OCR

Oxford Cambridge and RSA

Tuesday 16 June 2015   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

This document consists of 11 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 any way 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

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.

Question	Answer/Indicative content	Mark	Guidance
1 a		14	**One** mark for each correct calculation up to a maximum of 14 marks

Well Ltd **Dear Ltd**

Mark-up $\dfrac{£460\,000}{£790\,000} = 58.23\%$ **[1]** $\dfrac{£250\,000}{£370\,000} = 67.57\%$ **[1]**

Net profit margin $\dfrac{£110\,000}{£1\,250\,000} = 8.8\%$ **[1]** $\dfrac{£70\,000}{£620\,000} = 11.29\%$ **[1]**

Current ratio $\dfrac{£320\,000}{£205\,000} = 1.56:1$ **[1]** $\dfrac{£118\,000}{£50\,000} = 2.36:1$ **[1]**

Quick ratio $\dfrac{£200\,000}{£205\,000} = 0.98:1$ **[1]** $\dfrac{£88\,000}{£50\,000} = 1.76:1$ **[1]**

Stock turnover $\dfrac{£119\,000 \times 365}{£790\,000} = 54.98\text{ days}$ **[1]** $\dfrac{£31\,000 \times 365}{£370\,000} = 30.58\text{ days}$ **[1]**

Average stock for Well Ltd (£118 000+£120 000)÷2 = £119 000

Average stock for Dear Ltd (£32 000+£30 000)÷2 = £31 000

Debtor turnover $\dfrac{£200\,000 \times 365}{£1\,250\,000} = 58.4\text{ days}$ **[1]** $\dfrac{£81\,000 \times 365}{£620\,000} = 47.69\text{ days}$ **[1]**

Creditor turnover $\dfrac{£180\,000 \times 365}{£792\,000} = 82.95\text{ days}$ **[1]** $\dfrac{£50\,000 \times 365}{£368\,000} = 49.59\text{ days}$ **[1]**

Purchases for Well Ltd £790 000+£120 000-£118 000 = £792 000

Purchases for Dear Ltd £370 000+£30 000-£32 000 = £368 000

	b		Exemplar responses: Current assets are the amounts expected to be recovered within 12 months after the reporting period **[1]**. An asset is classified as current, for example, when it is sold in an entity's normal operating cycle (trade debtors) **[1]**; when it is held for the purpose of trading (inventory) or the asset is cash or a cash equivalent. Current liabilities are the amounts expected to be settled within 12 months after the reporting period **[1]**. A liability is classified as current, for example, when it is settled in an entity's operating cycle (trade creditors).**[1]**	4	Up to **two** marks for each of two explanations.
	c	(i)	Indicative content: • current ratio • quick ratio Exemplar responses: Dear Ltd has a higher current ratio than Well Ltd. **(L1)** As a normal rule, current assets should be twice the current liabilities. Dear Ltd achieves this but Well Ltd cannot. **(L2)** Quick ratio is a more stringent test of the solvency. Again, Dear Ltd has a higher quick ratio than Well Ltd. **(L1)** As a rule of thumb, a quick ratio of 1:1 is considered to be ideal when every £ of current liabilities is met by every £ of liquid assets. **(L2)** The lower current ratio and liquid ratio of Well Ltd indicates that its solvency position is weaker than Dear Ltd. **(L1)** Well Ltd's low solvency ratio indicates its ability to meet its current liabilities and inadequate working capital. **(L2)**	4	Level 2 (3-4 marks) Explaining the differences in solvency ratios between Well Ltd and Dear Ltd. Level 1 (1-2 marks) Identifying the differences in solvency ratios between Well Ltd and Dear Ltd
		(ii)	Indicative content: • industry average • trend analysis Exemplar response : The comparison is more meaningful if the industry average is used. **[1]** The comparison is too restricted if the comparison is only made between two companies. The industry average provides a benchmark/standard to gauge the performance of each individual company. **[1]**	4	**One** mark for each correct identification to a maximum of **two** identifications, plus a further **one** mark for each of **two** explanations.
Total for Question 1				26	

Question			Answer/Indicative content	Mark	Guidance
2	a	i	Return on equity $$\frac{£42\,000}{£500\,000+£108\,000+£42\,000} = \quad 6.46\%$$	1	Up to **one** mark Percentage sign required Up to three marks.
2	a	ii	Return on capital employed $$\frac{£42\,000+£13\,000 \text{ [1]}}{£500\,000+£150\,000+£108\,000+£42\,000 \text{ [1]}} = 6.88\% \text{ [1]}$$	3	Award **three** marks for 6.88% Percentage sign required
	b	i	Indicative content: • the residual interest in the assets of an entity that remains after deducting its liabilities. • ordinary share capital • owner/shareholders' funds • net worth.	1	For **one** mark
		ii	Indicative content: • is a fund set aside	1	For **one** mark
		iii	The Managing Director's concern is wrong. **[1]** Shareholders' equity will not be adversely affected by transferring profit to general reserve because general reserve is part of the shareholders' equity. **[1]**	2	Up to **two** marks
		iv	Indicative content • fall short of cash • hamper future growth • cannot meet contingencies Exemplar response: Distributing all of the current year's profit will hamper the growth of a company. **[1]** A company needs growth by reinvesting its retained profits, i.e. investing a project or buying new assets.	4	**One** mark for each correct identification up to a maximum of **two** identifications, plus a further **one** mark for each of **two** explanations.

			An Internal source of finance is cheaper than acquiring loans from external parties. **[1]**		
	Total marks for Question 2			**12**	

Question			Answer/Indicative content	Mark	Guidance
3	a		Indicative content: • external independent party • opinion on financial statements • assurance of financial statements • true and fair view Exemplar response: The auditor's report reflects the external auditor's opinion on a company's financial statements. **[1]** It provides an opinion on the truth and fairness of the financial statements presented by the management of the company. **[1]**	2	Up to **two** marks
	b		Indicative content: • a title identifying the person or persons to whom the report is addressed • an introductory paragraph identifying the financial statements audited • respective responsibilities of directors and auditors • the basis of the auditors' opinion • the auditors' opinion on the financial statements • the manuscript or printed signature of the auditors • the date of the auditor report Exemplar response: One major component of the auditor's report is the auditor's opinion. **[1]** The auditor has to express his/her opinion as towhether the financial statements give a true and fair view **[1]** of the state of the company's affairs as at the balance sheet date of the and of its profit (loss) for the financial year under review.**[1]**	6	**One** mark for each correct identification, up to a maximum of **two** identifications, plus up to a further **two** marks for each of **two** explanations.
	Total marks for question 3			**8**	

Question			Answer/Indicative content	Mark	Guidance
4			Indicative content: • future oriented vs historical figures • planning vs reporting on past events • financial accounting vs management accounting • statutory reporting vs management control Exemplar responses: • difference in orientation. **[1]** A cash budget is future oriented as the cash flow amounts are estimated for the coming period. A statement of cash flows is based on historical data, i.e. cash flow amounts for the last reporting period. **[1]** • difference in purpose. **[1]** The cash budget gives information to management for planning purpose. This enables management to make financial decisions should a cash surplus or cash deficit arise. The statement of cash flows gives information to investors about cash receipts and cash payments during the reporting period. **[1]** • difference in format. **[1]** There is no statutory format for a cash budget which is for internal use. A statement of cash flows, which is for external reporting, has a statutory format in which cash flows are presented under three major activities: operating, investing and financing. **[1]**	6	**One** mark for each correct identification up to a maximum of **three** identifications, plus a further **one** mark for each of **three** explanations of an appropriate difference.
Total marks for Question 4				6	

Question			Answer/Indicative content	Mark	Guidance
5			Indicative content: • profitability • dividend • solvency • liquidity Exemplar response: Potential investors need the financial information to consider whether it is worthwhile to invest in the targeted company. **[1]**. They need the information relating to profitability. **[1]** A sound profitability ratio (i.e. return on capital employed) for recent years can be projected to future profitability, meaning that the company is able to pay high dividend. **[1]**. A high profitability also strengthens the share price of the company.**[1]**	8	**One** mark for each correct identification of a difference. Up to a maximum of **four** identifications, plus **one** further mark for each correct point of explanation. Maximum 8 marks.
Total marks for Question 5				**8**	