

OCR

Oxford Cambridge and RSA

Tuesday 12 June 2018

Level 4 Certificate in Management Consulting 10331

UNIT 2 Analysing financial statements and reports

MARK SCHEME

Duration: 1 hour 30 minutes

MAXIMUM MARK 60

Mark Schemes have been issued on the basis of **one** copy per Assistant examiner and **two** copies per Team Leader.

This document consists of 8 printed pages.

Question	Answer	Marks	Guidance
1(a)(i)	Current assets $\text{£}114000 + \text{£}142000 + \text{£}8000 = \text{£}264000$ Current liabilities $\text{£}105000 + \text{£}43000 + \text{£}11000 = \text{£}159000$ $\text{£}264000(1) / \text{£}159000 = 1.66 : 1(1)$	2	Award full marks for the correct answer, irrespective of workings. Award a maximum of one mark for incorrect rounding.
1(a)(ii)	Liquid assets $\text{£}142000 + \text{£}8000 = \text{£}150000$ or $\text{£}264000 - \text{£}114000 = \text{£}150000$ $\text{£}150000(1) / \text{£}159000 = 0.94 : 1(1)$	2	Award full marks for the correct answer, irrespective of workings. Award a maximum of one mark for incorrect rounding.
1(a)(iii)	Average stock $1/2(\text{£}102000 + \text{£}114000) = \text{£}108000$ $(\text{£}108000(1) \times 365) / \text{£}588000 = 67.04(1)$ days	2	Award full marks for the correct answer, irrespective of workings. Award a maximum of one mark for incorrect rounding.
1(a)(iv)	$(\text{£}142000 \times 365) / \text{£}744000 = 69.66(1)$ days	1	For one mark.
1(a)(v)	Purchases $\text{£}114000 + \text{£}588000 - \text{£}102000 = \text{£}600000$ $(\text{£}105000 \times 365) / \text{£}600000(1) = 63.88(1)$ days	2	Award full marks for the correct answer, irrespective of workings. Award a maximum of one mark for incorrect rounding.

Question	Answer	Marks	Guidance
1(b)(i)	<p>Indicative content</p> <ul style="list-style-type: none"> • liquidity problem • risk of bad debt • expenses in chasing trade debt • cash flow crisis • short term finance required • creditor turnover is shorter than debtor turnover 	3	One mark for each correct identification up to a maximum of three identifications but allow development.
1(b)(ii)	<p>Indicative content:</p> <ul style="list-style-type: none"> • tighten credit policy • charge interest on delayed payments • impose fees for chasing late payments • offer cash discount to encourage early settlement <p>Exemplar response:</p> <p>Fasen Limited can offer cash discount (1) to credit customers in order the encourage them to settle their accounts earlier than the credit period allowed (1).</p>	4	One mark for an identification up to a maximum of two plus a further one mark for each of two explanations.

Question	Answer	Marks	Guidance
1(c)	<p>Indicative content:</p> <p>Strengths</p> <ul style="list-style-type: none"> • comparison with other businesses • trend analysis • numerical representation of performance in a simple form • a snapshot of performance • effective means of communication • signal of strength/weakness of a business <p>Weaknesses</p> <ul style="list-style-type: none"> • different size • different industries • inflation • historical data • seasonal factors • different accounting year end • different accounting policies • difficult to generalise whether a ratio is good or bad • not quantitative • do not show the cause of the performance <p>Exemplar response: Ratio analysis is useful when the financial ratios of one business are compared with the financial ratios of another business, e.g. a business in the same industry (L1). Through ratio analysis, i.e. profitability ratios, potential investors</p>	8	<p>Award the lower mark of the mark band for an answer that is one-sided i.e. considers strengths or weaknesses only.</p> <p>Level 4 (7 - 8 marks)</p> <p>Candidate evaluates the usefulness to a potential investor of ratio analysis.</p> <p>Level 3 (5 - 6 marks)</p> <p>Candidate analyses the usefulness to a potential investor of ratio analysis.</p> <p>Level 2 (3 - 4 marks)</p> <p>Candidate explains the usefulness to a potential investor of ratio analysis.</p> <p>Level 1 (1 - 2 marks)</p> <p>Candidate identifies the usefulness of ratio analysis.</p>

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	are able to compare the net profit margin in order to make a decision about which of these two businesses is the better choice (L2) . The higher the net profit margin the more efficient the business is in controlling the operating expenses during the financial year concerned (L3) . However, ratio analysis is limited by the fact that different businesses may adopt different accounting policies that make the comparison difficult (L4) .		
2(a)	Operating expenses are those expenditures incurred by a business to engage in the daily operations of the business (1) .	1	For one mark.
2(b)(i)	Gross profit $\text{£}886000 - \text{£}526000 = \text{£}360000$ $\text{£}360000(1) / \text{£}526000 = 68.44(1)\%$	2	Award full marks for the correct answer, irrespective of workings. Award a maximum of one mark for incorrect rounding.
2(b)(ii)	$\text{£}307000 / \text{£}886000 = 34.65(1)\%$	1	For one mark.
2(b)(iii)	Interest $\text{£}150000 \times 10\% = \text{£}15000$ Profit before interest $\text{£}886000 - \text{£}526000 - \text{£}307000 = \text{£}53000$ $\text{£}53000(1) / \text{£}15000(1) = 3.53(1)$ times	3	Award full marks for the correct answer, irrespective of workings. Award a maximum of two marks for incorrect rounding.
2(b)(iv)	Net profit $\text{£}886000 - \text{£}526000 - \text{£}307000 - \text{£}15000 = \text{£}38000$ $\text{£}38000(1) / 21000 = 1.89(1)$ times	2	Award full marks for the correct answer, irrespective of workings. Award a maximum of one mark for incorrect rounding.

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2(b)(v)	$\text{£}38000/\text{£}562000=6.76(1)\%$	1	For one mark.
2(b)(vi)	Capital employed $\text{£}562000+\text{£}150000=\text{£}712000$ $\text{£}53000/\text{£}712000(1)=7.44(1)\%$	2	Award full marks for the correct answer, irrespective of workings. Award a maximum of one mark for incorrect rounding.
2(c)	The cash ratio assesses the ability of a company to pay its short term debts (1) . It is the ratio of a company's total cash to its current liabilities (1) .	2	Up to two marks.
2(d)	<p>Indicative content:</p> <ul style="list-style-type: none"> decreasing trend selling price cost of sales operating expenses efficiency competition stock (inventory) control finance cost <p>Exemplar response:</p> <p>Both the gross profit margin and the net profit margin are on a decreasing trend (L1). For the decreasing gross profit margin, Polun Limited may have had to reduce its selling price (L2). Polun Limited is probably in a very competitive market so that it has to cut its price to solicit more sales or maintain the sales level (L3).</p>	6	<p>Level 3 (5 - 6 marks)</p> <p>Candidate analyses the profitability performance of Polun Limited.</p> <p>Level 2 (3 - 4 marks)</p> <p>Candidate explains the profitability performance of Polun Limited.</p> <p>Level 1 (1 - 2 marks)</p> <p>Candidates identifies the downward trend in profitability of Polun Limited.</p>

Question	Answer	Marks	Guidance
3(a)	<p>Indicative content:</p> <ul style="list-style-type: none"> • revenue/income • expenditure/expenses • surplus / deficit <p>Exemplar response:</p> <p>Income (1) - the major source of income of non-profit making organisations is from donations, subscriptions and government funding etc (1). The nature of these types of revenue is pure gift. Non-profit making organisations are not required to provide goods and services in return for the income (1).</p>	6	<p>One mark for a correct identification up to a maximum of two identifications plus up to a further two marks for each of two developments.</p>
3(b)	<p>Indicative content:</p> <ul style="list-style-type: none"> • accountability to general public • benefits to members of community • resources • objectives/goals • solvency • sustainability • application of money <p>Exemplar response:</p> <p>Non-profit making organisations such as hospitals, schools and social clubs etc exist to provide benefits to the general public (1). As the major source of income is from the government/council/general public, the non-profit making organisations are accountable to the general public on whether the money has been spent wisely in achieving the intended objectives (1).</p>	4	<p>One mark for a correct identification up to a maximum of two identifications plus a further one mark for each of two explanations.</p>

Question	Answer	Marks	Guidance
4	<p>Indicative content:</p> <p>Advantages</p> <ul style="list-style-type: none"> • positive signal • high return for investors • short term investors <p>Disadvantages</p> <ul style="list-style-type: none"> • cash shortage • long term growth • cheaper internal source of finance • lack of reserve • precautionary measure • long-term investors <p>Exemplar response:</p> <p>One advantage of issuing high dividends is that it may attract other potential investors (1). This would increase the amount of equity that the company has (1), improving its gearing ratio (1).</p> <p>One disadvantage is that a high dividend policy suggests that the company may experience low retained profits (1). It is not good for the long-term growth (1) of the business because the cost of funding from internal sources is cheaper than from external funding (1).</p>	6	<p>One mark for a correct identification up to a maximum of two identifications plus up to a further two marks for each of two explanations.</p>
			[Total: 60]