

Mark Scheme (Results)

June 2008

GCE

GCE Business Studies (6123/01)

General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Unit 6123/01 - Financial Management Mark Scheme

Question Number	Indicative content
1(a)	<p>Valid points could include:</p> <ul style="list-style-type: none"> • Certificate issued to lender or creditor • Long term loan • Secured loan • Like a mortgage • Secured against a fixed asset/such as property • Carries fixed rate of interest <p>NB: DO NOT ACCEPT LOAN</p> <p>Level 1: Up to 2 marks for 2 valid points</p> <p style="text-align: right;">Total 2 marks</p>

Question Number	Indicative content
1(b)	<p>Valid points could include:</p> <ul style="list-style-type: none"> • Definition of working capital; Current assets minus current liabilities • Calculates Working Capital; £370 000 –£120 000 = £250 000 <p>Level 2: Candidate calculates WC as £250 000 (application) (1 mark)</p> <p>Level 1: Candidate shows some knowledge of working capital / formula or liquidity (1 mark)</p> <p style="text-align: right;">Total 2 marks</p>

Question Number	Indicative content
1(c)	<p>Valid points could include:</p> <ul style="list-style-type: none"> • Overtrading means growing faster than can be sustained by the firm's capital base, ie the £20 000 cash in December 2006 • Barnsley Beds Ltd is a small company which, given the exclusive deal with MFI, may face a surge in demand for its products • MFI is the UK's largest UK based retailer which would probably mean increased demand for beds • Barnsley Beds may need to take out a loan or use its overdraft facilities to purchase raw materials and pay costs like wages if it does not receive payment from MFI in advance (which is quite likely) • Working capital ratio is currently c3:1 but this may decline as a consequence of taking out an overdraft or obtaining trade credit from suppliers of wood or foam • Acid test ratio of 1.46:1 (accept 1.4:1 or 1.5:1) is currently very healthy, but again this may suffer if MFI do not pay in advance of receiving order. <p><i>An effective Level 3 response will analyse overtrading in the context of the Barnsley Beds Ltd and refer to the effect of the exclusivity deal with MFI, eg Barnsley Beds Ltd is a small company which, given the exclusive deal with MFI, may face a surge in demand for its products but may have to run up an overdraft given only £20 000 cash to pay for manufacturing costs such as wood, foam and wages to production staff which might reduce its liquidity position.</i></p> <p style="text-align: right;">Total 10 marks</p>

Level	Mark	Descriptor
Level 3	5-10	Candidate analyses the relevance of overtrading in context.
Level 2	3-4	Candidate applies knowledge of overtrading to the context.
Level 1	1-2	Candidate shows some knowledge of overtrading/liquidity.
	0	No rewardable material

Question Number	Indicative content
1(d)	<p>Valid points could include:</p> <ul style="list-style-type: none"> • Profits were £225 000 which is positive and compares well with capital employed, ie the ROCE is calculated as $\frac{£225\,000}{£3\,000\,000} \times 100 = 7.5\%$ • Profits are typically the aim/principal objective of a business so BB could be considered as doing well at £225 000 • Gearing ratio is 40% given that $\frac{£1\,200\,000}{£3\,000\,000} \times 100$ • Current ratio is 370 000:120000 or 3:1 which is respectable; similarly the acid test ratio 1.46:1 which indicates acceptable levels of liquidity • Distinguishes short run from long run; in the short run the cash of £20 000 is more important than profit • From a stakeholder's perspective views may vary; dividends may be more important to the shareholder, wages to the employee, capital base to the long term investor; we only have a profit figure of £225 000 • We only have one year's data, ie 2006. What was the company's financial position in 2005 or previous years? • Other factors are important in determining the performance of the business; what about its position in the furniture market, investment in production technology, marketing or human resourcing aspects, strategic thinking and vision for the future • Non-financial factors should also be considered, such as its Corporate Responsibility position; how well does Barnsley Beds reduce or minimise its social costs or provide social benefits such as the reduction of pollution or provide donations to local charities, respectively? (opportunity here to compare to IKEA) • Cost per bed may fall as output rises; BEA assumes a linear relationship • Inter-firm comparison may be useful, ie with other furniture manufacturers like IKEA <p><i>A Level 4 candidate will determine ratios and analyse the financial information provided then discuss the data in the context of the Barnsley Beds Ltd and then go on to provide a conclusion by referring to the limitations of accounts, eg this company has been trading for 50 years which means that it probably has a significant amount of goodwill in terms of staff and customers. This coupled with a healthy cash-flow and profits given a 7.5% ROCE suggest that BB Ltd is indeed in a favourable position, despite the fact that the furniture market is in apparent decline</i></p> <p><i>A Level 3 candidate will analyse the financial information provided results in the context of the business and the limitations of the calculations, eg the results show that Barnsley Beds Ltd is able to meet its short term needs (liquidity) and provide for its long term goals (profits of £225 000 in 2006) but this data is only for 2006</i></p> <p style="text-align: right;">Total 16 marks</p>

Level	Mark	Descriptor
Level 4	7-16	Candidate evaluates the value of financial information contained in Appendix 2 in sufficiently judging Barnsley Beds Ltd and reaches a valid conclusion
Level 3	5-6	Candidate analyses the financial information in context but fails to reach a valid conclusion
Level 2	3-4	Candidate applies knowledge of finance/non-financial factors to the context
Level 1	1-2	Candidate shows some knowledge of finance/non-financial factors
	0	No rewardable material

Quality of Written Communication:

Quality of written communication will be assessed in question 1d by means of the following criteria:

Level 3 - if structured & developed

Candidate expresses ideas extremely clearly and fluently. Answers are very well structured. Arguments are consistently relevant and well developed. There are few, if any, errors in spelling, punctuation and grammar.

3 marks**Level 2 - structured**

Candidate expresses moderately complex ideas clearly and answers are well structured. Arguments are generally relevant and developed. There may be some errors in grammar, punctuation and spelling.

2 marks**Level 1 - can be understood**

Candidate expresses simple ideas clearly, but may be confused or imprecise in the expression of ideas. Answers are not well structured and arguments are weakly presented. There may be noticeable errors in spelling, grammar and punctuation.

0-1 Mark

Note: if candidate doesn't apply their response but points are still developed they can achieve top QWC mark.

Total 3 marks

Question Number	Indicative content
(2)(a)	<p>Valid points could include:</p> <ul style="list-style-type: none"> • title of Break Even Chart for Barnsley Beds Ltd 2006 • an indication of BE at 250 beds • maximum capacity indicated at 400 beds • fixed costs indicated at £20 000 <p>Level 1: Candidate shows knowledge of break even chart by labelling title (1), x axis (1) y axis (1) using terms on chart like margin of safety, profit or loss(1). 1-4 marks</p> <p>NB Chart is likely to be very inaccurate showing no application skills</p> <p>Level 2: This can be achieved through a number of ways: Candidate correctly draws FC line (1), TC line (1), TR line (1), TVC line (1), maximum capacity of 400 beds (1), Break-Even at 250 beds (1). Allow for unlabelled lines which have been drawn accurately using the data provided. 5-8 marks</p> <p style="text-align: right;">Total 8 marks</p>

Question Number	Indicative content
(2)(b)	<p>Valid points could include:</p> <ul style="list-style-type: none"> • FC/Contribution or FC/Selling price-variable cost • £20 000/80 = 250 beds. <p>Level 2: Candidate shows break-even as 250 beds - 1 mark</p> <p>NB Candidates who draw a slightly inaccurate chart may give an answer which is close to but not exactly 250 beds (between 240-260) In such cases award 1 mark</p> <p>Level 1: Candidate shows some knowledge of calculating break even by stating a formula or by words - 1 mark</p> <p style="text-align: right;">Total 2 marks</p>

Question Number	Indicative content
(2)(c)	<p>Valid points could include:</p> <ul style="list-style-type: none"> • TR - (FC + TVC) • £120 000-£116 000 = £4 000 <p>Level 2: Candidate calculates profit correctly as £4 000 - 1 mark</p> <p>Level 1: Candidate shows some knowledge of calculating profit or loss - 1 mark</p> <p style="text-align: right;">Total 2 marks</p>

Question Number	Indicative content
(2)(d)	<p>Valid points could include:</p> <ul style="list-style-type: none"> • Break-even analysis shows profit and loss, in this case £4 000, and the margin of safety, here is 150 beds • BEA is particularly useful when a business is first established, but BB Ltd has been established for over 50 years • However, it may be appropriate to BB Ltd given that it may be having to persuade financiers to support the purchase of extra stock and other expenses in the short term as it meets the possible increase needed in output to meet the requirements of MFI • It assumes all output is sold; if BB Ltd does not sell all the beds it produces or at the intended price, then the BEA estimate will become inaccurate • The furniture industry is volatile and may suffer particularly during recessions (luxury product) making it likely that the beds will be sold at a discount making the BEA inaccurate • Changes in tastes and fashions are particularly appropriate to the furniture industry thus making BEA quite redundant as a predictive tool re revenues and profitability • BEA becomes more difficult with multi-product companies which may be the case for Barnsley Beds (singles, doubles, orthopaedic, etc) • BEA ignores the opportunities for BB Ltd to enjoy economies of scale on its production of beds, such as purchasing economies which may arise with respect to mattress or base materials • Different products could be dealt with by making use of profit centres, eg a profit centre for single bed bases and a profit centre for double mattresses • Costs of materials like wood or foam may increase which would mean that the BE level of output would increase as a result (vice-versa if costs fall) <p><i>For Level 4 a candidate will appreciate that BEA is merely a technique to support financial control which has both advantages and disadvantages and so should be used with caution, eg Barnsley Beds has been trading for 50 years which means that it probably has a significant amount of experience in terms of determining the pricing and appropriate levels of output for its beds. However, BEA may be a simple tool to support the appropriate levels of output needed in order to remain profitable should the company switch to the MFI exclusive operation.</i></p> <p><i>For Level 3 a candidate will analyse the value of BEA and give a one-sided answer with no conclusion, e.g. BEA will not be particularly useful to BB Ltd because it is likely to be a multi-product company selling a range of beds from single to queen size beds which will mean a range of prices so making variable costs difficult to determine.</i></p> <p style="text-align: right;">Total 18 marks</p>

Level	Mark	Descriptor
Level 4	14-18	Candidate evaluates the value of break-even analysis to Barnsley Beds Ltd and reaches a valid conclusion
Level 3	7-13	Candidate analyses the relevance of break-even analysis to Barnsley Beds Ltd but the answer may be one-sided
Level 2	3-6	Candidate applies knowledge of break-even analysis to the context
Level 1	1-2	Candidate shows some knowledge of break-even analysis
	0	No rewardable material

Quality Of Written Communication 3 marks

Total for paper 63 marks