

Mark Scheme

Principal Learning

Business, Administration and Finance (BA304/01)

General guidance on marking

Examiners should look for qualities to reward rather than faults to penalise. This does NOT mean giving credit for incorrect or inadequate answers, but it does mean rewarding learners for answers showing correct application of principles and knowledge, and for critical and imaginative thinking. Examiners should therefore read and consider every response carefully; even if it is not what is expected it may be worthy of credit. The Principal Examiner or Team Leader should be consulted as necessary.

Using the mark scheme

- 1 The first row identifies the question.
- 2 The first column identifies the part of the question.
- 3 The second column identifies acceptable responses.
- 4 Exemplar responses are not necessarily exhaustive and markers should apply professional judgement.
- 5 For some exemplar responses, example answers have been supplied as additional guidance, particularly where the question allows for a wide range of responses from the learner. Each bullet point illustrates an alternative way of obtaining the mark(s).
- 6 The use of a dash '-' indicates the separation of points made, to show where the marks lie. The use of an oblique '/' indicates an alternative point for the same mark.
- 7 The second column sometimes indicates where marks are to be awarded with a number inside parentheses, eg (1)
- 8 The third column gives the sub-total for each part of the question and the total marks for the question.

Where extended answers are required from the learner, levels of response style instructions are provided.

Question number	Answer	Mark
1	D	(1)

Question number	Answer	Mark
2	A	(1)

Question number	Answer	Mark
3	A	(1)

Question number	Answer	Mark
4	D	(1)

Question number	Answer	Mark
5	C	(1)

Question number	Answer	Mark
6	1 mark for correct total, 1 mark for workings. Answers: £5.04 (1) £33.84 x 35/235 (1)	(2)

Question number	Answer	Mark																												
7 (a)	<p>Marks are awarded for the number of rows which have only one box indicated correctly according to the key below.</p> <ul style="list-style-type: none"> • 3 marks for 6 rows • 2 marks for 4 or 5 rows • 1 mark for 2 or 3 rows. <table border="1"> <thead> <tr> <th></th> <th>Database</th> <th>Spreadsheet</th> <th>Word processing</th> </tr> </thead> <tbody> <tr> <td>budget variances</td> <td></td> <td>X</td> <td></td> </tr> <tr> <td>cash flow statements</td> <td></td> <td>X</td> <td></td> </tr> <tr> <td>new customer records</td> <td>X</td> <td></td> <td></td> </tr> <tr> <td>profit forecasts</td> <td></td> <td>X</td> <td></td> </tr> <tr> <td>invoices</td> <td></td> <td></td> <td>X</td> </tr> <tr> <td>writing to suppliers</td> <td></td> <td></td> <td>X</td> </tr> </tbody> </table>		Database	Spreadsheet	Word processing	budget variances		X		cash flow statements		X		new customer records	X			profit forecasts		X		invoices			X	writing to suppliers			X	(3)
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7 (b)	<p>1 mark for each task described. If no job-based role is given, no mark will be awarded.</p> <p>Example answers for accounts payable (purchases ledger) clerk:</p> <ul style="list-style-type: none"> • Input invoices onto the computer • Match invoices against goods received and delivery docket • Checking prices against records • Resolving purchase ledger queries <p style="text-align: right;">(2 x 1)</p>	(2)

Question number	Answer	Mark
8 (a)	<p>Marks are available as follows:</p> <ul style="list-style-type: none"> • 1 mark for an advantage of retained profits • 1 mark for a disadvantage of retained profits • 1 mark for an advantage of trade credit • 1 mark for a disadvantage of trade credit. <p>Possible answers:</p> <p>Retained profits Advantages:</p> <ul style="list-style-type: none"> • Internal so no cost of borrowing • Not answerable to anyone for how it is used <p>Disadvantages:</p> <ul style="list-style-type: none"> • The equivalent amount of cash will come out of Gudwood Ltd • Gudwood Ltd's liquidity is likely to be adversely affected <p>Trade credit Advantages:</p> <ul style="list-style-type: none"> • Easily obtainable for an established business such as Gudwood Ltd • Reduces the amount of working capital needed/frees up funds <p>Disadvantages:</p> <ul style="list-style-type: none"> • Gudwood Ltd loses the cash discount • No guarantee of getting sufficient credit to fund the new shop/the supplier may withdraw credit • More associated with small needs/short-term needs <p style="text-align: right;">(4 x 1)</p>	(4)

Question number	Answer	Mark
8 (b)	<p>1 mark for recommending either option, with up to 3 marks for the reasons.</p> <p>Possible answers:</p> <ul style="list-style-type: none"> Retained profits (1) because they are associated with longer-term investments such as this (1) and a more certain source than trade credit (1) because the amount is known (1) Trade credit (1) because it is more immediate (1) and it is an external cash source (1) so retained profits could still be used for other financial purposes (1) Not answerable to anyone for how used. 	(4)

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10	<p>1 mark for each general use/purpose of budgeting (maximum 3).</p> <p>Possible answers:</p> <ul style="list-style-type: none"> Helps financial planning/forecasting (1) will help control finances (1) and can be used to motivate people (1) <p>1 mark for each example of planning, control or other budgeting feature related to given information (maximum 6).</p> <p>Possible answers:</p> <ul style="list-style-type: none"> (Planning) forecast eg the cost of buying new machines (capital expenditure budget) (1), the cost of advertising/marketing (marketing budget) (1), and the cost of labour needed to make the product (1) (Control) eg compare the actual cost of raw materials with the budgeted cost (1). If variance adverse, review reasons such as price increase/wastage/quality (1), take action such as change supplier/improve staff efficiency (1) (Motivation) employee involvement in setting budgets can motivate (1). Use variance analysis to set targets to further motivate employees (1), but targets must be realistic otherwise will demotivate (1) 	(8)

Question number	Answer	Mark
11 (a)	<p>1 mark for correct answer, 1 mark for an appropriate method.</p> <p>Answers:</p> <ul style="list-style-type: none"> $\text{£}645/\text{£}(54.95 - 25.05)$ (1) = 22 units breakeven (1) 	(2)

Question number	Answer	Mark
11 (b)	<p>1 mark for correct answer, 1 mark for an appropriate method.</p> <p>Answers:</p> <ul style="list-style-type: none"> $\text{£}645/\text{£}(49.95 - 25.55) = 27$ units breakeven (26.43) (1) so 3 units margin of safety (30 - 27) (1) OF 	(2)

Question number	Answer	Mark
11 (c)	<p>1 mark for each appropriate limitation, 1 mark for outlining why.</p> <p>Possible answers:</p> <ul style="list-style-type: none"> • Based on a single product (1) but decisions on costs may be arbitrary in a multi-product business (such as Gudwood Ltd) (1) • Assumes fixed costs stay at £645 (1) but in reality this is unlikely (1) • Assumes unit variable costs do not change (1) but in practice they do (eg 50p price increase) (1) • Assumes selling price is constant across all sales (1) but selling price can change eg a Gudwood Ltd sale (1) • Supply side analysis only (1) but this ignores Gudwood Ltd's ability to sell the product (1) • Assumes number made equals number sold (1) but in practice there will be stock build-up (1) <p style="text-align: right;">(2 x 2)</p>	(4)

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12	<p>Marks are available as follows:</p> <ul style="list-style-type: none"> • 1 mark for each correct calculation of profitability (maximum 2) • Up to 2 marks for analysis of profitability • Up to 2 marks for limitations of profitability • 1 mark for each correct calculation of liquidity (maximum 2) • Up to 2 marks for analysis of liquidity • Up to 2 marks for limitations of liquidity <p>Profitability</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: center;">2007</td> <td style="text-align: center;">2006</td> <td></td> </tr> <tr> <td>GP margin</td> <td style="text-align: center;">51%</td> <td style="text-align: center;">52%</td> <td>(1) both</td> </tr> <tr> <td>NP margin</td> <td style="text-align: center;">13%</td> <td style="text-align: center;">14%</td> <td>(1) both</td> </tr> </table> <p style="text-align: right;">(2)</p> <p>Profitability: analysis (accept OF points)</p> <ul style="list-style-type: none"> • Reduction in NP margin (1) suggests lower profitability (1) • GP margin fallen by the same amount (1) a result of cutting prices due to strong competition/the directors do not pass on price increase (1) • Difference between/expenses % is stable at 38% (1) so directors are controlling admin and selling costs (1) <p style="text-align: right;">(2)</p> <p>Profitability: limitations</p> <ul style="list-style-type: none"> • ROCE cannot be calculated from information given (1) • Two years' figures only given/more information needed to see trend (1) <p style="text-align: right;">(2)</p> <p>Liquidity</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: center;">2007</td> <td style="text-align: center;">2006</td> <td></td> </tr> <tr> <td>Current ratio</td> <td style="text-align: center;">1.8:1</td> <td style="text-align: center;">1.7:1</td> <td>(1) both</td> </tr> <tr> <td>Acid test</td> <td style="text-align: center;">0.6:1</td> <td style="text-align: center;">0.7:1</td> <td>(1) both</td> </tr> </table> <p style="text-align: right;">(2)</p> <p>Liquidity: analysis (accept OF points)</p> <ul style="list-style-type: none"> • Current ratio has improved by 0.1 (1) and acid test by the same (1) • Evidence that Gudwood Ltd's liquidity is improving (1) but it is below the 'textbook' levels of 2:1 and 1:1 (1) <p style="text-align: right;">(2)</p> <p>Liquidity: limitations</p> <ul style="list-style-type: none"> • No information on industry standards (1) so cannot make full judgement (1) • Two years' figures only given/more information needed to see trend (1) <p style="text-align: right;">(2)</p>		2007	2006		GP margin	51%	52%	(1) both	NP margin	13%	14%	(1) both		2007	2006		Current ratio	1.8:1	1.7:1	(1) both	Acid test	0.6:1	0.7:1	(1) both	(12)
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