
AS Accounting

7126 – Financial management accounting

Mark scheme

7126

June 2018

Version/Stage: 1.0 Final

Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Assessment Writer.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Further copies of this mark scheme are available from aqa.org.uk

Level of response marking instructions

Level of response mark schemes are broken down into levels, each of which has a descriptor. The descriptor for the level shows the average performance for the level. There are marks in each level.

Before you apply the mark scheme to a student's answer read through the answer and annotate it (as instructed) to show the qualities that are being looked for. You can then apply the mark scheme.

Step 1 Determine a level

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptor for that level. The descriptor for the level indicates the different qualities that might be seen in the student's answer for that level. If it meets the lowest level then go to the next one and decide if it meets this level, and so on, until you have a match between the level descriptor and the answer. With practice and familiarity, you will find that for better answers you will be able to quickly skip through the lower levels of the mark scheme.

When assigning a level, you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best fit approach for defining the level and then use the variability of the response to help decide the mark within the level, ie if the response is predominantly level 3 with a small amount of level 4 material it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

Step 2 Determine a mark

Once you have assigned a level you need to decide on the mark. The descriptors on how to allocate marks can help with this. The exemplar materials used during standardisation will help. There will be an answer in the standardising materials which will correspond with each level of the mark scheme. This answer will have been awarded a mark by the Lead Examiner. You can compare the student's answer with the example to determine if it is the same standard, better or worse than the example. You can then use this to allocate a mark for the answer based on the Lead Examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

Indicative content in the mark scheme is provided as a guide for examiners. It is not intended to be exhaustive and you must credit other valid points. Students do not have to cover all of the points mentioned in the indicative content to reach the highest level of the mark scheme.

An answer which contains nothing of relevance to the question must be awarded no marks.

Examiners are required to assign each of the students' responses to the most appropriate level according to its overall quality, then allocate a single mark within the level. When deciding upon a mark in a level examiners should bear in mind the relative weightings of the assessment objectives and be careful not to over/under credit a particular skill. For example, in questions 17 and 18 more weight should be given to AO3 than to AO2. This will be exemplified and reinforced as part of examiner training.

Marking guidance for questions 17 & 18

Be clear on the focus of the question.

As you read through the answer use the following to comments to annotate the script.

Where you identify:	Situation	Comment to use
Application - knowledge of principles/concepts/techniques	Application is fragmented or descriptive or not adequately applied to the context	Weak application
	Application is relevant and applied fully to the context	Clear application
Analysis	A limited attempt at analysis	Weak analysis
	Analysis is logical/considered	Reasoned analysis
Evaluation	An attempt at assessment/evaluation with little or no supporting evidence	Weak evaluation
	Evaluation/assessment is logical and supported by evidence	Supported evaluation
	Evaluation/assessment considers the relative significance and limitations of the evidence.	Astute evaluation
Judgement or Conclusion or Recommendation	An attempt at judgement is made but unsupported by evidence or argument	Judgement/conclusion - unsupported
	A judgement is made and is supported but the support is weak or evidence used is limited	Judgement/conclusion – limited/weak support
	The judgement is supported by evidence and argument but may not be fully balanced	Judgement/conclusion-supported
	Judgement is supported by evidence and considers the limitations of the evidence in context.	Judgement/conclusion - fully justified

Remember that the indicative content provides possible answers but there may be others that are equally valid and you should give credit to other lines of argument.
A good response does not need to include all the indicative content.

Consider the question as a whole, together with the annotations made, and decide on the level to be awarded.

Show the Level awarded eg L2 using the relevant comment from the drop down list and then enter the mark in the total box reflecting where in the level the answer sits.

If in doubt about an answer or if you are unsure of the validity of the content then contact your Team Leader. Please make sure that you follow the guidance in the standardisation scripts as we need to have a standardised approach across all marking.

Be positive in your marking and look to reward what is there.

Marking guidance question 12

This question is only testing Assessment Objective 1.

You should apply the level of response mark scheme to each benefit.

Read the explanation of each benefit as a whole and decide if it is clear, partial, fragmented or nothing worthy of credit.

When you have made your decision; award the appropriate level by using L3, L2, L1 or L0 for each benefit and show these on the answer against the relevant benefit by using the drop down comment box.

Then put the total marks for the question in the mark box.

The own figure rule

General principle

The own figure rule is designed to ensure that students are only penalised once for a particular error at the point at which that error is made, and suffer no further penalty as consequence of the error. The error could be in an account, a calculation, financial statement, or prose explanation. Where the own figure rule is to be applied in a mark scheme, the symbol **OF** is used.

Applications

In an account: a student could still achieve a mark for balancing an account with their own figure, rather than the correct figure, if they had made an error in the account (such as the omission of an entry, or the inclusion of an incorrect figure for an otherwise valid entry). However, it should be noted that an own figure would not be awarded for the balance of an account, if the account contained any item which should not have appeared (often referred to as an 'alien' item).

In a complex calculation to which several marks are allocated: a student could achieve an own figure mark for the result of a complex calculation, if an error has been made in one of the steps leading to the final result. The complex calculation could be a separate task, or an aspect of a larger requirement (such as workings to provide details for a financial statement).

In a financial statement: a student could still achieve a mark for calculating an own figure for a key subtotal within a financial statement where an error had already occurred in the data making up the subsection (such as the omission of an item, or an incorrect figure for an otherwise valid entry). Again, the own figure for a subtotal would not be given if the subsection included any 'alien' item.

In a prose statement: a student who is explaining or interpreting some financial statements or data that they have prepared but which contains errors, would be credited with an appropriate interpretation of their own figures.

Workings

A '**W**' next to a figure in the mark schemes means that the figure needs to be calculated by the student to which workings are shown for reference. If the figure the student has given in their answer is wrong and the marks given for that calculation are more than 1 then the marker must refer to the working for that item. The working will show the steps of the calculation to which the marks are attributed and the student should be allocated the marks for the steps they completed correctly.

Section A

Multiple Choice Questions

Question Number	Answer
1	C
2	D
3	B
4	B
5	C
6	C
7	D
8	C
9	B
10	B

[1 mark for each correct answer]

Qu	Part	Marking Guidance	Total marks
----	------	------------------	-------------

11	1	Define the term 'stepped costs'.	2
----	---	----------------------------------	---

AO1 - 2 marks

Stepped costs are fixed **(1)** for a range of activity but when activity increases the cost increases by an additional fixed amount **(1)**.

Marker note: Examples not accepted.

11	2	Calculate total fixed costs.	1
----	---	------------------------------	---

AO1 - 1 marks

Answer = £200 000 (1)

Fixed costs $4000 \times 50 = 200\,000$

11	3	Calculate the contribution per unit.	1
----	---	--------------------------------------	---

AO1 - 1 mark

Answer is £95 (1)

Contribution per unit $200 - 105 = 95$

11	4	Calculate the break-even point in units. State the formula used.	3
----	---	--	---

AO1 - 3 marks

Formula

Fixed costs
Contribution per unit (1)

Answer is 2 106 units (2)

$$\frac{200\,000}{95} \text{ OF from (2)} = 2\,105.263 \text{ (1) OF}$$

Marker note

Accept contribution in the formula provided the contribution per unit figure is used in the calculation
The answer will be based on the students own figures from (11.2) and (11.3).

1 mark for rounding up the break-even point to the nearest unit.

If the answer is incorrectly rounded down award 1 mark for calculation.

11	5	Describe what is meant by 'break-even point in units.'	2
----	---	--	---

AO1 - 2 marks

Break-even point is the output level **(1)** where total revenue equals total cost **(1)**.

Alternative answers

Break-even point is the output level/activity/number of units **(1)** where total contribution equals total fixed cost **(1)**.

Break-even point is the output level/activity/number of units **(1)** where neither a profit or loss is made **(1)**.

Qu	Part	Marking Guidance	Total marks
12		Explain two benefits of zero-based budgeting.	6

AO1 - 6 marks

Apply the levels of response mark scheme to each benefit – 3 marks maximum for each benefit.

Marks	Levels of response mark scheme
3	A clear and thorough explanation showing knowledge and understanding of a benefit.
2	A partial explanation showing knowledge and understanding of a benefit but lacking detail and/or minor inaccuracies.
1	Fragmented points made.
0	Nothing written worthy of credit.

Answers may include:

Accuracy: Zero based budgeting makes every department look again at each and every item in the budget and calculate the costs involved starting from a zero base. This to some extent helps in cost reduction as it ensures that the costs are matched to the expected level of activity.

Efficiency: This helps in efficient allocation of resources as resources will only be allocated if they meet the demands of the department or organisation and not incrementally increased from previous years.

Reduction in redundant activities: It leads to the identification of opportunities and more cost-effective ways of doing things by removing all the unproductive or redundant activities.

Budget inflation: Since every line item is to be justified, zero based budgeting overcomes the weakness of budget inflation in incremental budgeting, where costs are increased in line with inflation from the previous year's figures.

Motivation: Employees should be involved in building the budget from a zero base and this should increase their motivation to meet the budget as they have more ownership.

Marker note:

The benefit should relate specifically to zero based budgeting.

Other credit worthy material should be rewarded as appropriate.

Qu	Part	Marking Guidance	Total marks
13	1	Prepare the provision for depreciation for motor vehicles account and the disposal of motor vehicles account for the year ended 30 April 2018. Bring any balances down on 1 May 2018.	11

AO1 - 11 marks

Provision for depreciation – motor vehicles

Date	Details	£		Date	Details	£	
1 May 17	Disposal account	12 000	(1)	1 May 17	Balance b/d	45 000	(1)
30 Apr 18	Balance c/d	50 000		30 Apr 18	Income statement	17 000	(4)OF W1
		<u>62 000</u>				<u>62 000</u>	
				1 May 18	Balance b/d	50 000	(1)OF

Marker note:

To award the marks:

The entries must be on the correct side (see comments below regarding income statement/depreciation for the year).

There must be an appropriate label, eg Disposal account (accept Disp a/c etc); Balance b/d, balance b/fwd (accept abbreviations); Income statement or Depreciation account (accept profit and loss account or appropriate abbreviations).

Balance b/d mark is for the balancing process and can be awarded if it is on the debit side provided there are no extraneous items and is arithmetically correct.

Disposal of motor vehicles

Date	Details	£		Date	Details	£	
28 Apr 18	Motor vehicle cost	21 000	(1)	28 Apr 18	Depreciation	12 000	(1)
30 Apr 18	Income statement	1 000	(1)OF	28 Apr 18	Cash/Bank	10 000	(1)
	(Profit on disposal)	<u>22 000</u>				<u>22 000</u>	

Marker note:

The entries must be on the correct side except the OF mark for profit which can be awarded if it is the students correctly calculated balancing figure and supported by an appropriate narrative (accept abbreviations if they are understandable). Do not award mark for Income statement if there is a balance c/d or b/d on 1 May.

Workings**W1 Depreciation**

Award up to 3 marks for the calculation of depreciation.

Award an additional mark for entering the depreciation figure on the credit side of the provision account with the appropriate narrative.

Cost			Depreciation		
	£			£	
Opening balance	81 000		Opening balance	45 000	
Addition	24 000				
Less disposal	(21 000)		Less disposal	(12 000)	
Closing balance	84 000			33 000	

Net book value	£	
Cost	84 000	(1)
Provision for depreciation	(33 000)	(1)
Net book value at 30 April 2018	51 000	
Depreciation rate	33 $\frac{1}{3}$ %	
Depreciation for the year	17 000	(1)OF

The mark for the £17 000 is for correctly calculating the depreciation, eg using 33 $\frac{1}{3}$ % on the students own net book value figure.

If the student shows £51 000 by another method, award 2 marks.

Qu	Part	Marking Guidance	Total marks
13	2	Prepare the inventory account to show the entries for the year ended 30 April 2018 and bring the balance down on 1 May 2018.	4

AO1 - 4 marks

Inventory											
Date		Details		£		Date		Details		£	
1 May 17		Balance b/d (Opening inventory)		8 650	(1)	30 Apr 18		Income statement		8 650	(1)
30 Apr 18		Income statement		12 440	(1)	30 Apr 18		Balance c/d (Closing inventory)		12 440	
				21 090						21 090	
1 May 18		Balance b/d (Opening inventory)		12 440	(1)						

Marker note:

The entries must be on the correct side and supported by an appropriate narrative (accept abbreviations, for the income statement – accept profit and loss account or understandable abbreviations).

Award the balance b/d mark for bringing down £12 440 – this could be on the credit side if other entries made incorrectly.

Qu	Part	Marking Guidance	Total marks
14	1	Prepare the suspense account at 30 April 2018 to correct the errors and show the original difference on the trial balance.	5

AO2 - 5 marks

Suspense account					
Date		£		Date	£
30 Apr 18	Original difference	154	(1) OF	30 Apr 18	Wages 90 (1)
30 Apr 18	Discount received	156	(1)	30 Apr 18	A supplier 400 (1)
30 Apr 18	Purchases	180	(1)		
		<u>490</u>			<u>490</u>

Marker note:

To award the OF mark for the original difference on the trial balance the account must be arithmetically correct, must not contain a correction for error 1, eg £3 300 and there must be no balance c/d.

Award 1 mark if wages is shown as £678 on the debit side **and** £768 credit on the credit side.

Award 1 mark if discount received is shown as two entries of £78 (both on debit side).

Award 1 mark if A Supplier is shown as two entries of £200 (both on credit side).

Qu	Part	Marking Guidance	Total marks
14	2	Calculate the revised profit, taking into account any adjustments required for correcting the errors 1-5.	5

AO2 - 5 marks

Answer = £28 396 (5)

	£	
Draft profit	24 850	
Error 1	3 300	(1)
2	156	(1)
3	180	(1)
4	<u>(90)</u>	(1)
Revised profit	<u>28 396</u>	(1)OF

Marker note:

To award the OF mark for the revised profit there must be no extraneous items, eg error 5 (£200 or £400) and it must include the original draft profit.

Section B

Qu	Part	Marking Guidance	Total marks
15		Prepare the statement of financial position for Joko Ltd at 30 April 2018 taking into account any adjustments required by items 1–5.	15

AO2 - 15 marks

Joko Ltd
Statement of financial position sheet at 30 April 2018

	Cost	Accumulated depreciation	Net Book value
	£	£	£
Non-Current Assets			
Property	270 000 (1)W1	63 000 (1)W2	207 000
Current assets			
Inventory		73 600 (1)W3	
Trade receivables		20 250 (1)W4	
Provision for doubtful debts		(810) (1)W5*	
Cash and cash equivalents		<u>110 000 (1)W6</u>	
			203 040
Total assets			<u>410 040</u>
Equity			
Ordinary shares of 20p each			300 000 (1)W7
Share premium			25 000 (1)W8
Retained earnings			<u>61 440 (6)W9</u>
			386 440
Current liabilities			
Other payables			23 600 (1)W10
Total equity and liabilities			<u>410 040</u>

Marker note:

To award the marks for all of the items it should be clear which section of the statement of financial position the figure is in and should have an appropriate label.

Award 2 marks for trade receivables of £19440 (adjusted trade receivables £20 250 – provision for doubtful debts £ 810)

Award 1 mark for trade receivables of £27 600 (non-adjusted trade receivables £28 750 – provision for doubtful debts £1 150)

Workings**W1 Property**

	£
Original property	250 000
Correction of error – new building	20 000
	<u>270 000</u> (1)

W2 Depreciation

	£
Original provision for depreciation	62 500
Additional depreciation (£20 000/40)	500
Revised provision for depreciation	<u>63 000</u> (1)

W3 Inventory

	£
Original inventory	68 600
Add goods on sale or return at cost	5 000
	<u>73 600</u> (1)

W4 Trade receivables

	£
Original trade receivables	28 750
Less goods on sale or return at selling price	8 500
	<u>20 250</u> (1)

***W5 Provision for doubtful debts**

	£
Original trade receivables	28 750
Less goods on sale or return at selling price	8 500
	<u>20 250</u>
	4%
	<u>810</u> (1)

Alternative version

If trade receivables shown on the statement of financial position as £28 750 then award 1 mark for a provision of doubtful debts figure of £1 150.

	£
Original trade receivables	28 750
	4%
	<u>1 150</u> (1)

W6 Cash and cash equivalents

	£
Original bank overdraft	(15 000)
Cash from share issue	125 000
	<u>110 000</u> (1)

If students show cash and cash equivalents of £125 000 **and** a bank overdraft of £15 000, award the mark.

W7 Share issue500 000 shares x 20p = £100 000 **(1)****W8 Share premium**500 000 shares x 5p = £25 000 **(1)****Marker note W7 & 8:**

To award 2 marks the share premium must be shown separately on the balance sheet. Award 1 mark only if the student answer combines the share issue and share premium, provided the figure is correct, eg if ordinary shares shown as £325 000 award 1 mark for the correct calculation of the share issue.

W9 Retained earnings

	£	
Original Retained earnings	61 110	
Less Profit on goods on sale or return (8 500-5 000)	(3 500)	(1)
Correction of error - Repairs and renewals	20 000	(1)
Depreciation on repairs	(500)	(1)
Provision for Taxation	(16 000)	(1)
Provision for doubtful debts	330	(1)OF*
	<u>61 440</u>	(1)OF

Marker note

* Provision for doubtful debts = 810 **OF** (from W5) – 1 140 = 330 **(1)OF**.

The marks are awarded for the correct figure **and** correct treatment – so for example if a student adds £3 500 for the correction of the goods on sale or return this should not be rewarded.

Alternative answer provided provision for doubtful debts calculated on original trade receivables

	£	
Original Retained earnings	61 110	
Less Profit on goods on sale or return (8 500-5 000)	(3 500)	(1)
Correction of error - Repairs and renewals	20 000	(1)
Depreciation on repairs	(500)	(1)
Provision for Taxation	(16 000)	(1)
Provision for doubtful debts (1150-1140)	(10)	(1)OF*
	<u>61 100</u>	(1)OF

W10 Other payables

	£	
Original other payables	7 600	
Add Provision for tax	16 000	(1)
	<u>23 600</u>	

Qu	Part	Marking Guidance	Total marks
16		Prepare the budgeted trading section of the income statement for Budgee Ltd for the year ended 30 April 2019.	15

AO2 - 15 marks

Budgee Ltd
Budgeted trading section of the income statement
for the year ended 30 April 2019

	£	£	
Revenue		2 347 380	(5)W1
Opening inventory	240 000		
Purchases	1 837 500		(3)W2
Carriage inwards	56 250		(1)W3
Closing inventory	<u>(313 750)</u>		(5)W4
Cost of sales		<u>1 820 000</u>	
Gross profit		<u>527 380</u>	(1)OF*

Marker note:

If purchases and carriage inwards shown together as £1 893 750 award 4 marks. For any other answer please check workings.

*OF to award this mark the answer must include the opening inventory.

Workings**W1 Revenue**

		£	
Original selling price	(2 160 000 ÷ 12 000)	180	(1)
New selling price	(180 – 10%)	162	(1)
Sales volume to 31 Oct	(12 000 x 115%) ÷ 2	= 6 900	(1)
Revenue to 31 Oct		X 162	1 117 800
Sales volume 31 Oct to 30 April	(6 900 x 110%)	= 7 590	(1)OF
Revenue 31 Oct to 30 April		X 162	1 229 580
Total revenue		<u>2 347 380</u>	(1)OF#

Marker note

The sales volume for the 6 months from 1 November 2018 to 30 April 2019 will be based on students own figure from the first 6 months, eg it should be 10% greater than volume for period from 1 May to 31 October.

this OF mark can be awarded if student has miscalculated the change in selling price.

W2 Purchases

		£	
Purchases – old supplier	$(15\,000 \times 3/12) = 3\,750$ units		
Price	X £130		
Cost of products		487 500	(1)
Purchases – new supplier	$(15\,000 \times 9/12) = 11\,250$ units		
Price	X £120		
Cost of product		1 350 000	(1)
Purchases for year		<u>1 837 500</u>	(1)OF*

Marker note:

* To award the OF mark the purchases must be valued using one of the cost figures eg £130, £120 or £125. For example if the units is miscalculated but the purchases are valued at £130 then the OF mark can be awarded.

If student values purchases for new supplier at £125 award 1 additional mark for including the £5 carriage inwards. However, the student should not then show carriage inwards separately in the budgeted income statement.

W3 Carriage inwards

11 250 units (OF from W2) x £5 (1) = **£56 250 OF**

W4 Closing inventory**Value of closing inventory**

2 510 units (OF) x £125 (OF) = 313 750 (5)OF

	Units	
Opening inventory	2 000	
Purchases	15 000	(1)
Sales (6900+ 7590)	(14 490)	(1)OF*
Closing inventory	<u>2 510</u>	(1)OF#

Cost of product		
Purchase price	120	(1)
Delivery charge	5	(1)
Total cost of product	<u>125</u>	

Marker note

Award 4 marks for closing inventory for £301 200 (2510 units x £120)

*OF for sales based on calculations for revenue.

OF for closing inventory based on OF from sales **and** including opening inventory.

Section C

Qu	Part	Marking Guidance	Total marks
17		Evaluate the performance of the business in relation to liquidity. Recommend and justify a short-term solution to the problem of the bank overdraft.	20

AO2 - 5 marks, AO3 - 15 marks

Level	Marks	Description
4	16–20	A balanced response that presents a coherent and logically reasoned judgement and conclusion/solution that is supported by an astute consideration of relevant evidence drawn from both the stimulus and other sources. There is a clear assessment of the significance and limitations of the evidence used to support the judgement.
3	11–15	A reasoned, but in places unbalanced, judgement and conclusion/solution is presented that considers relevant evidence that can be drawn from the stimulus and/or other sources. The judgements of relative significance may be indistinct. There is an awareness of the impact of any limitations or qualifying factors, but assessment is partial or equivocal. A comprehensive and relevant selection of information is analysed, showing a developed logical chain of reasoning. The results of any appropriate calculation/s are integrated into the analysis and evaluations offered on most.
2	6–10	An underdeveloped judgement and conclusion/solution is presented, supported by a limited evaluation of evidence provided in the stimulus material. There may be inconsistencies and the reasoning may contain inaccuracies. A limited but relevant selection of information is analysed, starting to develop a logical chain of reasoning. The results of the calculation/s are integrated into the analysis but with weak evaluations. Relevant knowledge and understanding of principles/concepts/techniques is drawn together and applied successfully to the context. Where appropriate, relevant calculations are attempted; these may include minor errors.
1	1–5	A basic judgement and conclusion/solution may be asserted, but it is unsupported by any evidence. Responses present a limited selection of information that is not wholly relevant with an attempt at analysis. A chain of reasoning ranges from being barely present to undeveloped. Fragmented items of knowledge and understanding of principles/concepts/techniques relevant to the contexts are present. These are likely to be descriptive, with limited application to the context. Where appropriate, some calculations are attempted; these are likely to contain errors and may not be relevant to the context. Results of the calculations are stated with little or no evaluation.
0	0	Nothing written worthy of credit

Answers may include:**A02 - Application**

- Use of liquidity ratios in answering question, eg Current; liquid asset; trade receivables; trade payables.
- Explanation of liquidity ratios.
Current ratio shows £1.20 of current assets for every £1 of current liabilities.
Liquid capital ratio shows 40p for every £1 of current liabilities.
It takes the company 62 days to receive cash from its customers.
It takes 30 days to pay its suppliers.
- Appropriate sources of finance to solve the overdraft problem for example:
Short-term loan.
Reducing receivable days.
Increasing payable days.

A03 – Analysis and Evaluation**Analysis and evaluation of ratios**

- Current ratio –
Has fallen consistently over the period.
May indicate that company cannot meet its current liabilities from its current assets.
This could be an improvement as it may show the business using its resources more efficiently.
- Liquid asset ratio –
Fallen over the period.
May indicate that the company is unable to pay its current liabilities using liquid assets.
This could be an improvement as it may show the business is becoming more efficient in the use of liquid resources.
- Students should not be given credit for comments that indicate that there is an 'ideal' ratio, eg current ratio should be 2:1 or liquid asset ratio should be 1:1.
- Trade receivable days –
This has deteriorated over the period, the company is effectively giving the customers an extra 32 days credit.
The longer receivable days could result in increased irrecoverable debts, which would impact on both profitability and liquidity.
- Trade payable days –
This has deteriorated over the period, they now pay suppliers 15 days quicker than in 2015.
They now pay suppliers on time and this could lead to a positive relationship with suppliers.

Assessment of performance

- Current and liquid asset ratios have reduced – this may be detrimental to the liquidity position, but it could also be a sign of efficiency. Without further information it is impossible to make a definitive judgement.
- Receivable and payable days – these have worsened. Comparing the two ratios in 2015 the company paid its suppliers when the money was received from its customers, eg 45 days each. In 2018 the company pays its suppliers 32 days before receiving cash from its customers.

- Overall assessment – it is difficult to make a definitive judgement without other information for example industry averages. However the indication is that the business is suffering from credit control issues and this could be causing liquidity problems.
- Ratios have a number of limitations in assessing business performance for example:
 - May be out of date – in this case they are 6 months old so many things could have changed.
 - May be unreliable due to window dressing or the year-end figures may be distorted by factors and do not reflect the usual performance of the business.

Recommendations for bank overdraft

- Short-term loan – the bank may be willing to give a short-term loan – however this would involve repayments and interest would be charged.
- Would the bank give a loan if they are unwilling to increase the overdraft facility?
- Reduce receivable days – this would improve cash flow. However this may be difficult to achieve in the time period and may cause problems with customers.
- Increase payable days – this would improve cash flow. It is relatively easy to achieve but may cause problems with suppliers.

Is the problem really short-term? Although the new contract increases sales this may not have a significant effect on cash as we are not given information on how profitable the order is and also if the receivable days are not reduced.

Note: Not all content needs to be covered to gain full marks.

The indicative content is not exhaustive; other creditworthy material should be awarded marks as appropriate.

Qu	Part	Marking Guidance	Total marks
18		Evaluate the financial and non-financial implications of the proposal to buy the handbags from the Italian company. Your answer should include a justified recommendation as to whether to move the manufacturing to Italy or to continue manufacturing in the UK.	20

AO2 - 5 marks, AO3 - 15 marks

Level	Marks	Description
4	16–20	A balanced response that presents a coherent and logically reasoned judgement and conclusion/solution that is supported by an astute consideration of relevant evidence drawn from both the stimulus and other sources. There is a clear assessment of the significance and limitations of the evidence used to support the judgement.
3	11–15	A reasoned, but in places unbalanced, judgement and conclusion/solution is presented that considers relevant evidence that can be drawn from the stimulus and/or other sources. The judgements of relative significance may be indistinct. There is an awareness of the impact of any limitations or qualifying factors, but assessment is partial or equivocal. A comprehensive and relevant selection of information is analysed, showing a developed logical chain of reasoning. The results of any appropriate calculation/s are integrated into the analysis and evaluations offered on most.
2	6–10	An underdeveloped judgement and conclusion/solution is presented, supported by a limited evaluation of evidence provided in the stimulus material. There may be inconsistencies and the reasoning may contain inaccuracies. A limited but relevant selection of information is analysed, starting to develop a logical chain of reasoning. The results of the calculation/s are integrated into the analysis but with weak evaluations. Relevant knowledge and understanding of principles/concepts/techniques is drawn together and applied successfully to the context. Where appropriate, relevant calculations are attempted; these may include minor errors.
1	1–5	A basic judgement and conclusion/solution may be asserted, but it is unsupported by any evidence. Responses present a limited selection of information that is not wholly relevant with an attempt at analysis. A chain of reasoning ranges from being barely present to undeveloped. Fragmented items of knowledge and understanding of principles/concepts/techniques relevant to the contexts are present. These are likely to be descriptive, with limited application to the context. Where appropriate, some calculations are attempted; these are likely to contain errors and may not be relevant to the context. Results of the calculations are stated with little or no evaluation.
0	0	Nothing written worthy of credit.

Answers may include:**A02 - Application**

- Calculate variable cost of manufacture.

Budgeted	
	£
Leather	72
Lining material	24
Labour 18 hours x £10	180
Shipping costs	22
Total variable cost	298

- Calculate the relevant cost for the decision.

The relevant cost for the decision should include the design cost and the remaining factory cost.

	Budgeted £
Variable cost	298
Saved manufacturing and administration (80% x 240)	192
	490

- Compare the relevant cost to the bought-in price.

Bought-in price £450.

This is cheaper than the budgeted cost by £40/ increases profit by £40.

Cheaper than current situation by £22.

However the contribution per unit of the Italian order is lower than manufacturing in the UK. Compared with the budgeted figure the bought-in product will improve the profitability of the business.

- Students may compare the total budgeted cost, total actual cost and total cost for manufacturing in Italy
- Identification of non-financial factors such as: quality of product, impact on workforce.

AO3 Analysis and Evaluation

Potential issues	For move to Italy	Against move to Italy										
Financial	- The bought-in cost is cheaper than the manufacturing in the UK (this will be based on students OF calculations and could be more expensive) by £40. - The price is guaranteed for one year - there is no guarantee that the budgeted figures are correct. - Prices could increase more than estimated and costs estimated not to increase could increase. - May benefit from exchange rate changes in the future.	- The budget may not be accurate. This may be supported by comparison with current costs to quantify the effect, eg <table><tr><td></td><td>£</td></tr><tr><td>Variable cost</td><td>280</td></tr><tr><td>Design cost</td><td>80</td></tr><tr><td>Manufacturing cost</td><td>48</td></tr><tr><td></td><td>408</td></tr></table> - This is cheaper than bought-in price by £42. - Will 80% of the manufacturing costs be saved? The company owns the premises so will they be able to sell them, rent them or will they remain unused? - Will there be further costs involved in closing the factory? - The effect of further exchange rate changes would affect the costs and possibly the bought-in price. - Will shipping costs be guaranteed? - Is the bought-in price paid in pounds or the local currency and therefore subject to exchange rate variations? - What is the potential impact of wage rise for Italian workers on the price charged in the future?		£	Variable cost	280	Design cost	80	Manufacturing cost	48		408
	£											
Variable cost	280											
Design cost	80											
Manufacturing cost	48											
	408											

Non-financial	• Already supply quality products and have a good reputation. • Skilled workforce – so quality should be maintained or improved. • May enhance reputation as now made in Italy. • Claudia will still be designing the handbags, which is part of customer loyalty.	• Can production in Italy be assured for the future? • Can delivery be guaranteed? • Will quality of the product be maintained? • Will there be any impact on the image of the company, eg made in Britain compared with made in Italy? Will the bags continue to be handmade – would this impact the image of the product? • Impact on workforce in UK – the skilled workers are unlikely to be able to find suitable alternative employment. • Will this affect local employment significantly – there are 20 workers who will be made redundant presumably – the significance of this depends on the state of the local economy and alternative employment prospects. • If premises left empty will this impact on the local environment?
----------------------	---	--

Note: Not all content needs to be covered to gain full marks.

The indicative content is not exhaustive; other creditworthy material should be awarded marks as appropriate.