number	Answer	Marks
1	<p>In 2005 J.J.'s current ratio was 1.17 and its acid test ratio was 0.57. Calculate these two ratios for the company in 2006.</p> <p>Current ratio = c.a. / c.l. [1] 2006 = 380 / 440 = 0.86 [2]</p> <p>Acid test = c.a. – stock / c.l. [1] 2006 = 180 / 440 = 0.4 [2]</p>	[4]
2	<p>Analyse the implications of J.J.'s liquidity ratios.</p> <p><i>Figures low in 2005 [below usually regarded safe level] Lower in 2006. Thus trend implies worsening liquidity situation. A low current ratio implies a potential cash flow problem because of the difficulty in paying current liabilities on demand. The acid test is a more stringent measure as it excludes the least liquid of the current assets namely stock.</i></p> <p>Level 3 Comments showing analysis of implications by investigating the trend. [5-6]</p> <p>Level 2 Comments on trend showing understanding in context. [3-4]</p> <p>Level 1 Identifies trend showing knowledge. [1-2]</p>	[6]
3	<p>Analyse J.J.'s objective of maintaining high dividend payments to shareholders.</p> <p><i>Implies that relatively little profit is retained/implications for financing growth/capital constraints/gearing etc. Data suggests that policy has contributed to high gearing. Level of reserves appears low which probably is a reflection of the policy. However good for shareholders and share price. The shareholding data suggests that the main aim is to provide an income stream for the dominant shareholder.</i></p> <p>Level 3 Discussion analyses the objective. [5-6]</p> <p>Level 2 Answer shows understanding of the objective in context. [3-4]</p> <p>Level 1 Answer shows knowledge of the objective. [1-2]</p>	[6]

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4*	<p>With reference to Table 1, assess the current performance of JJ's.</p> <p><i>Ratio analysis should form the basis upon which the assessment rests. Ratios such as return on capital; current and/or acid test ratios; asset turnover ratios; profitability ratios; gearing. Clearly candidate should choose a few key ratios and use them as the basis for comparison and conclusions.</i></p> <table border="1" data-bbox="325 506 1150 734"> <thead> <tr> <th></th> <th>JJ'S</th> <th>X</th> <th>Y</th> </tr> </thead> <tbody> <tr> <td>Return on Capital %</td> <td>12.5</td> <td>28</td> <td>18.2</td> </tr> <tr> <td>Profit / Sales %</td> <td>8.3</td> <td>20</td> <td>15.3</td> </tr> <tr> <td>Current ratio</td> <td>0.86:1</td> <td>1.03:1</td> <td>1.87:1</td> </tr> <tr> <td>Sales / Asset ratio</td> <td>1.5</td> <td>1.5</td> <td>1.18</td> </tr> <tr> <td>Gearing</td> <td>70%</td> <td>10%</td> <td>31.8%</td> </tr> </tbody> </table> <p><i>JJ's return on capital looks modest in comparison with main competitors. Profit margin also low. The efficiency measure of asset turnover is also no more than acceptable. Thus the return on capital is relatively low because of the tighter profit margins that the business is working on. Discussion of performance may also extend to JJ's liquidity position which is poor when compared to main their main competitors. Similarly, reference to the high level of gearing may also feature in candidate responses. Judgement of performance is usually done by reference to</i></p> <ul style="list-style-type: none"> • <i>Similar businesses at the same point of time;</i> • <i>JJ's performance over time [past years];</i> • <i>Performance against objectives set internally by the management.</i> <p>Level 4 Some evaluative use of performance ratios. 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 Some analysis of performance ratios. 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 Understanding of performance indicators. 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>		JJ'S	X	Y	Return on Capital %	12.5	28	18.2	Profit / Sales %	8.3	20	15.3	Current ratio	0.86:1	1.03:1	1.87:1	Sales / Asset ratio	1.5	1.5	1.18	Gearing	70%	10%	31.8%	<p>[13]</p> <p>[9-13]</p> <p>[6-8]</p> <p>[3-5]</p>
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4* cont'd	<p>Level 1 Knowledge of performance concept. 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>	[1-2]
5*	<p>With reference to Table 3, and other information, discuss whether J.J's should only produce products that generate accounting profits.</p> <p><i>The distinction between profit and contribution needs to be made and the implications of withdrawing a product (or products) on total contribution considered - the importance of positive contribution to JJ's. The practical problems associated with calculating profitability in a multi product business may be addressed by candidates. The allocation of overheads for the new product range indicates a loss although there is a positive contribution. If overheads were allocated in a different way then this loss could become an accounting profit. The implications in respect of capacity utilisation might also be addressed. Candidates may recognise the relevance of the product life cycle (especially in relation to the new product ranges) and the wider marketing implications of the range in terms of product portfolio ie complementary products, customer recognition of particular products, loss leaders. There may also be implications in respect of staff ie a need to lay employees off.</i></p> <p>Level 4 Discussion shows ability to evaluate implications of decisions. 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 Discussion analyses issues in decision. 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 Answer shows understanding of issues in decision. 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>[13]</p> <p>[9-13]</p> <p>[6-8]</p> <p>[3-5]</p>

Question Number	Answer	Marks
5* cont'd	<p>Level 1</p> <p>Answer shows knowledge of the issues in decision. 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>	[1-2]
6*	<p>Which <u>one</u> of the two growth strategies should J.J. plc. adopt? Justify your view.</p> <p><i>Content – Strategic options are the alternative paths open to a business which will have an impact on the long term success of the business. They represent the means by which the objectives of the business can be met. Such options need to evolve in the light of both an internal and external audit. Appropriate resources need to be available for the successful implementation of the plan. The strategy will thus move the business in a certain direction which must be acceptable to the major stakeholders of the business. Possible strategic options include joint ventures and franchise growth arrangements. Other possible alternatives are takeover strategies or organic growth both in terms of markets and products. Candidates should identify some of these with reference to their [JJ's] capability of delivering JJ's objectives. They should also consider the feasibility of these options in terms of capital requirements and constraints [reference to the financial data in table 1]. Furthermore some consideration of the risk of the alternatives needs to be undertaken. Speed of implementation might also feature in the analysis.</i></p> <p>Level 4</p> <p>Answer evaluates the implications of the two options. 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</p> <p>Answer analyses options in terms of outcomes and resource requirements. 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>[18]</p> <p>[13-18]</p> <p>[7-12]</p>

Question Number	Answer	Marks
<p>6* cont'd</p>	<p>Level 2 Answer shows understanding of options in context. 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 Answer identifies and shows some knowledge of options. 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>[3-6]</p> <p>[1-2]</p>
Paper Total		[60]

Assessment Objectives Grid (includes QWC)

Question	AO1	AO2	AO3	AO4	Total
1	2	2	-	-	4
2	2	2	2	-	6
3	2	2	2	-	6
4*	2	3	3	5	13
5*	2	3	3	5	13
6*	2	4	6	6	18
Totals	12	16	16	16	60

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