

OCR

Oxford Cambridge and RSA

Tuesday 21 June 2014 9.30 am

Level 4 Certificate in Management Consulting

10331/02 Unit 2 Analysing Financial Statements and Reports

MARK SCHEME

Duration: 1 hour 30 minutes

MAXIMUM MARK 60

DRAFT

Version: **4** Last updated: **12/02/2014**

(FOR OFFICE USE ONLY)

This document consists of 12 pages

1. Make sure that you have accessed and completed the relevant and 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. Log-in to scoris and mark the **required number** of practice responses and the **required number** of standardisation responses.

PREPARATION FOR PAPER BASED MARKING

1. Make sure that you have accessed and completed the relevant training for paper based 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 PAPER BASED 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 questionNote: 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:
- 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

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

MARK SCHEME

Question			Answer/Indicative content	Mark	Guidance
1	a	i	Earnings per share $\text{£}750,000 \div 5,000,000 =$ £0.15 or 15p	1	
		ii	Price/earnings (PE) ratio $\text{£}2.4 \div \text{£}0.15 =$ 16	1	
		iii	Dividend yield $(\text{£}0.072^* \div \text{£}2.4) \times 100\% =$ 3.00% [1] **Dividend per share : $\text{£}360,000 \div 5,000,000 = \text{£}0.072$ [1]	2	
	b		Indicative content <ul style="list-style-type: none"> relationship between the market price of a share and the share's earning per share market's confidence in the share compared with the industry average/local stock exchange <p>Exemplar response: The PE ratio of Bradford plc indicates that the share of the company has a current market value about 16 times of the current earnings. [1] However, the PE ratio cannot be viewed alone; it has to be compared with its competitors, the average PE of the industry and the average PE for the local stock exchange. A company with high PE indicates that the investors have great confidence on the growth opportunities of the company. [1]</p>	2	1 mark for explaining what is PE ratio. 1 mark for indicating to compare with the industry average. Must make reference to the calculation in a(ii)

Question		Answer/Indicative content	Mark	Guidance
	c	<p>Indicative content</p> <ul style="list-style-type: none"> · return from the shares/nature of shareholder · return from the deposit · low deposit interest rate environment <p>Exemplar response: The Bank of England has maintained the 0.5% base rate since 2009. [1] For some conservative investors who place most of their money in bank deposit, they should be satisfied with the dividend yield of 3% [1] because it is well above the bank's savings interest rate. [1]</p>	3	<p>1 mark for explaining the current low-interest environment</p> <p>1 mark for satisfied or not satisfied</p> <p>1 mark for the reason</p>
	d	<p>Indicative content</p> <ul style="list-style-type: none"> · reserve · internal source of finance · pay tax · profit not cash · directors' decision <p>Exemplar response The current net profit can either be paid out as dividend to the shareholders or used as an internal source of finance. [1] As a source of finance, the company may invest in non-current assets. Usually the cost of internal finance is cheaper than borrowing money from the bank. If the investment yields an above average return, the shareholders will benefit. [1]</p>	6	<p>1 mark for the reason and 1 further mark for explanation.</p> <p>3 reasons are required.</p>
Total for Question 1			15	

Question		Answer/Indicative content	Mark	Guidance
2	a		8	1 mark for each accounting ratio
		Sun Ltd	Moon Ltd	
	i	Current ratio: $(£198,000 + £100,000 + £31,000) \div £135,000$ $(£116,000 + £108,000 + £78,000) \div £150,000$	2.44 : 1 [1]	2.01 : 1 [1]
	ii	Quick/acid ratio : $(£100,000 + £31,000) \div £135,000$ $(£108,000 + £78,000) \div £150,000$	0.97 : 1 [1]	1.24 : 1 [1]
	iii	Debtor (accounts receivable) turnover, in days $(£100,000 \div £780,000) \times 365$ days $(£108,000 \div £950,000) \times 365$ days	47 days [1]	42 days [1]
	iv	Stock (inventory) turnover, in days : $(£203,000^* \div £590,000) \times 365$ days $(£121,000^* \div £720,000) \times 365$ days	126 days [1]	62 days [1]
		* $(£198,000 + £208,000) \div 2 = £203,000$ $(£116,000 + £126,000) \div 2 = £121,000$		

Question		Answer/Indicative content	Mark	Guidance
b	i	<p>Indicative content</p> <ul style="list-style-type: none"> · no prior knowledge of the potential new customers · assess the liquidity · assess the ability to pay · determine the credit policy <p>Exemplar response</p> <p>The supplier does not know the history about the credibility of its potential customers, i.e. Moon Ltd and Sun Ltd. [1] It will study the financial statements of Sun Ltd and Moon Ltd in order to assess their liquidity. [1] Understanding the liquidity help understand the ability of their potential customers to pay short-term debt. [1].</p>	3	1 mark for each point from the indicative content
	ii	<p>Indicative content</p> <ul style="list-style-type: none"> · current ratio · quick ratio · stock turnover · debtor turnover · liquidity · risk · repayment ability · credit period <p>Exemplar response</p> <p>The quick ratio of Moon Ltd 1.24 : 1 is better than Sun Ltd's 0.97 : 1. [L1]. It means that Sun Ltd only has £0.97 to meet each £1 of current liabilities. Sun Ltd does not have sufficient liquid assets to pay off its immediate debt and its liquidity position is very poor. In contrast, Moon Ltd has a healthy liquidity</p>	8	<p>Level of response:</p> <p>Level 1 (1 - 3 marks) Identifying the difference between Sun Ltd and Moon Ltd by comparing the current ratio, quick ratio, stock turnover and debtor turnover.</p> <p>Level 2 (4 - 7 marks) Explain the reasons for the recommendation for each comparison</p> <p>Plus 1 mark for making the recommendation</p>

Question			Answer/Indicative content	Mark	Guidance
			position since it has £1.24 liquid funds to meet each £1 of current liabilities. In terms of the ability to pay the trade debt, Sun Ltd is more risky. [L2] . It is recommend that the supplier should trade with Moon Ltd. [1]		
	c	i	Working capital = current assets – current liabilities [1]	1	
		ii	<p>Indicative content</p> <ul style="list-style-type: none"> · short-term liquidity · daily operation of business · cash discount from creditors · credit policy to debtors · sufficient stock · sufficient cash <p>Exemplar response Working capital indicates the short-term liquidity of a company [1] Adequate working capital is needed to maintain sufficient inventories to meet customers' demand [1], sufficient cash to meet short-term debts [1].</p>	3	1 mark for each point from the indicative content
	d		<p>Indicative content</p> <ul style="list-style-type: none"> · difference in products · difference in strategy · difference in the nature of sales revenue · difference in size · difference in market segment <p>Exemplar response There may be difference in products between two companies of same industry; one company is sells standardised products while another company</p>	8	<p>Level of response</p> <p>Level 1 (1 - 2 marks) Identify the underlying difference of two companies in the same industry.</p> <p>Level 2 (3 - 4 marks) Explain the underlying difference of two companies in the same industry</p> <p>Level 3 (5 - 6 marks) Analyse the underlying difference</p>

Question	Answer/Indicative content	Mark	Guidance
	<p>sells differentiated products. [L1]. The company selling standardised products has a lower gross profit margin while the company selling differentiated products has a higher gross profit margin. [L2]. The company selling standardised product targets at the mass public and the products are subject to mass production. It has to set a lower selling price in order to get more sales revenue. However the company which produces differentiated product has a niche market, for example designer cloth. The uniqueness of the product allows company set a higher selling price so that it has a higher gross profit margin.[L3]. It is difficult to compare a company selling low-cost clothing with a company selling designer cloth. For a more meaningful comparison, a company selling low-cost clothing should be compared with another company which also sells low-cost clothing. Both of them have the same targeted customer, same marketing strategy and same production methods, i.e. outsourcing to low-cost countries etc. Only those companies with similar background can make the comparison meaningful. [L4]</p>		<p>of two companies in the same industry Level 4 (7 - 8 marks) Evaluate the underlying difference of two companies in the same industry.</p>
Total marks for question 2		31	

Question	Answer/Indicative content	Mark	Guidance
3	<p>Indicative content:</p> <ul style="list-style-type: none"> · providing information to management to make decisions · producing accurate financial statements · assisting auditing in tracing source documents <p>Exemplar response: Another purpose of recording business transaction is to provide management information to make decisions. [1] The decisions that the management makes include whether to drop a product line; whether a specific service or a component is provided by an internal department or by outsourcing; and whether to incur capital expenditure to improve operational efficiency. [1]. If the company has a good accounting system of recording business transactions, the financial information tends to be accurate. If the management considers the closure of a product line, it needs the financial information relating to that product line, i.e. its revenue and costs so that the management can determine the profitability and assess whether the product line is justifiable to exist when its return to investment is compared with the company's expected return and cost of capital. [1]</p>	6	<p>1 mark for identifying the purpose of recording business transactions plus 2 further marks for explanation. Two purposes of recording business transactions are required.</p>
Total marks for Question 3		6	

Question	Answer/Indicative content	Mark	Guidance
4	<p>Indicative content</p> <ul style="list-style-type: none"> · non-current assets · current assets · non-current liabilities (long-term liabilities) · current liabilities · equity <p>Exemplar response Current assets are those assets expected to be realized within twelve months after the reporting period. [1] Examples of current assets include stock (inventory), trade debtors (accounts receivable) and cash. [1]</p>	8	1 mark for identifying and explaining the correct section and 1 mark for giving at least one example Four sections in the balance sheet are required.
Total marks for Question 4		8	