Question	Answer (AO2) 8	Mark
4(a)	**2 marks per correct set of ratios, must calculate ratios for both companies. Maximum 8 marks.**	

		Privilege	Lucky
Return on Capital Employed (ROCE)	(Profit on ordinary activities before interest and tax (PBIT) ÷ Capital employed) x 100%	4 800 ÷ 5 685 x 100 = 84.4%	3 360 ÷ 2 982 x 100 = 114.6%
Operating margin	(Operating profit ÷ Revenue) x 100%	(4 800 ÷ 25 550) x 100 = 18.8%	(3 360 ÷ 12 200) x 100 = 27.5%
Quick ratio	(Current Assets – Inventory) ÷ Current Liabilities	3 350 ÷ 1 417 = 2.36 : 1	1 108 ÷ 601 = 1.84 : 1
Asset turnover ratio (utilisation ratio)	Revenue ÷ Capital employed (as in ROCE)	25 550 ÷ 5 685 = 4.5 times	12 200 ÷ 2 982 = 4.1 times
Inventory days	(Inventory (closing or average) ÷ Cost of sales) x 365	(1 442 ÷ 17 250) x 365 = 30.5 days	(255 ÷ 7 320) x 365 = 12.7 days
Receivables Collection Period (days)	(Trade Receivables ÷ Revenue) x 365	(3 145 ÷ 25 550) x 365 = 44.9 days	(1 005 ÷ 12 200) x 365 = 30.1 days
Gearing ratio (Debt ÷ Equity)	(Debt ÷ Equity) x 100	(2 000 ÷ 3 685) x 100 = 54.3%	(200 ÷ 2 782) x 100 = 7.2%

(8)

Question	Indicative content (AO3) 4/(AO4) 6/(AO5) 6
4(b)	• Both companies are very profitable relative to capital employed and each makes huge profit per share (assuming £1 ordinary shares), therefore both companies would be acceptable. • Lucky Ltd is a smaller operation but has higher profitability ratios throughout. This might indicate that it is the better choice. • Lucky Ltd's trading shows higher gross margins and that operating costs are kept under control, leading to better operating margins. This indicates that it is the better choice. • Working capital management is very healthy in both companies, therefore both companies are acceptable. • The current and quick ratios are very high for both companies showing no risk of not being able to pay debt, therefore both companies are acceptable. • Privilege Ltd is better in this regard and also works its assets slightly harder in generating revenue. Therefore Privilege Ltd would be more acceptable. • Lucky Ltd manages working capital better, turning over inventory in 11 days (Privilege Ltd 30.5) and collecting debts within 30 days (Privilege Ltd 44.9).This indicates that it is the better choice. • Privilege and Lucky's payables are the same. Therefore both companies are acceptable. • Overall, Lucky Ltd has a shorter working capital cycle making it more able to withstand working capital fluctuations, so is the better choice. • Lucky Ltd is operating with almost no loans and could improve profits by using loans if any additional capital is needed. Privilege's Ltd's debt/equity of 51.4% shows a high proportion of debt, and unless there has been short-term borrowing during the year, the interest rate is very high at 1205 ÷ 2000 = 60.3%. It is generally accepted that businesses with a low debt/equity are more favourable so Lucky Ltd would be a better choice. • Overall, Lucky Ltd has a better financial performance.

Level	Mark	Descriptor
	0	Question not attempted or response completely irrelevant or inaccurate
Level 1	1 - 5	Displays limited application of Accounting theories or concepts in an appropriate context. A largely descriptive approach with unsupported or generalised examples, which are not related to the question scenario. Factors to support a logical chain of reasoning are not present or are not examined methodically. A supported conclusion is not present or the conclusion presented is not supported by evidence drawn from the question scenario.
Level 2	6 -11	Displays application of Accounting theories or concepts in an appropriate and relevant context. A largely descriptive approach with examples drawn from the question scenario. Factors to support a chain of reasoning are identified and supported by evidence drawn from the question scenario but are not examined methodically and the chain of reasoning presented is not sufficiently well developed or balanced to support a robust supported conclusion.
Level 3	12 - 16	Displays an understanding of Accounting theories or concepts which are applied in a relevant context. Displays the ability to link knowledge and understanding using relevant examples and inferences drawn from the question scenario. Displays an understanding of the essential themes present in the question scenario broken down into their constituent parts in order to present a logical and coherent chain of reasoning. Careful consideration is given to all relevant factors drawn from the question scenario with additional evidence drawn from relevant theory in order to present a reasoned and logically robust conclusion.