

# OCR

Oxford Cambridge and RSA

17 January 2017

Level 4 Certificate in Management Consulting 10331

Unit 2 Analysing financial statements and reports

**MARK SCHEME**

**Duration:** 1 hour 30 minutes

**MAXIMUM MARK    60**

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**(FOR OFFICE USE ONLY)**

**This document consists of 10 pages**

**PREPARATION FOR MARKING ON-SCREEN**

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

Annotation	Meaning of annotation

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.

12. Here is the mark scheme for this question paper.

Question			Answer/Indicative Content	Marks	Guidance
1	a	i	$\frac{\text{£334 000}}{\text{£858 000}} = 38.93\% \quad (1)$ <p>Gross profit margin</p> <p>Gross profit (£858000-£524000)=£334000</p>	3	<p>Up to three marks.</p> <p>Accept incorrect rounding or more than two decimal places if correct.</p> <p>For (iii) accept 12.4%.</p>
		ii	$\frac{\text{£105 900}}{\text{£858 000}} = 12.34\% \quad (1)$ <p>Net profit margin</p> <p>Net profit (£858 000-£524 000-£213 000-£15100)=£105 900</p>		
		iii	$\frac{\text{£121 000}}{\text{£976 000}} = 12.40\% \quad (1)$ <p>Return on capital employed</p> <p>Capital employed (£796 000+£376 000-£196 000)=£976 000</p>		
	b	<p><b>Indicative content:</b></p> <ul style="list-style-type: none"> <li>gross profit</li> <li>gross profit margin</li> <li>selling price</li> <li>cost of sales</li> <li>net profit</li> <li>net profit margin</li> <li>operating expenses</li> </ul> <p><b>Exemplar response:</b></p> <p>The gross profit margin of Marz Ltd is lower than the industry average [L1]. The unit selling price of Marz Ltd is lower than the industry average or the cost of sales per unit of Marz Ltd is higher than the industry average [L2]. Marz Ltd may be in a less competitive position in the market so that it cannot charge a higher selling price to its customers or it does not have strong bargaining power to demand a lower purchase cost for goods from its suppliers [L3].</p>	9	<p><b>Level of response</b></p> <p><b>Level 3 (7 – 9 marks)</b> Candidate analyses the differences in profitability ratios.</p> <p><b>Level 2 (4 – 6 marks)</b> Candidate explains the difference in profitability ratios.</p> <p><b>Level 1 (1 – 3 marks)</b> Candidate identifies the difference in profitability ratios.</p> <p>OFR applies from part (a)</p>	

Question		Answer/Indicative Content	Marks	Guidance
	c	<p><b>Indicative content:</b></p> <ul style="list-style-type: none"> <li>• based on historical data</li> <li>• different accounting policies</li> <li>• window dressing</li> <li>• non-monetary factors not considered</li> <li>• external factors</li> <li>• does not explain the cause of the performance</li> <li>• only a particular year is to be compared</li> <li>• different accounting date – seasonal factor, e.g. year-end inventory.</li> </ul> <p><b>Exemplar response:</b> Different businesses adopt different accounting policies <b>(1)</b> as permitted by the accounting standards. For example, a company may adopt a First-in First-out method for costing inventory, while other companies adopt weighted average cost, resulting in a distorted comparison result <b>(1)</b>.</p>	6	<b>One mark</b> for each correct identification to a maximum of three identifications, plus a further <b>one mark</b> for each of three explanations.
	d i	<p><b>Indicative content:</b></p> <ul style="list-style-type: none"> <li>• selling price</li> <li>• cost of sales</li> <li>• more profitable sources of income.</li> </ul> <p><b>Exemplar response:</b> Marz Ltd can improve its gross profit margin by reducing its cost of sales (while maintaining the selling price) <b>(1)</b>. The cost of sales can be reduced by good inventory management. For example, the inventory level should not be as high in order to reduce the storage cost and the risk of obsolete inventory <b>(1)</b>.</p>	4	<b>One mark</b> for each correct identification to a maximum of two identifications, plus a further <b>one mark</b> for each of two explanations.
	d ii	<p><b>Indicative content:</b></p> <ul style="list-style-type: none"> <li>• gross profit</li> <li>• operating expenses</li> <li>• other sources of income.</li> </ul>	4	<b>One mark</b> for each correct identification to a maximum of two identifications, plus a further <b>one mark</b> for each of two explanations.

Question	Answer/Indicative Content	Marks	Guidance
	<p><b>Exemplar response:</b> Marz Ltd can improve its net profit margin by reducing its operating costs (while maintaining the gross profit) <b>(1)</b>. Marz Ltd should review its operating activities to identify any redundant costs or to streamline its operations in order to save costs <b>(1)</b>.</p>		
<b>Total marks for Question 1</b>		<b>26</b>	

Question	Answer/Indicative Content	Marks	Guidance
<b>2</b>			
<b>a</b>			
<b>i</b>	<p>Earnings per share <math>\frac{\pounds 284\,000}{300\,000}</math> <b>(1)</b> = 0.95</p> <p>Price/earnings <math>\frac{\pounds 9.48}{\pounds 0.95}</math> <b>(1)</b> = 9.98 <b>(1)</b></p>	8	Up to <b>eight</b> marks.  For price earnings ratio accept 10.01 or 10 as the correct answer if £0.95 has not been rounded in the calculation.
<b>ii</b>	<p>Dividend cover <math>\frac{\pounds 284\,000}{\pounds 159\,000}</math> = 1.79 <b>(1)</b></p>		
<b>iii</b>	<p>Dividend yield <math>\frac{\pounds 0.53}{\pounds 9.48}</math> <b>(1)</b> = 5.59% <b>(1)</b></p>		
<b>vi</b>	<p>Dividend per share <math>\frac{\pounds 159\,000}{300\,000}</math> = £0.53</p> <p>Interest cover <math>\frac{\pounds 284\,000 + \pounds 24\,000}{\pounds 24\,000}</math> = 12.83 <b>(1)</b></p> <p>Interest £400000x6%=£24000 <b>(1)</b></p>		

Question		Answer/Indicative Content	Marks	Guidance
	b i	<p><b>Indicative content:</b></p> <p><b>Users:</b></p> <ul style="list-style-type: none"> <li>existing shareholders</li> <li>potential investor(s).</li> </ul> <p><b>Interest:</b></p> <ul style="list-style-type: none"> <li>share price</li> <li>earnings</li> <li>future prospect/growth.</li> </ul> <p><b>Exemplar response:</b> Potential investors are interested in the PE ratios <b>(1)</b>. PE ratio expresses the relationship between the share price and the current earnings per share <b>(1)</b>. A business with expected high growth opportunities generally has high PE ratio because investors have confidence in the future prospect of the business <b>(1)</b>.</p>	6	<p><b>One mark</b> for a correct identification, plus up to a further <b>two marks</b> for explanation.</p>
	b ii	<p><b>Indicative content:</b></p> <p><b>Users:</b></p> <ul style="list-style-type: none"> <li>existing shareholders</li> <li>potential investor(s).</li> </ul> <p><b>Interest:</b></p> <ul style="list-style-type: none"> <li>dividend received</li> <li>earnings.</li> </ul> <p><b>Exemplar response:</b> Shareholders are interested in the dividend cover <b>(1)</b>. Dividend cover expresses the relationship between the current year earnings and the dividend paid to shareholders <b>(1)</b>. It is a measure of the ability of a company to maintain the level of paying a dividend to shareholders. A high dividend cover indicates that the business is keeping the profits for future development which is good for the share value in the long run <b>(1)</b>.</p>	3	<p><b>One mark</b> for a correct identification, plus up to a further <b>two marks</b> for explanation.</p> <p><b>Must be a different user to part (b) (i)</b></p>



Question			Answer/Indicative Content	Marks	Guidance
	<b>b</b>	iii	<p><b>Indicative content:</b>  <b>Users:</b></p> <ul style="list-style-type: none"> <li>• lenders/creditors/loan providers.</li> </ul> <p><b>Interest:</b></p> <ul style="list-style-type: none"> <li>• interest payment</li> <li>• ability to pay interest out of profit</li> </ul> <p><b>Exemplar response:</b>  Lenders are interested in the interest cover. <b>(1)</b> Interest cover expresses the relationship between the current year earnings and the interest paid to loan providers. <b>(1)</b> It is to measure how easily a business is able to pay interest expenses on its long-term loan. A low interest cover indicates that the business is burdened by interest expenses. <b>(1)</b></p>	3	<p><b>One mark</b> for a correct identification, plus up to a further <b>two marks</b> for explanation.</p>
	<b>c</b>		<p><b>Indicative content:</b></p> <ul style="list-style-type: none"> <li>• future prospect</li> <li>• future growth</li> <li>• share price</li> <li>• profitability</li> <li>• retained profits</li> <li>• sustainability of dividend.</li> </ul> <p><b>Exemplar response:</b>  Putop plc has a higher PE ratio than Juko plc <b>(L1)</b>. If both of them have similar earnings per share, a higher PE ratio indicates that Putop plc has a higher share price than Juko plc <b>(L2)</b>. Putop plc also has a higher dividend cover than Juko plc, suggesting that more profit of Putop plc is retained for future development. It is a good signal for future prospect of Putop plc as retained profit is a cheaper internal source of finance. When the investors envisage a good prospect, the share price of Putop plc will increase <b>(L3)</b>. However, Chris should not rely on one year figure. He should also examine, for example, the dividend paid for the last few years to consider whether Putop is paying out a constant rate of dividend. On the basis of higher PE and dividend cover, Chris should invest in Putop plc rather than Juko plc <b>(L4)</b>.</p>	8	<p><b>Level of response</b></p> <p><b>Level 4 (7 – 8 marks)</b>  Candidate evaluates performance of Juko plc and Putop plc.</p> <p><b>Level 3 (5 – 6 marks)</b>  Candidate analyses the differences of ratios between Juko plc and Putop plc.</p> <p><b>Level 2 (3 – 4 marks)</b>  Candidate explains the differences of ratios between Juko plc and Putop plc.</p> <p><b>Level 1 (1 – 2 marks)</b>  Candidate identifies the differences of ratios between Juko plc and Putop plc.</p> <p><b>OFR answers for Juko plc from part (a).</b></p>
<b>Total marks for Question 2</b>				<b>25</b>	

Question	Answer/Indicative Content	Marks	Guidance
3	<p><b>Indicative content:</b></p> <ul style="list-style-type: none"> <li>• profit centre</li> <li>• responsibility accounting</li> <li>• revenue and costs</li> <li>• accountability</li> <li>• profit</li> <li>• return on investment</li> <li>• return on capital employed.</li> </ul> <p><b>Exemplar response:</b> Profit centres are created within the business in the form of branches, according to the region and product line etc. [1] A profit centre manager is empowered to make decisions and is accountable for the revenue and costs of his/her profit centre [1]. Profit centres are separated for accounting purpose so that profitability can be measured for each profit centre to achieve the purpose of performance evaluation [1].</p>	3	<p><b>One mark</b> for each correct point of explanation to a maximum of three , but allow development.</p>
4	<p><b>Indicative content:</b></p> <ul style="list-style-type: none"> <li>• statement of cashflows vs cash budget</li> <li>• budgeted financial statements vs statutory financial statements</li> <li>• departmental accounts for analysis purpose vs statutory accounts</li> <li>• shareholders vs management</li> <li>• external reporting vs internal decision making</li> <li>• prescribed format vs optional</li> <li>• legal requirement vs no legal requirement</li> <li>• historic vs usually forward looking.</li> </ul> <p><b>Exemplar response:</b> Statement of cash flows has a specified format [1], whereas the cash budget can be produced in any format.[1].</p>	6	<p><b>One mark</b> for each correct identification to a maximum of three identifications, plus a further <b>one mark</b> for each of three explanations.</p>