



**Tuesday 20 January 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**

**FINAL**

**Version: 6 Last updated: 28/01/2015 – Post  
Standardisation Version**

**(FOR OFFICE USE ONLY)**

<b>This document consists of 12 pages</b>
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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 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.

Question		Answer/Indicative content	Mark	Guidance																				
1	a	<p><b>Indicative content:</b></p> <p>i Net profit margin indicates the net profit made for each £100 of sales. [1]</p> <p>ii Gross profit margin indicates the gross profit made for each £100 of sales. [1]</p> <p>iii Mark-up indicates the gross profit made for each £100 of cost of sales. [1]</p>	3	<p><b>One</b> mark for each correct statement up to a maximum of <b>three</b> statements</p> <p>Formula is acceptable</p>																				
	b	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">2014</th> <th></th> <th style="text-align: center;">2013</th> <th></th> </tr> </thead> <tbody> <tr> <td>i</td> <td>Net profit margin</td> <td style="text-align: center;"><math>\frac{\pounds 58000}{\pounds 840000} = 6.9\%</math></td> <td style="text-align: center;">[1]</td> <td><math>\frac{\pounds 88000}{\pounds 720000} = 12.22\%</math> [1]</td> </tr> <tr> <td>ii</td> <td>Gross profit margin</td> <td style="text-align: center;"><math>\frac{\pounds 280000}{\pounds 840000} = 33.33\%</math></td> <td style="text-align: center;">[1]</td> <td><math>\frac{\pounds 270000}{\pounds 720000} = 37.5\%</math> [1]</td> </tr> <tr> <td>iii</td> <td>Expenses as a % of revenue</td> <td style="text-align: center;"><math>\frac{\pounds 222000}{\pounds 840000} = 26.43\%</math></td> <td style="text-align: center;">[1]</td> <td><math>\frac{\pounds 182000}{\pounds 720000} = 25.28\%</math> [1]</td> </tr> </tbody> </table>		2014		2013		i	Net profit margin	$\frac{\pounds 58000}{\pounds 840000} = 6.9\%$	[1]	$\frac{\pounds 88000}{\pounds 720000} = 12.22\%$ [1]	ii	Gross profit margin	$\frac{\pounds 280000}{\pounds 840000} = 33.33\%$	[1]	$\frac{\pounds 270000}{\pounds 720000} = 37.5\%$ [1]	iii	Expenses as a % of revenue	$\frac{\pounds 222000}{\pounds 840000} = 26.43\%$	[1]	$\frac{\pounds 182000}{\pounds 720000} = 25.28\%$ [1]	6	<p><b>One</b> mark for each correct calculation up to a maximum of <b>six</b> marks</p>
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	c	<p><b>Indicative content:</b></p> <ul style="list-style-type: none"> <li>• net profit margin</li> <li>• gross profit margin</li> <li>• selling prices</li> <li>• sales revenue</li> <li>• volume of sales</li> <li>• cost of sales</li> <li>• expenses.</li> </ul> <p><b>Exemplar response:</b> Comparing the 2014 profitability with 2013, the net profit margin and gross profit margin of 2014 are lower than those in 2013, while the expenses as a percentage of revenue in 2014 are higher than in 2013. (L1)</p>	8	<p><b>Level of response</b></p> <p><b>Level 4 (7-8 marks)</b> Candidate evaluates the differences in the performance of Wellcome Ltd in 2014 compared with 2013</p> <p><b>Level 3 (5-6 marks)</b> Candidate analyses the differences in the performance of Wellcome Ltd in 2014 compared with 2013</p>																				

Question	Answer/Indicative content	Mark	Guidance
	<p>Although the sales revenue and the gross profit increased in 2014, gross profit margin decreased. The net profit in 2014 also decreased due to the increase in operating expenses. <b>(L2)</b></p> <p>Apparently the company reduced its selling price to attract more sales in 2014. This explains the increase in sales revenue but the gross profit margin decreases in 2014. The company may have incurred substantial promotion expenses which pushed up the operating expenses. However, the increase in expenses exceeds the increase in gross profit and this leads to the decrease in net profit. <b>(L3)</b></p> <p>The performance of Wellcome Ltd in 2014 is worse than in 2013 because the company did not control its operating expenses well. However, the company may have adopted the strategy of gaining a higher market share and, therefore, it has to lower its selling price to solicit more sales. The management should monitor closely the costs and expenses so that the profitability does not further deteriorate. <b>(L4)</b></p>		<p><b>Level 2 (3-4 marks)</b> Candidate explains the differences in the performance of Wellcome Ltd in 2014 compared with 2013</p> <p><b>Level 1 (1-2 marks)</b> Candidate identifies differences in the performance of Wellcome Ltd in 2014 compared with 2013</p>
d	<p><b>Indicative content:</b></p> <ul style="list-style-type: none"> <li>• benchmarking</li> <li>• yardstick for improvement</li> <li>• same industry/competitors</li> </ul> <p><b>Exemplar response:</b> One benefit of comparing Wellcome Ltd's performance to the industry average is benchmarking. <b>[1]</b>. It is meaningful for Wellcome Ltd to make the comparison with the performance of the same industry <b>[1]</b>. Financial ratios, averaged by the companies in the same industry, can serve as a benchmark for comparison against those of the individual company. This provides valuable information whether the individual company outperforms or underperforms against the industry average. <b>[1]</b></p>	<b>3</b>	<b>One</b> mark for a correct identification plus up to a further <b>two</b> marks for an explanation
<b>Total for Question 1</b>		<b>20</b>	

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2	a	<p><b>Indicative content:</b></p> <p>i Dividend cover is the comparison of the profit available to ordinary shareholders with the dividend paid to the ordinary shareholders. <b>[1]</b></p> <p>ii Interest cover is the comparison of the profit from operations with the amount of interest to be paid. <b>[1]</b></p>	2	<p><b>One</b> mark for each correct statement up to a maximum of <b>two</b> statements</p> <p>Formula is acceptable</p>																																			
	b	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;"></th> <th style="width: 35%; text-align: center;">Brown Ltd</th> <th style="width: 35%; text-align: center;">Tosee Ltd</th> <th style="width: 15%;"></th> </tr> </thead> <tbody> <tr> <td>i</td> <td>ROCE <math>\frac{\pounds 60000}{\pounds 680000} = 8.82\%</math> <b>[1]</b></td> <td><math>\frac{\pounds 60000}{\pounds 680000} = 8.82\%</math> <b>[1]</b></td> <td>2</td> </tr> <tr> <td></td> <td colspan="3">Capital employed of Brown <math>\pounds 450000 + \pounds 180000 + \pounds 50000 = \pounds 680000</math> Capital employed of Tosee <math>\pounds 300000 + \pounds 180000 + \pounds 200000 = \pounds 680000</math></td> </tr> <tr> <td>ii</td> <td>Return on equity <math>\frac{\pounds 57500}{\pounds 630000} = 9.13\%</math> <b>[1]</b></td> <td><math>\frac{\pounds 50000}{\pounds 480000} = 10.42\%</math> <b>[1]</b></td> <td>4</td> </tr> <tr> <td></td> <td colspan="3">Profit after interest Brown <math>\pounds 60000 - (50000 \times 5\%) = \pounds 57500</math> Tosee <math>\pounds 60000 - (\pounds 200000 \times 5\%) = \pounds 50000</math></td> </tr> <tr> <td></td> <td colspan="3">Equity Brown <math>\pounds 450000 + \pounds 180000 = \pounds 630000</math> Tosee <math>\pounds 300000 + \pounds 180000 = \pounds 480000</math></td> </tr> <tr> <td>iii</td> <td>Dividend cover <math>\frac{\pounds 57500}{\pounds 30000} = 1.92</math> <b>[1]</b></td> <td><math>\frac{\pounds 50000}{\pounds 30000} = 1.67</math> <b>[1]</b></td> <td>2</td> </tr> <tr> <td>iv</td> <td>Interest cover <math>\frac{\pounds 60000}{\pounds 2500} = 24</math> <b>[1]</b></td> <td><math>\frac{\pounds 60000}{\pounds 10000} = 6</math> <b>[1]</b></td> <td>2</td> </tr> <tr> <td>v</td> <td>Gearing ratio <math>\frac{\pounds 50000}{\pounds 680000} = 7.35\%</math> <b>[1]</b></td> <td><math>\frac{\pounds 200000}{\pounds 680000} = 29.41\%</math> <b>[1]</b></td> <td>2</td> </tr> </tbody> </table>		Brown Ltd	Tosee Ltd		i	ROCE $\frac{\pounds 60000}{\pounds 680000} = 8.82\%$ <b>[1]</b>	$\frac{\pounds 60000}{\pounds 680000} = 8.82\%$ <b>[1]</b>	2		Capital employed of Brown $\pounds 450000 + \pounds 180000 + \pounds 50000 = \pounds 680000$ Capital employed of Tosee $\pounds 300000 + \pounds 180000 + \pounds 200000 = \pounds 680000$			ii	Return on equity $\frac{\pounds 57500}{\pounds 630000} = 9.13\%$ <b>[1]</b>	$\frac{\pounds 50000}{\pounds 480000} = 10.42\%$ <b>[1]</b>	4		Profit after interest Brown $\pounds 60000 - (50000 \times 5\%) = \pounds 57500$ Tosee $\pounds 60000 - (\pounds 200000 \times 5\%) = \pounds 50000$				Equity Brown $\pounds 450000 + \pounds 180000 = \pounds 630000$ Tosee $\pounds 300000 + \pounds 180000 = \pounds 480000$			iii	Dividend cover $\frac{\pounds 57500}{\pounds 30000} = 1.92$ <b>[1]</b>	$\frac{\pounds 50000}{\pounds 30000} = 1.67$ <b>[1]</b>	2	iv	Interest cover $\frac{\pounds 60000}{\pounds 2500} = 24$ <b>[1]</b>	$\frac{\pounds 60000}{\pounds 10000} = 6$ <b>[1]</b>	2	v	Gearing ratio $\frac{\pounds 50000}{\pounds 680000} = 7.35\%$ <b>[1]</b>	$\frac{\pounds 200000}{\pounds 680000} = 29.41\%$ <b>[1]</b>	2	<p><b>One</b> mark for each correct calculation up to a maximum of <b>two</b> marks</p> <p>Up to <b>two</b> marks for each correct calculation up to a maximum of <b>four</b> marks</p> <p>For each of the following: <b>One</b> mark for each correct calculation up to a maximum of <b>two</b> marks</p>
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Question		Answer/Indicative content	Mark	Guidance
	c	<p><b>Indicative content</b></p> <ul style="list-style-type: none"> <li>• gearing ratio</li> <li>• return on capital employed</li> <li>• return on equity</li> <li>• dividend cover</li> <li>• interest cover</li> <li>• shareholders benefit if the cost of interest is lower than the return on capital employed</li> <li>• comparatively highly geared</li> <li>• risk.</li> </ul> <p><b>Exemplar response:</b> The net profit before interest and capital employed for both companies are the same. The gearing ratio of Tosee Ltd, however, is higher than Brown Ltd. The difference in gearing ratio leads to the difference in return on equity between these two companies. <b>(L1)</b></p> <p>Capital employed is comprised of equity and long-term loan. The proportion of equity and long-term loan is 92.65% and 7.35% respectively for Brown Ltd and 70.59% and 29.41% respectively for Tosee Ltd. Tosee Ltd has to pay higher debenture interest than Brown Ltd. Higher interest expenses reduce the profit available for appropriation to the shareholders of Tosee Ltd. This explains why the net profit after interest between these two companies is different. <b>(L2)</b></p> <p>The loan interest, which is 5%, is lower than the return on capital employed. The loan interest is fixed at 5% regardless of whether the company makes any profit. When a company borrows and pays 5% (as interest) but makes an overall return of 8.82% from its capital employed, the net benefit belongs to the shareholders. This explains why the return on equity of Tosee Ltd is higher than Brown Ltd <b>(L3)</b></p>	8	<p><b>Level of response</b></p> <p><b>Level 4 (7-8 marks)</b> Candidate evaluates the degree of risk to which the shareholder of Tosee Ltd are exposed</p> <p><b>Level 3 (5-6 marks)</b> Candidate analyses the degree of risk to which the shareholder of Tosee Ltd are exposed</p> <p><b>Level 2 (3-4 marks)</b> Candidate explains the degree of risk to which the shareholder of Tosee Ltd are exposed</p> <p><b>Level 1 (1-2 marks)</b> Candidate identifies factors which affect the degree of risk to which the shareholders in Tosee Ltd are exposed</p>

Question	Answer/Indicative content	Mark	Guidance
	<p>The gearing ratio of Tosee Ltd is higher than Brown Ltd. This suggests that Tosee Ltd has a 'higher risk' than Brown Ltd. For example, it has to pay more interest and it has a higher debt ratio. Furthermore, the dividend cover of Tosee Ltd is lower than Brown Ltd. This suggests that more of the profit from the operations of Tosee Ltd is paid to debenture holders in terms of interest and lesser appropriated profit is available for its shareholders. Although a company with a higher gearing ratio is perceived as more risky, the shareholders are compensated by a higher return. Although Tosee Ltd is perceived as more risky, the return on equity of Tosee Ltd is higher. <b>(L4)</b></p>		
<b>Total marks for Question 2</b>		<b>22</b>	

Question	Answer/Indicative content	Mark	Guidance
3	<p><b>Indicative content:</b></p> <ul style="list-style-type: none"> <li>• voluntary disclosure</li> <li>• mandatory disclosure</li> <li>• accounting policies.</li> </ul> <p><b>Exemplar response:</b></p> <ul style="list-style-type: none"> <li>• disclose information required by law and accounting standards <b>[1]</b> that is not presented elsewhere in the financial statements <b>[1]</b></li> <li>• provide additional information (both qualitative and quantitative), other than those required by law, <b>[1]</b> which is not presented elsewhere in the financial statements but is necessary for giving a true and fair view and better understanding of the financial statements <b>[1]</b></li> <li>• describe the basis of preparation of the financial statements <b>[1]</b> and the specific accounting policies selected <b>[1]</b></li> </ul>	<b>6</b>	One mark for each correct identification up to a maximum of three identifications, plus a further one mark for each of three explanations
<b>Total marks for Question 3</b>		<b>6</b>	

Question		Answer/Indicative content	Mark	Guidance
4	a	<p><b>Indicative content:</b></p> <ul style="list-style-type: none"> <li>• cash receipts/cash inflows</li> <li>• cash payments/disbursements/cash outflows</li> <li>• surplus or deficit at the end of the budget period.</li> </ul> <p><b>Exemplar responses:</b></p> <ul style="list-style-type: none"> <li>• cash receipts [1] from various sources, for example, receipts from trade debtors for sales of goods/services, sale proceeds of assets and the issue of shares [1]</li> <li>• cash payments/disbursements [1] for various expenditure; for example, payments to trade creditors for the supply of goods/services, payments for operating expenses, purchases of non-current assets and repayment of a loan [1]</li> <li>• cash surplus or deficit [1]; this is the result of deducting cash payments from the cash receipts during the budget period. [1] The budget period can be on a monthly basis, quarterly basis or annual basis.</li> </ul>	6	<p>One mark for each correct identification up to a maximum of three identifications, plus a further one mark for each of three explanations</p> <p>Mark holistically</p>
	b	<p><b>Indicative content:</b></p> <ul style="list-style-type: none"> <li>• cash surplus</li> <li>• cash deficit</li> <li>• control of spending</li> </ul> <p><b>Exemplar response:</b> According to the cash budget, if the company is forecasted a cash surplus during a period, the company executives will plan not to leave the cash surplus idle by, for example, making a short-term investment. [1]. However, if the company may experience a cash deficit, the company executives need to plan to avoid a shortage of cash by obtaining a loan from the bank(s). [1]</p>	2	<p>One mark for each correct identification up to a maximum of two identifications.</p>
<b>Total marks for Question 4</b>			<b>8</b>	

Question	Answer/Indicative content	Mark	Guidance
5	<p><b>Indicative content:</b></p> <ul style="list-style-type: none"> <li>• minimising tax obligation</li> <li>• tax relief on the written down value of assets</li> <li>• impact on cash flow</li> <li>• VAT</li> <li>• green tax / energy efficiency</li> <li>• timing of acquisition</li> <li>• lease vs purchase decision.</li> </ul> <p><b>Exemplar response:</b> The purchase of a piece of machinery is a cash outflow. However the purchase of machinery can attract a capital allowance which is deducted from the chargeable profit [1]. The deduction from the chargeable profit is regarded as tax savings, which is cash inflow. [1]</p>	4	<p><b>Level of response</b></p> <p><b>Level 2 (3-4 marks)</b> Explaining the tax consideration(s) of acquiring the machinery</p> <p><b>Level 1 (1-2 marks)</b> Identifying the tax consideration(s) of acquiring the machinery</p>
<b>Total marks for Question 5</b>		4	