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| Ofqual QAN | <i>Sample</i> |
| Quartz ID | <i>Sample</i> |
| Qualification | Level 3 Certificate in Business / Level 3 Diploma in Business / Level 3 Extended Diploma in Business |

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|-----------------|---|
| Assessment | Developing Financial Forecasting and Accounting in Business |
| Assessment Type | Global Examination |
| Date | <i>Sample</i> |
| Time | <i>Sample</i> |

Assignment Marking Scheme

Sample Assessment

Markers are advised that, unless a task specifies that an answer be provided in a particular form, then an answer that is correct (factually or in practical terms) **must** be given the available marks. If there is doubt as to the correctness of an answer, the relevant NCC Education materials should be the first authority.

This marking scheme has been prepared as a **guide only** to markers and there will frequently be many alternative responses which will provide a valid answer.

Each candidate's script must be fully annotated with the marker's comments (where applicable) and the marks allocated for each part of the tasks.

Throughout the marking, please credit any valid alternative point.

| |
|---------------------------|
| Marker's comments: |
|---------------------------|

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|------------------------------|
| Moderator's comments: |
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| | | |
|--------------|------------------------|--------------------|
| Mark: | Moderated mark: | Final mark: |
|--------------|------------------------|--------------------|

| |
|--|
| Penalties applied for academic malpractice: |
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Question 1

- a) Discuss whether each of the following items should be categorised as capital or as revenue expenditure:
- i) Purchase of premises of £800,000 2
Mark scheme
This would be classed as capital expenditure (1 mark), as premises can be used for more than a year. (1 mark)
 - ii) Annual rental of equipment £40,000 2
Mark scheme
This would be classed as revenue expenditure (1 mark), as the benefit of the rental is within the year. (1 mark)
 - iii) Payment of wages of £1,000,000 2
Mark scheme
This would be classed as revenue expenditure (1 mark), as payment is within a year (1 mark)
 - iv) Light and heating used during year £15,000 2
Mark scheme
This would be classed as revenue expenditure (1 mark), this expenditure is consumed throughout the year (1 mark)
 - v) Depreciation of equipment £1,000 2
Mark scheme
This would be classed as revenue expenditure (1 mark), as this expenditure occurs and is consumed within the year. (1 mark)
- b) The directors of Help Ltd obtain the following information in respect of projected cash flows for the year ended 31 December 20X1: 15
- Fixed asset purchases for cash will be £3,000.
 - Further expenses will be:
 - Purchase from suppliers of £18,750 (£4,125 owed at year end).
 - Wages and salaries of £11,250 (£600 owed at year end).
 - Loan interest of £1,575.
 - Turnover will be £36,000 (£450 debtors at the year-end).
 - Interest on bank deposits will be £150.
 - A further capital repayment of £5,250 will be made on the loan.
 - A dividend of £5,000 will be proposed and last year's final dividend paid.
 - Corporation tax of £2,300 will be paid in respect of 20X0.

Prepare the cash flow forecast for the year ended to 31 December 20X1.

Mark scheme

| Operating activities | £ | £ |
|--|------------------------------------|--------------|
| Cash received from customers (36,000 + £900 - £450) | 36,450 (1 mark) | |
| Cash paid to suppliers (£18,750 + £2,550 - £4,125) | (17,175) (1 mark) | |
| Cash paid to and on behalf of employees (£11,250 + £750 - £600) | (11,400) (1 mark) | |
| Net cash flow from operating activities | | 7,875 |
| Returns on investments and servicing of finance | | |

| | | |
|---|-----------------------------------|-----------------------------------|
| Interest Paid | (1,575) (1 mark) | |
| Interest received | 150 (1 mark) | |
| | | (1,425) (1 mark) |
| Taxation | | (2,300) (1 mark) |
| Investing activities | | |
| Purchase of fixed assets | (3,000) (1 mark) | |
| Cash flow from investing activities | | (3,000) (1 mark) |
| Financing activities | | |
| Repayment of medium-term loan | (5,250) (1 mark) | |
| Dividend payment | (4,000) (1 mark) | |
| Cash flow from financing activities | | (9,250) (1 mark) |
| Forecast net decrease in cash and cash equivalents at 31 December 20X1 | | (8,100) (1 mark) |
| Cash and cash equivalents as at 31 December 20X1 | | 29,525 (1 mark) |
| Forecast cash and cash equivalents as at 31 December 20X1 | | 21,425 (1 mark) |

Total 25 marks

Question 2

- a) Consider the costs below. Classify each of them as either fixed or variable, and also as either direct or indirect. Provide a reason for your answer.

i) Flour, sugar and butter used in production of cakes in a local bakery. 2

Mark scheme

Variable and Direct (1 marks) – the amount of product used varies with production and is directly related to product (1 marks)

ii) A TV advertising campaign for the launch of a new product. 2

Mark Scheme

Fixed and Direct (1 marks) as cost of advertising doesn't vary with any output and is direct as it relates to the product (1 marks)

iii) Electricity power for operating a large manufacturing organisation's machinery. 2

Mark scheme

Variable and Direct (1 marks) as amount of power varies with usage in the organisation and directly relates to the production (1 marks)

iv) Director's salary 2

Mark scheme

Fixed and Direct (1 mark)– the salary is fixed as the Director gets a paid a specific amount and directly related to production of the business (1 mark)

Rent Payment

2

v) **Mark Scheme**

Fixed and Direct (1 mark) – rent payment is fixed as it doesn't vary with production and is related to the products produced (1 mark)

- b)** Jack Mack Ltd make a single product and have an average production of 5,000 units a month, although this varies widely. The following extract from the overhead statement for production department shows the make- up of the budget and a month's actual results. **15**

| | | Budget for Average Production of 5,000 units | Actual Results for January Production 4,500 Units |
|-------------------------------|-------|---|--|
| | £ | £ | £ |
| Indirect Labour Fixed | 3,000 | | |
| Variable £1/Unit | 5,000 | 8,000 | 7,900 |
| Consumables (all variable) | | 15,000 | 14,250 |
| Variable overheads | | 20,000 | 18,200 |
| Fixed overheads | | <u>12,500</u> | <u>12,500</u> |
| | | £55,500 | £52,850 |

Prepare a budgetary statement for January, based upon the flexible budget for the actual level production (showing all workings).

Mark scheme

Budgetary Control Statement Flexed Budget and Actual Results

| Expense Type | Flexed budget for 4650 units | Actual Results | Budget Variances Favourable/(Adverse) |
|--------------------------------|------------------------------|------------------|---------------------------------------|
| | £ | £ | £ |
| Indirect Labour £ Fixed. 3,000 | | | |
| Variable £1/unit. 4,650 | 7,650 (1) | 7,900 | (250) (1 mark) |
| Consumables @ £3/unit | 13,950 (2) | 14,250 | (300) (1 mark) |
| Variable overheads @ £4/unit | 18,600(3) | 18,200 | 400 (1 mark) |
| Fixed overheads | 12,500 | 12,500 | - |
| | £52,700 (1 mark) | £52,850 (1 mark) | £(150) (1 mark) |

3) Indirect Labour – this comprises a fixed element (£3000) and a variable element at £1 per unit = £3,000 (1 mark) + 4,650 (1 mark) x £1 = £7,650 (1 mark)

3) Consumables – these costs are wholly variable at a rate of £3 per unit thus = 4,650 (1 mark) x £3 (1 mark) = £13,950 (1 mark)

3) Variable Overheads – as the name suggests, these are fully variable at 1 rate of £4 per unit = 4,650 (1 mark) x £4 (1 mark) = £18,600 (1 mark)

Fixed overheads remain the same regardless of changes in the level of activity and will thus be the same value as in the original budget i.e. £12,500

Total 25 Marks

Question 3

- a) Indicate, with reasons, how you would deal with each of the following queries in the company's accounts of Jack Mack Ltd.
- i) Sold £34,000 of goods to International Buyers Ltd on credit. All the goods have been delivered but payment has not been received. **2**
Mark scheme
The sale would be included in the Statement of Profit and Loss account (1 mark). This amount would also be included under debtors (accounts receivable) in the Statement of Financial Position. (1 mark)
- ii) Machinery Ltd has ordered £75,000 of goods from Jack Mack Ltd. There is none in stock and the goods will have to be ordered from suppliers. Delivery is expected on 15 December. Machinery Ltd will only accept delivery of the goods if the order is completed in full. The gross profit on the contract is £15,000. **2**
Mark scheme
It would not be appropriate to take any profit into this year's accounts (1 mark). No revenue has been earned until the goods have been delivered. (1 mark)
- iii) Prior to the end of the last financial year the company invoiced Experimental Research Ltd for £30,000 for goods. They have paid £20,000 to date, but Experimental Research Ltd are now in financial difficulties and the credit control department expect difficulties obtaining the balance. **2**
Mark scheme
The gross profit would have been included in the last year's accounts. In this year, provision has to be made for the potential loss of £10,000 as a bad debt (1 mark). This would increase bad debts, lower profits and reduce the
- iv) Confused Ltd place an order for some machinery which you have manufactured specially for them. They paid a £10,000 deposit for their order, the contract price being £65,000. They have now changed their long-range plans and no longer require the machinery and you have agreed to accept the £10,000 deposit as the cancellation fee. The machinery cost £45,000 to manufacture. **2**
Mark scheme
The £10,000 should be included as miscellaneous revenue in the Statement of Profit or Loss account (1 mark). The cost of manufacture (£45,000) is the basis for the valuation of the stock in the balance sheet. (1 mark)
- v) Received a payment for £13,500 for goods supplied in the previous financial year. The customer to whom these goods were supplied to was thought to be a bad credit risk, and the account has been written off as a bad debt in the profit and loss account of the previous period. **2**
Mark scheme

The £13,500 has been written off as a bad debt in the last annual accounts. Consequently, we would be writing back this £13,500 (1 mark) – reducing the bad debts figure this year and increasing Mack’s profit. (1 mark)

- b)** Identify FIVE (5) different users that might be interested in financial information about a large public company. **5**

Mark scheme

1 mark for each point as detailed below (or any other relevant user):

- 1. Managers of the company – to manage the business effectively**
- 2. Shareholders of the company – assess how the business is performing**
- 3. Trade contacts – ability of the company to pay debts**
- 4. Providers of finance – the bank keeps up to date with repayments**
- 5. Inland Revenue – to assess tax**

- c)** State if each of the statements would generally be correct or incorrect and then explain each correctly:

- i)** Shareholders receive annual accounts as prepared with legal and professional requirements. **2**

Mark scheme

This is correct (1 mark), and also companies listed on the Stock Exchange have to comply with the regulations in the Stock Exchange’s Listing Rules (Yellow Book) (1 mark)

- ii)** The accounts of limited companies are sometimes filed with the Registrar of Companies. **2**

Mark scheme

This is incorrect (1 mark), as accounts of limited companies MUST be filed with the Registrar of Companies and be available for public inspections. In addition, the company itself will often distribute these accounts on request to potential shareholders, the bank and financial analysts. These accounts are all that is usually available. (1 mark)

- iii)** Employees always receive the company’s accounts and an employee report. **2**

Mark scheme

This is incorrect (1 mark) as employees will not necessarily receive company accounts (unless they are shareholders for example), but many companies do distribute the accounts as a matter of policy. Some companies produce employee reports which summarise and expand on matters which are covered in the annual accounts and are of particular interest to them. (1 mark)

- iv)** The Inland Revenue will receive the published accounts and as much supplementary detail as the Inspector of Taxes to assess the corporation tax payable on profits. **2**

Mark scheme

This is correct (1 mark), as the Inland Revenue have the right to as much detail as is needed to assess the tax payable. (1 mark)

- v) Banks frequently require more information than is supplied in the published accounts when considering applications for loans and overdraft facilities. **2**

Mark scheme

Correct (1 mark) as banks may require cash flow and profit forecasts and budgets prepared to show management estimates of future activity in the business (1 mark)

Total 25 Marks

Question 4

- a) Assume that all costs listed below fall into the category of either direct or indirect cost and fixed or variable. For each cost, state which of these two categories the cost will belong to.

- i) Raw material **2**

Mark scheme

Variable (1 mark) and Direct (1 mark)

- ii) Advertising costs for a product **2**

Mark scheme

Fixed (1 mark) and Direct (1 mark)

- iii) General research & development **2**

Mark scheme

Fixed (1 mark) and Indirect (1 mark)

- iv) Power **2**

Mark scheme

Variable (1 mark) and Indirect (1 mark)

- v) Managing director's salary **2**

Mark scheme

Fixed (1 mark) and Indirect (1 mark)

- b) A company makes a single product with a sales price of £10 and a variable cost of £6. Fixed costs are £60,000pa.

- i) Calculate the number of units to break even. **3**

Mark scheme

Contribution = Selling price – Variable cost
= £10 – 6
= £4. (1 mark)

Break-even (units) = $\frac{£60,000}{£4.}$ (1 mark)

= £15,000. (1 mark)

- ii) Using the same information, calculate sales at break-even point. 2

Mark scheme

$$\text{Break even point (£ sales)} = 15,000 \times £10 \text{ (1 mark)}$$
$$= £150,000 \text{ (1 mark)}$$

- c) i) Calculate **ROCE** when Operating profit is £280,000, and Capital employed is £1,400,000 2

$$\text{ROCE (\%)} = \frac{\text{Operating Profit.}}{\text{Capital Employed.}} \times 100\%$$

Mark scheme

$$\text{ROCE} = \frac{£280,000}{£1,400,000} \times 100\% \text{ (1 mark)}$$
$$= 20\% \text{ (1 mark)}$$

- ii) A company has £50,000 in cash, £100,000 in accounts receivable, and £200,000 in current liabilities. 2

Calculate the acid test ratio?

Mark scheme

£150,000 and divide by the current liabilities (£200,000), (1 mark)
resulting in an acid test ratio of 0.75 (1 mark)

- iii) A business makes £20,000 by cleaning offices. It costs you £8,000 to provide those services. Your gross profit is £12,000. What is the profit margin? 2

Mark scheme

Your gross profit margin is 8,000/12,000 (1 mark) or 60% (1 mark).

- iv) ABC Corporation reported net sales of £1,000,000 for the year, and its average total assets amounted to £500,000. 2

Mark scheme

In this example, ABC Corporation has an asset turnover ratio of 2 (1 mark).
1,000,000/500,000 (1 mark)

- v) A business invests £1,000 in a project and it generates a net profit of £200. What is ROI? 2

Mark scheme

your ROI would be 20% - calculated as (Net Profit / Investment Cost) x 100% (1 mark), which is (£200 / £1,000) x 100% = 20%. (1 mark)

Total 25 marks

End of paper

Learning Outcomes matrix

| Question | Learning Outcomes assessed | Marker can differentiate between varying levels of achievement |
|----------|----------------------------|--|
| 1 | 1.1, 1.2, 4.1, 4.2 | Yes |
| 2 | 1.2, 1.2, 3.1, 3.2 | Yes |
| 3 | 5.1, 5.2, 6.1, 6.2, | Yes |
| 4 | 1.2, 3.1, 3.2, 8.1, 8.2 | Yes |

Grade Descriptors

| Learning Outcome | Pass | Merit | Distinction |
|---|---|---|--|
| Understand the costs of a business | Demonstrate adequate understanding of the costs of the business | Demonstrate robust understanding of the costs of the business | Demonstrate highly comprehensive understanding of the costs of the business |
| Understand the revenue of a business | Demonstrate adequate understanding of the revenue | Demonstrate robust understanding of the revenue of the business | Demonstrate highly comprehensive understanding of the revenue of the business |
| Understand break even analysis | Demonstrate adequate understanding of break even analysis | Demonstrate robust understanding of break even analysis | Demonstrate highly comprehensive understanding of break even analysis |
| Explain cash flow forecasting | Demonstrate adequate understanding of cash flow forecasting | Demonstrate robust understanding of cash flow forecasting | Demonstrate highly comprehensive understanding of cash flow forecasting |
| Understand the accounting principles to support account preparation | Show adequate understanding of accounting principles | Show sound understanding of accounting principles | Show highly comprehensive understanding of accounting principles |
| Explain the purpose of the main accounting statements | Demonstrate adequate and appropriate explanation of the purpose of the main accounting statements | Demonstrate sound and consistently appropriate explanation of the purpose of main accounting statements | Demonstrate detailed explanation of the purpose of the main accounting statements |
| Explain how to prepare basic financial statements | Demonstrate adequate explanation of how to prepare basic financial statements | Demonstrate robust level of explanation of how to prepare basic financial statements | Demonstrate highly comprehensive level of explanation of how to prepare basic financial statements |
| Interpret financial statements | Demonstrate ability Interpret financial | Demonstrate ability to Interpret financial | Demonstrate ability to Interpret financial |

| | | | |
|----------------------|---------------------------------|---------------------------------|---------------------------------|
| using ratio analysis | statements using ratio analysis | statements using ratio analysis | statements using ratio analysis |
|----------------------|---------------------------------|---------------------------------|---------------------------------|