



Rewarding Learning

**ADVANCED SUBSIDIARY (AS)
General Certificate of Education
2018**

Professional Business Services

Assessment Unit AS 3

assessing

Financial Decision Making

[SPB31]

WEDNESDAY 30 MAY, MORNING

**MARK
SCHEME**

General Marking Instructions

Introduction

The main purpose of the mark scheme is to ensure that examinations are marked accurately, consistently and fairly. The mark scheme provides examiners with an indication of the nature and range of candidates' responses likely to be worthy of credit. It also sets out the criteria which they should apply in allocating marks to candidates' responses.

Assessment objectives

Below are the assessment objectives for **GCE Professional Business Services**.

Candidates should be able to:

- AO1** Demonstrate knowledge and understanding of terms, concepts, theories, methods and models used by professional business services firms and their client businesses.
- AO2** Apply knowledge and understanding of concepts, theories, methods and models used by professional business services firms and their client businesses.
- AO3** Investigate, analyse and evaluate concepts, theories, methods and models as used by professional business services firms and their client businesses.

Quality of candidates' responses

In marking the examination papers, examiners should be looking for a quality of response reflecting the level of maturity which may reasonably be expected of a 17- or 18-year-old which is the age at which the majority of candidates sit their GCE examinations.

Flexibility in marking

Mark schemes are not intended to be totally prescriptive. No mark scheme can cover all the responses which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner.

Positive marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for what candidates know, understand and can do rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected of a 17- or 18-year-old GCE candidate.

Awarding zero marks

Marks should only be awarded for valid responses and no marks should be awarded for an answer which is completely incorrect or inappropriate.

Marking calculations

In marking answers involving calculations, examiners should apply the 'own figure rule' so that candidates are not penalised more than once for a computational error. To avoid a candidate being penalised, marks can be awarded where correct conclusions or inferences are made from their incorrect calculations.

Types of mark schemes

Mark schemes for tasks or questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication. Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided.

Levels of response

In deciding which level of response to award, examiners should look for the 'best fit' bearing in mind that weakness in one area may be compensated for by strength in another. In deciding which mark within a particular level to award to any response, examiners are expected to use their professional judgement.

The following guidance is provided to assist examiners.

- **Threshold performance:** Response which just merits inclusion in the level and should be awarded a mark at or near the bottom of the range.
- **Intermediate performance:** Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.
- **High performance:** Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

Quality of written communication

Quality of written communication is taken into account in assessing candidates' responses to all tasks and questions that require them to respond in extended written form. These tasks and questions are marked on the basis of levels of response. The description for each level of response includes reference to the quality of written communication.

For conciseness, quality of written communication is distinguished within either three or four levels of response.

Where there are three levels of response, quality of written communication is distinguished as follows:

Level 1: Quality of written communication is basic.

Level 2: Quality of written communication is good.

Level 3: Quality of written communication is excellent.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:

Level 1 (Basic): The candidate makes only a limited selection and use of an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

Level 2 (Good): The candidate makes a reasonable selection and use of an appropriate form and style of writing. Relevant material is organised with some clarity and coherence. There is some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are sufficiently competent to make meaning clear.

Level 3 (Excellent): The candidate successfully selects and uses the most appropriate form and style of writing. Relevant material is organised with a high degree of clarity and coherence. There is widespread and accurate use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a sufficiently high standard to make meaning clear.

Where there are four levels of response, quality of written communication is distinguished as follows:

Level 1: Quality of written communication is basic.

Level 2: Quality of written communication is satisfactory.

Level 3: Quality of written communication is good.

Level 4: Quality of written communication is excellent.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below.

Level 1 (Basic): The candidate makes only a basic selection and use of an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

Level 2 (Satisfactory): The candidate makes a satisfactory selection and use of an appropriate form and style of writing. Relevant material is organised with some degree of clarity and coherence. There is some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a satisfactory standard to make meaning evident.

Level 3 (Good): The candidate makes a good selection and use of an appropriate form and style of writing. Relevant material is organised with good clarity and coherence. There is good use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a good standard to make meaning clear.

Level 4 (Excellent): The candidate successfully selects and used the most appropriate form and style of writing. Relevant material is organised with a high degree of clarity and coherence. There is widespread and accurate use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of the highest standard to make meaning absolutely clear.

1 (a) AO1

AVAILABLE
MARKS

Responses may include:

- Cash flow is the money coming into and going out of the business. It is made up of receipts (cash inflows) and payments (cash outflows). Cash inflows are money the business receives, for example, sales, owner's capital, government grants. Cash outflows are money the business spends – in the form of payments, for example, purchase of a non-current asset. Cash flow includes all money which flows through the business.
- Cash flow includes items that are not used in the calculation of profit, for example, owner's capital or purchase of a non-current asset.
- Cash flow is the continuous movement of cash in and out of a business/ Bruce's Garage. It is important to have good cash flow in a business so that it can meet its day-to-day financial needs.
- Profit is the amount of money a business, such as Bruce's Garage, makes/declares at the end of a financial year or trading period on which it must pay tax.
- Profit is the amount of money left after cost of goods sold and/or expenses have been deducted.

All valid responses will be given credit

[1] explanation of cash flow or profit

[2] explanation of cash flow and profit

[3] basic explanation of the difference between cash flow and profit

[4] good explanation of the difference between cash flow and profit [4]

(b) AO1

Answer must include the following figures:

**Cash flow forecast for Seamus for the fourth quarter
(October–December) 2018****AVAILABLE
MARKS**

	October (£)	November (£)	December (£)	
Opening Bank Balance	6,500	0	(5,000)	No marks here as these figures have been awarded marks at the closing bank balance
Receipts:				
Cash Sales	75,000	90,000	90,000	[1] mark for both answers
Trade Receivables	18,750	20,000	25,000	[1] mark for both answers
Total Receipts:	93,750	110,000	115,000	2 × [1]
Payments:				
Purchases	45,150	34,500	35,050	[1] mark for both answers
Expenses	15,100	20,500	18,700	[1] mark for all three answers
Wages	40,000	60,000	50,000	[1]
Total Payments:	100,250	115,000	103,750	2 × [1]
Closing Bank Balance	0	(5,000)	6,250	3 × [1]

Own Figure Rule (OFR) will be applied

[12]

(c) A03

AVAILABLE
MARKS

Responses may include:

- October
Bruce's Garage is meeting its payments/expenses as its outgoings are the same as its opening bank balance and receipts, therefore leaving no surplus cash at the end of the month as the closing bank balance is £0. November starts off with no cash as an opening bank balance for the day-to-day running of the garage. As a result Seamus may have to access finance to meet the needs of his garage, as well as allowing the garage to continue trading for another month
- November
The negative closing bank balance of (£5,000) for Seamus is not a good financial position. He will need to have a source of finance to allow him to meet his short term debt, i.e. expenses/payments. The cost of this finance would be an added expense for Seamus to consider and therefore expensive depending on the amount of money needed and the length of time required. A bank overdraft would be the most suitable short term source of external finance to use for Seamus as he will only pay interest on the sum of money borrowed/overdrawn
- December
Seamus has a positive cash sum of £6,250 for December's closing bank balance ready to commence with the next month's trading. It is important that Seamus continues to remain with a positive closing bank balance to keep the garage running in a successful manner and in a position to meet the expenses/payments of the garage for future months. Seamus should aim to keep his expenses/payments as low and his sales as high as possible so he can continue to close each month with a positive bank balance. A closing positive bank balance becomes a positive opening bank balance for the next trading month, in this case, January 2019

All valid responses will be given credit

[6]

[1] basic analysis for each month shown in the cash flow forecast

[2] good analysis for each month shown in the cash flow forecast

(3 × [2])

(d) **AO1, AO2, AO3**

AVAILABLE
MARKS

Responses may include:

Hire Purchase

Analysis of advantages may include:

- Hire purchase gives Seamus the ability to have the use of the machinery currently in order for the garage to improve its facilities and satisfy its customers
- The cost of the machinery is spread over a period of time and paid in monthly instalments rather than in a large upfront investment
- Even though Seamus may not have paid for the machinery in full, he and his employees are still able to use it
- Hire purchase can be a great option for Seamus as it can assist with cash flow rather than paying out a large amount of capital at one time
- Seamus will own the machinery once the final instalment has been paid, and it will be recorded on the statement of financial position as a non-current asset
- Seamus will not have to pay VAT on monthly instalments
- The interest rate charged on the agreement is fixed throughout the life of the agreement and therefore, will not change if interest rates change which is good for forward planning
- Seamus can choose a fixed term and a deposit that best fits his budget. These can be adjusted before the hire purchase agreement is signed
- Often the longer the hire purchase agreement, the lower the monthly repayments will be
- Seasonal repayments are also available which means that Bruce's Garage can tailor their repayments based on income, if it varied at certain times of the year. This flexibility would mean that if Seamus was unable to afford to purchase machinery outright, he could still have the option of acquiring the machinery using hire purchase

Analysis of disadvantages may include:

- The hire purchase agreement is secured against the machinery that Seamus wishes to replace. Therefore, if he does not pay the agreed monthly payments on the machinery it will be repossessed by the finance company
- A non-payment of the agreed monthly instalments can have a negative effect on the credit rating of Seamus. This could present difficulty if Seamus were to apply for finance or credit in the future as he did not keep up the repayments on a previous finance agreement
- Seamus would not own the machinery or replacement machinery until he paid the final repayment of the hire purchase agreement or pay the hire purchase agreement in full
- As the new/replacement machinery does not actually belong to Seamus it is not protected if he declares the business to be bankrupt and therefore cannot be sold to cover any debts
- If Seamus had poor credit he would expect to pay a higher rate of interest as lenders would see any finance arrangements as a high risk
- Seamus will enter a fixed contract/hire purchase agreement and if the garage's financial situation changes during the period of the agreement/contract and it cannot afford to repay the agreed monthly repayments/instalments, Seamus will lose the machinery
- If Seamus takes the hire purchase agreement over a long period of time the machinery may become obsolete before it is paid off
- Seamus will pay more for the new machinery, compared to purchasing it for cash, as the garage is paying interest on top of the cost of the machinery

Leasing

Analysis of advantages may include:

- Leasing companies can offer the most up-to-date machinery for Seamus
- Leasing payments and cost can be offset against tax as an expense in the Income Statement for Seamus, therefore reducing the amount of tax being paid to the government on the amount of profit made by the garage
- If Seamus only required the machinery on an infrequent basis, leasing can be extremely useful. Leasing can offer flexibility to Seamus as he may only require a piece of new machinery for a limited period of time, for example, six months or one year. This would allow the garage to lease the required machinery instead of having to purchase it which would cost the garage a lot of money
- Seamus will not require large sums of money to purchase the machinery as they will be paying for the use of the new machinery every month for the agreed term of the lease
- Leasing will aid the cash flow for Seamus as the repayments will be spread out over a specific period of time (the period of the lease). This prevents Seamus having to obtain a large sum of money to pay for the new machinery required by the garage
- Leasing allows Seamus the option to choose lease instead of investing in the new machinery by purchasing it outright. This releases capital for other projects
- Leasing the new machinery for Seamus is an ideal option as he has recently purchased the garage and therefore may not be able to afford to purchase the new machinery outright. This means lower costs and lower capital expenditure for Seamus to develop the business
- Leasing is suitable for a business that is faced with changing technology. This is applicable to Seamus as he will need to keep up-to-date with the requirements of the industry in relation to machinery and equipment required for day-to-day running. Therefore, leasing will save Seamus in this instance from the risk of heavily investing in technology that might soon be out of date
- With some leasing agreements, Seamus may enter into an arrangement with the leasing/finance company to have a flexible agreement. This would allow the garage to adjust the leasing agreement if there was a genuine reason for it or a problem that may arise within the garage and would have to be dealt with accordingly
- If Seamus had a high level of debt, leasing would provide him with the most amenable way of obtaining the new machinery (finance option) without having to place a great emphasis on the debt situation
- The leasing company will take responsibility for the maintenance and repair of the machinery.

AVAILABLE
MARKS

Analysis of disadvantages may include:

- At the end of the leasing agreement/period Seamus must hand the machinery back to the leasing company or agree to purchase it from the leasing company at an agreed cost. Alternatively, Seamus could hand the machinery back and then enter a new agreement for the latest machinery required by the garage to complete their work
- Seamus will never own the machinery as he is only paying for the use of it for the duration of the agreement/lease. Leasing payments are treated as expenses rather than an equity payment towards the new machinery as he is paying for the use of it
- Leasing is an expensive way to finance the required machinery for Seamus as he will have to pay a lump sum at the end of the leasing agreement if he wishes to own the machinery. This lump sum may require refinancing. Over an extended period of time leasing is a much more expensive source of finance compared to purchasing the machinery outright.
- Seamus is not free to make any alterations or additions to the leased machinery as he is not the sole owner of the machinery
- Leasing finance can cost more than debt financing for Seamus and therefore, he needs to bear this in mind when he is deciding on the most appropriate source of finance to be used for the new machinery
- A long term leasing agreement could be a burden for Seamus if the garage was to be locked into an agreement for a very long period of time with the expenses being fixed for several years
- Leasing will not appear in the statement of financial position for Seamus but any potential investor will consider long term leasing as debt of the garage and will adjust their valuation of the garage to include any leasing payments
- As investors can treat long term leasing as debt, it may be difficult for Seamus to avail of, or raise further funding for the garage
- Leasing has a rate of interest that is included in the cost of leasing the new machinery and this makes it more expensive than buying it outright over a long period of time

Loan Capital

Analysis of advantages may include:

- Loan capital taken out by Seamus to purchase the new machinery would usually be arranged for a fixed term period, ie, a specific number of years
- The interest rate would be fixed for the term of the loan. The repayments of the loan would remain the same throughout the duration of the loan agreement for Seamus. This would aid the financial decision making, planning and budgeting for Seamus
- The interest on a loan capital taken out by Seamus to purchase the new machinery can be tax-deductible and therefore reduces the amount of tax paid to the government
- While the cost of the amount financed for the new machinery is the interest paid to the bank on top of the initial sum borrowed Seamus does not need to provide the bank with a share or a say in the running of the garage
- The loan granted by the bank to Seamus for the new machinery is only matched to the lifetime of the new machinery or the length of time it has to be financed for, this means he can budget effectively

- The interest rate on a loan capital tends to be lower and more realistic than other forms of credit. Seamus must take into consideration when investigating the various options available to him for the purchasing/ financing of the new machinery
- Repaying the loan capital following the terms agreed with the bank can improve the credit rating of Seamus. This will allow him to apply for another loan when required to expand or improve the garage in the future.

Analysis of disadvantages may include:

- Seamus must pay interest on the loan when repaying it as well as the initial loan amount
- Obtaining a bank loan for Seamus may prove difficult due to the size of the business. If the garage is deemed to be small, banks are reluctant to administer loans as they need to have a substantial track record or valuable collateral, such as premises. This is so that the bank will have their loan capital protected if Seamus was to default on the repayments of his loan, the bank would be assured to have their sum repaid
- The interest rates for a small business, such as Bruce's Garage may be set at a much higher rate by a bank than those of a much larger business, adding to the cost of borrowing. Such high interest rates can halt or make the future development of Bruce's Garage very difficult due to the lack of funds for other activities as they are concerned with the repayment of the loan gained from the bank
- Seamus must provide a form of security on the loan granted by the bank which has been provided to purchase the new machinery. The bank will have collateral over the assets of the garage if he is unable to pay the loan
- When taking out a bank loan Seamus must pay the total sum of money borrowed plus the interest within the agreed term of the loan. If this is not the case, it can create a number of issues and problems for the garage when looking for finance in the future – poor credit rating
- Seamus must be aware that a loan capital is less flexible than a bank overdraft. The lack of flexibility that accompanies a bank loan can have an effect on the growth of the business. For example, if Seamus was to borrow a larger sum of money than required to purchase the new machinery and discovered that he required a smaller amount due to gaining a better supplier, he would have to pay interest on the full amount and not just the amount required for the machinery. The unused amount of money cannot be given back to the bank. This would require the unused money to be used in another way for Seamus to gain the benefit of this loan in full
- The process of applying for a loan capital can be lengthy for Seamus if they do not plan ahead for the financial needs of the garage and when the new machinery is required. Seamus needs to know when he is planning to replace the old machinery with the new and up-to-date machinery so he can place his application on time to allow for finance to be obtained at the correct time
- By borrowing too much money in the form of a loan capital, Seamus would be placing a lot of strain on cash flow and the ability to keep the garage operating due to the cost of repayments

All valid responses will be given credit

[12]

[0] is awarded for a response not worthy of credit

Level 1 ([1]–[4]) Basic

- Basic knowledge of the advantages and disadvantages of a suitable external source of finance that could be used by Seamus to acquire the new machinery.
- Application is basic with limited or no relevant reference to Bruce's Garage.
- Analysis of the advantages and disadvantages of a suitable external source of finance is basic.
- The quality of the candidate's written communication is basic.

Level 2 ([5]–[8]) Good

- Good knowledge of the advantages and disadvantages of the most suitable external source of finance that could be used by Seamus to acquire the new machinery.
- Application is good with some reference to Bruce's Garage.
- Analysis of the advantages and disadvantages of a suitable external source of finance is good.
- The quality of the candidate's written communication is good.

Level 3 ([9]–[12]) Excellent

- Excellent knowledge of the advantages and disadvantages of a suitable external source of finance that could be used by Seamus to acquire the new machinery.
- Application is excellent with clear reference to Bruce's Garage.
- Analysis of the advantages and disadvantages of a suitable external source of finance is excellent.
- The quality of the candidate's written communication is excellent.

34

2 (a) AO1, AO2

AVAILABLE
MARKS

Responses may include:

- Control and monitoring
Setting a budget aids the control of the business. Bruce's Garage can do this by setting targets and objectives in order for them to have something to work towards and to forward plan. The success of Bruce's Garage in achieving the set targets or objectives can be found by comparing the actual result with the projected figure from the concerned/specific budget set. The reasons for failing to achieve the budget set by the garage can be analysed by Seamus, or any member of management with appropriate action to be taken so that a valid reason is given to explain the variance
- Co-ordination
Due to the fact that Bruce's Garage will develop and grow with the new ownership it may become more complicated to manage. This may be due to the number of departments, customers, employees, suppliers, finance issues or the size of the site in which Bruce's Garage is operating from. It is imperative that Bruce's Garage use budgeting as a means of co-ordinating the activities of all the functional areas of the garage
- Planning
Producing a budget will force Seamus to think ahead and plan for the future. If Seamus decided that Bruce's Garage did not produce a budget for its future, the garage may work on a day-to-day basis as opposed to a longer time frame, such as a month, quarter or per annum. This may only allow the garage to deal with problems and opportunities as they occur without the need for forward thinking or planning
- Efficiency
In Bruce's Garage it may be difficult for Seamus to make all the decisions. Therefore having a budget will allow Seamus to give responsibility or control of financial issues to those who are better suited to the financial decision making for the garage for a specific time period. This would make efficient use of personnel and Seamus' time within the garage to do other things
- Motivation
Having a budget within Bruce's Garage may act as a motivator to Seamus and his employees as it provides them all with a set of targets and an acceptable standard for them all to work within, which could motivate them to meet the targets of the garage. When all members of staff, including Seamus, are aiming to improve upon the previous figures set within any of their budgets and improving for the next period of time. This would act as a means of motivation to all involved within Bruce's Garage.
- Communication
Having a budget in Bruce's Garage allows Seamus to plan for the future and in doing so communicate all of the targets and objectives to his staff. When all staff members are adhering to the set budget of the garage it allows for a clear framework to be followed, operating within the correct way/standard as expected by Seamus or whoever set the current budget. Therefore by having an operating budget to work towards it will remove any uncertainty with regard to the making of decisions within Bruce's Garage

All valid responses will be given credit

[6]

[1] reason identified

[2] reason identified with basic explanation

[3] reason identified with good explanation

(2 × [3])

(b) AO1

Responses include:

- Adverse [1]
- Favourable [1]

(c) (i) AO2

Answer is:

$\pounds 120,000 - \pounds 109,550 = (\pounds 10,450)$ which is an adverse variance

[1] for the correct variance calculation
[1] for stating the correct type of variance
(2 × [1])

[2]

(ii) AO2

Answer is:

$\pounds 19,200 - \pounds 17,800 = \pounds 1,400$ which is a favourable variance

[1] for the correct variance calculation
[1] for stating the correct type of variance
(2 × [1])

[2]

(iii) AO2

Answer is:

$\pounds 40,000 - \pounds 44,655 = (\pounds 4,655)$ which is an adverse variance

[1] for the correct variance calculation
[1] for stating the correct type of variance
(2 × [1])

[2]

AVAILABLE
MARKS

(d) **AO2, AO3**

AVAILABLE
MARKS

Responses may include:

The January adverse variance for Bruce's Garage may have been caused by the following:

- Fewer customers at this time of year
- Lower prices having been charged by Seamus so additional customers would be required to meet the sales revenue target
- Poor weather conditions, for example snow/ice preventing customers visiting the garage
- Damage to the garage due to poor weather, preventing Seamus from opening the garage
- Ill health or sickness of Seamus or a staff member having to take time off due to cold/flu
- Problems with suppliers and Seamus not being able to acquire the parts/components needed for the work to be carried out
- Seasonal time of year and customers may not have the cash available to pay for a service to their cars
- Discounts being offered by a competitor, therefore attracting Seamus' customers

These points would have the following impact on:

- Poor cash flow for Seamus, lower closing bank balance figure
- A lower profit figure being calculated at the end of the financial year
- Seamus having to borrow funds to pay bills/expenses on a short term basis, for example an overdraft
- Seamus having to adjust his budget for future months or quarters

The February favourable variance for Bruce's Garage may have been caused by the following:

- Seamus controlling the expenses of the garage, making cut backs on certain expenses, therefore saving the garage money
- Obtaining better deals with his utility services provider, for example electricity. He may have changed his supplier to gain a better deal in order to save the garage money
- Seamus may have obtained discounts from his suppliers of parts/components, therefore gaining economies of scale
- The operating system within the garage may have changed, for example staff working patterns or allocation of staff to various job roles
- The garage may have experienced a reduction in trading and therefore a reduction in expenses which would reduce the amount to be paid
- A reduction in spending on advertising/promotion of the garage

These points would have the following impact on:

- A higher profit being declared by Seamus at the end of the financial year
- A better cash flow for the garage, higher closing bank balance figure
- Seamus has efficiently controlled the expenses of the garage

All valid responses will be given credit

[10]

[0] is awarded for a response not worthy of credit

Level 1 ([1]–[3]) Basic

- Basic knowledge of the reasons for and implications of the adverse and favourable variances calculated in question 2(c) in January and February for Bruce's Garage.
- Limited application of the reasons for and implications of the adverse and favourable variances calculated in question 2(c) in January and February for Bruce's Garage.
- Analysis is limited or no relevant discussion or meaning.
- The quality of written communication is basic.

Level 2 ([4]–[7]) Good

- Good knowledge of the reasons for and implications of the adverse and favourable variances calculated in question 2(c) in January and February for Bruce's Garage.
- Good application of the reasons for and implications of the adverse and favourable variances calculated in question 2(c) in January and February for Bruce's Garage.
- Analysis is good with relevant discussion and meaning.
- The quality of written communication is good.

Level 3 ([8]–[10]) Excellent

- Excellent knowledge of the reasons for and implications of the adverse and favourable variances calculated in question 2(c) in January and February for Bruce's Garage.
- Excellent application of the reasons for and implications of the adverse and favourable variances calculated in question 2(c) in January and February for Bruce's Garage.
- Analysis is excellent with clear discussion and meaning.
- The quality of written communication is excellent.

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3 (a) (i) AO2

AVAILABLE
MARKS

Answers are:

2017

$$\frac{8,300}{120,500} \times 365 \text{ days} = 25 \text{ days}$$

[1] for using correct figures

[1] for correct answer, stated in days

(2 × [1])

[2]

2018

$$\frac{12,875}{120,829} \times 365 \text{ days} = 39 \text{ days}$$

[1] for using correct figures

[1] for correct answer, stated in days

(2 × [1])

[2]

(ii) AO3

Responses may include:

- There is a 14 day difference between 2017 and 2018
- In 2017 the 25 day period in which Bruce's Garage takes to pay its suppliers. In 2018 this period increased to 39 days. Therefore, indicating a problem and the need for an investigation for the increase of 14 days from one year to another
- In most cases the credit period is usually 30 days and 2017 Bruce's Garage paid their suppliers within this time frame. This was not the case in 2018
- Bruce's Garage needs to reduce its trade payables to bring their number of days down and below the targeted credit period of 30 days
- If this is not the case Bruce's Garage may be in trouble as suppliers may decide to withdraw any credit terms which could cause a major cash flow problem for them
- Other credit periods are 60 or 90 days

All valid responses will be given credit

[3]

[1] statement of what each ratio outcome shows

[2] accurate comparison of the significance of the value of each ratio with reference to Bruce's Garage

[3] accurate analysis of this ratio with reference to Bruce's Garage

(1 × [3])

(b) (i) AO2

AVAILABLE
MARKS

Answers are:

2017

$\frac{55,000}{325,672} \times 365 \text{ days} = 62 \text{ days}$
--

[1] for using correct figures

[1] for correct answer, stated in days

(2 × [1])

[2]

2018

$\frac{26,500}{349,748} \times 365 \text{ days} = 28 \text{ days}$
--

[1] for using correct figures

[1] for correct answer, stated in days

(2 × [1])

[2]

(ii) AO3

Responses may include:

- This is a dramatic drop of 34 days for Bruce's Garage in relation to credit customers paying their accounts on time from 2017 to 2018 which is a significant improvement
- This can be 30, 60 or 90 days. Usually 30 days is a common credit period
- In 2017 this was not the case as the credit customers were taking 62 days to settle their accounts
- This dropped to 28 days in 2018 as Seamus may have provided their credit customers (trade receivables) with an incentive to encourage them to pay earlier and on time, for example, by offering a discount – the sooner the payment was paid the higher the discount received by the credit customers (trade receivables)
- The trade receivables total in 2018 halved compared with 2017 which may have been as a result of a discount
- This is beneficial to Bruce's Garage because it is receiving money owed for work completed within an agreed credit period (for example, 30 days). Therefore, allowing the garage the use of this money sooner than it would have in 2017.

All valid responses will be given credit

[3]

[1] statement of what each ratio outcome shows

[2] accurate comparison of the significance of the value of each ratio with reference to Bruce's Garage

[3] accurate analysis of this ratio with reference to Bruce's Garage

(c) AO1, AO2, AO3

AVAILABLE
MARKS

Responses may include:

Analysis of benefits may include:

- Ratio analysis can be used to examine and simplify the financial statements produced by Bruce's Garage per annum. This will provide Seamus with a clearer understanding of what the financial statements for the garage represent and what they mean for the future of the garage. They also allow for the future planning of the garage
- Ratio analysis can highlight important information in a simple form for Bruce's Garage allowing for calculations to be made quickly. In doing so Seamus will be able to judge the success of the garage by looking at some figures that are embedded in the financial statements at the end of the financial/trading year, as opposed to examining the entire set of financial statements in full detail
- Ratio analysis can be used to compare the performance of Bruce's Garage from previous records, such as the financial statements produced at the end of the financial year. In order for Bruce's Garage to develop in the future Seamus will be able to examine the trading figures from year to year and be able to set targets for the future of the garage
- Ratio analysis can be used to assist Bruce's Garage with trend analysis to compare the garage for Seamus over a given period of time, for example from year to year or over a number of years
- Ratio analysis could be used by Bruce's Garage to compare the performance of the garage with any competitors that would be in the same area/region as Seamus' garage. This could be used to highlight any strengths and weaknesses of Bruce's Garage to inform Seamus in relation to future financial decision making
- Ratio analysis can assist with the ability of Bruce's Garage to monitor and identify issues/problems/difficulties that could be highlighted and resolved by Seamus
- Bruce's Garage can use ratio analysis to indicate a degree of efficiency in the management and utilisation of its assets. Therefore, allowing Seamus to examine the appropriate use of assets that are within the garage or any new assets that it may wish to acquire. This would enable the garage to be more competitive as well as cost efficient as it embarks upon a new trading or financial period
- Ratio analysis can play a vital role in the communication of Bruce's Garage as they can be used by Seamus to inform the position of, and the progress made, by the garage which may concern Seamus or any other interested parties

Analysis of limitations may include:

- Bruce’s Garage may use different accounting procedures from other businesses, for example stock of spare parts held within the garage. This may make it difficult for Seamus to make comparisons with a garage of a similar type
- Industry standards may not be the most appropriate benchmark to be used by Seamus as it is a small garage and therefore he would not be comparing like with like
- The external environment or the state of the economy may change and the effect may be felt after a lag in time. This may be in the form of a recession or a boom
- When using ratio analysis within Bruce’s Garage there is a possibility that the ratios will ignore the non-financial objectives of the garage.
- Ratio analysis information is historic and therefore, not current for Bruce’s Garage to use for the future of the business

All valid responses will be given credit [8]

[0] is awarded for a response not worthy of credit

Level 1 ([1]–[3]) Basic

- Basic knowledge of one benefit and one limitation of using ratio analysis for financial decision making in Bruce’s Garage.
- Application is basic with limited reference to Bruce’s Garage.
- Analysis of the benefits and limitations of ratio analysis is basic.
- Evaluation of the benefits and limitations of ratio analysis is basic.
- Judgement is limited and may or may not be supported by the candidate’s own knowledge.
- The quality of the candidate’s written communication is basic.

Level 2 ([4]–[6]) Good

- Good knowledge of one benefit and one limitation of using ratio analysis for financial decision making in Bruce’s Garage.
- Application is good with some reference to Bruce’s Garage.
- Analysis of the benefits and limitations of ratio analysis is good.
- Evaluation of the benefits and limitations of ratio analysis is good.
- Judgement is partially reasoned and supported by the candidate’s own knowledge and the analysis given.
- The quality of the candidate’s written communication is good.

Level 3 ([7]–[8]) Excellent

- Excellent knowledge of one benefit and one limitation of using ratio analysis for financial decision making in Bruce’s Garage.
- Application is excellent with clear reference to Bruce’s Garage.
- Analysis of the benefits and limitations of ratio analysis is excellent.
- Evaluation of the benefits and limitations of ratio analysis is appropriate, clear and logical based on a thorough analysis of a benefit and a limitation of ratio analysis for Bruce’s Garage.
- Judgement is fully justified and informed by the candidate’s own knowledge and the analysis given.
- The quality of the candidate’s written communication is excellent.

Total

**AVAILABLE
MARKS**

22

80