

# **Level 1/2/3 Award in Business Finance (8990)**

## **Examination Support Guide**



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September 2008  
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## City & Guilds

**1 Giltspur Street**

**London EC1A 9DD**

**T +44 (0)20 7294 2800**

**F +44 (0)20 7294 2400**

**[www.cityandguilds.com](http://www.cityandguilds.com)**

**[enquiry@cityandguilds.com](mailto:enquiry@cityandguilds.com)**

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# **1 About the Qualification**

## **1.1 Introduction**

### **Aim of qualification**

The aims of these qualifications are to:

- meet the needs of candidates who work or want to work in job roles such as:
  - Accounts Assistant
  - Accounting Technician
  - Office Administrator
  - Clerical Assistant
  - Manager (non financial roles)
  - Team Leader
- allow candidates to learn, develop and practise the skills required for employment and/or career progression in the business sector
- contribute to the knowledge and understanding of the related Level 2 and 3 NVQ in Accounting (qualification number 7421), and the Level 4 Accounting National Occupational Standards whilst containing additional skills and knowledge which go beyond the scope of the NOS. See the NVQ Relationship mapping for further details.

### **Level 1**

To enable learners to develop numerical skills suitable for the completion of routine tasks in a range of organisations.

### **Level 2**

To enable learners to be able to prepare numerical information for management needs in monitoring, decision making and problem solving. Information may be prepared in numerical, graphical and financial formats.

### **Level 3**

To enable the learner to develop an understanding of numerical and financial information and gain knowledge of management accounting techniques used to monitor and control. They will also develop the skills to analyse business information to facilitate decision making and problem solving.

### **Target group**

At level 1 the qualification is designed for people seeking to obtain a qualification and a foundation on which to develop their skills. It will also provide learners with skills suitable for the completion of business tasks either within an office environment or as part of trade, craft and other types of business.

At level 2 the qualification is designed for people with a basic qualification in numeracy seeking to focus skills on the provision of support information for supervisory level and first level management in a wide range of organisations. The syllabus is also suitable for those in first level management who wish to enhance their understanding of routine tasks of budgeting, costing, performance measurement and credit control, common to their level of authority and responsibility in organisations. This qualification may also be used as a basis for further education in accounting, management accounting and management.

At level 3 the qualification is designed for people with an understanding of basic costing, budgeting and performance measurement who wish to develop their analytic abilities to assist and advise management in monitoring and control, decision making and problem solving. It is also suitable for first-line non-financial managers wishing to develop their understanding of business finance as well as those who wish to specialise in cost and management accounting or as a basis for higher level education in accounting, management accounting and management.



# **1 About the Qualification**

## **1.2 General information for centres**

### **Guided learning hours**

City & Guilds do not determine the length of courses, or the number of hours of study required (i.e. in the classroom or in self-study set by the trainer/tutor).

The best indicator is when candidates have covered all areas of the syllabus and can successfully complete a sample test paper within the given time.

Success in the examination results from demonstrating the ability to achieve the objectives that will be tested. Practice papers will enable candidates to know what is expected of them in an examination.

The recommended learning hours for Level 1 and 2 are 30 hours each and 60 hours for Level 3. Please note that the length of each course will vary according to the circumstances and learners.

### **The examination**

For all three levels the examination is a question and answer booklet

All tasks are compulsory.

Candidates must complete all tasks within the examination time.

Non-programmable calculators should be used during the examination. Other equipment is required for specific level examinations:

Level 1 – protractor

Level 2 - protractor

All final answers must be in blue or black ink.

If additional separate sheets of paper are used, ensure they are clearly labelled with the candidate's name.

## **Examination times**

### **Level 1**

The examination lasts for 1 hour plus 5 minutes reading time. Note making during reading time is not allowed.

### **Level 2**

The examination lasts for 1 hour and 30 minutes plus 5 minutes reading time. Note making during reading time is not allowed.

### **Level 3**

The examination lasts for 2 hours and 30 minutes plus 5 minutes reading time. Note making during reading time is not allowed.

## **Assessment**

Candidates' performance will be assessed as follows:

To be awarded a **Pass** candidates must achieve 60%. (60 out of 100 marks)

To be awarded a **First Class Pass** candidates must achieve 75% overall. (75 out of 100 marks)

## **2 Business Finance – Level 1**

### **2.1 Syllabus Assessment Criteria**

**Level:** 1

**Credit value:** 3

#### **Unit aims**

The aim of the qualification is to enable the learners to establish numerical and presentational skills suitable for the competent completion of routine tasks in a wide range of organisations and to act as a foundation for future learning.

#### **Learning outcomes**

There are **three** learning outcomes to this unit. The learner will be able to:

1. apply numerical skills to business transactions
2. prepare and interpret business information
3. apply numerical skills to financial activities

#### **Guided learning hours**

It is recommended that **30** hours should be allocated for this unit. This may be on a full-time or part-time basis.

#### **Details of the relationship between the unit and relevant national occupational standards**

This unit is linked to the Level 2 NVQ in Accounting

#### **Endorsement of the unit by a sector or other appropriate body (if required)**

This unit is endorsed by the Financial Services Skills Council (FSSC).

#### **Key Skills**

This unit contributes towards the Key Skills in the following areas:

- Communication
- Application of Number

#### **Assessment and grading**

This unit will be assessed by a one hour question paper, which will be externally marked.

The examination paper will take the format in section A of short answer questions testing numerical knowledge and skills and in section B pro-formas for completion including graphs, charts, tables and business documents testing application of understanding. All learning outcomes will be tested in every examination paper although details will vary between papers.

## **Unit 001**

### **Outcome 1**

## **Level 1 Award in Business Finance**

### **Apply numerical skills to business transactions**

#### **Assessment Criteria**

Underpinning knowledge

The learner can:

- 1.1 identify and record numbers of any size accurately in words and figures
- 1.2 add, subtract, multiply and divide figures accurately with a calculator and answer to two decimal places
- 1.3 round numbers to whole numbers and to one and two decimal places
- 1.4 calculate and use fractions, percentages, proportions and ratios
- 1.5 calculate averages

#### **Guidance notes**

- 1.2 Calculations may be in different contexts i.e. time (24 hour, 12 hour, time differences), speed, distance and units of measurement.
- 1.5 Averages in terms of mean, median and mode.

## **Unit 001**

### **Outcome 2**

## **Level 1 Award in Business Finance**

### **Prepare and interpret business information**

#### **Assessment Criteria**

Underpinning knowledge

The learner can:

2.1 prepare financial information in graphical form

2.2 interpret financial information, including graphs and extracts from reference material

#### **Guidance notes**

2.1 Line graphs, bar charts and pie charts

2.2 Type of information: tables and charts, price lists

## **Unit 001**

### **Outcome 3**

## **Level 1 Award in Business Finance**

### **Apply numerical skills to financial activities**

#### **Assessment Criteria**

Underpinning knowledge

The learner can:

- 3.1 calculate prices and price extensions
- 3.2 calculate trade discount
- 3.3 calculate sales tax
- 3.4 calculate quantities and money values of materials, labour costs and expenses
- 3.5 prepare orders and estimates
- 3.6 calculate payroll costs
- 3.7 prepare cash analysis for payroll
- 3.8 convert between different currencies to given rates
- 3.9 make basic calculations associated with income, expenditure, investment and borrowing

#### **Guidance notes**

- 3.1 - 3.5 Calculations in the context of orders, job costs and estimates.
- 3.3 Knowledge of particular sales tax regulation is not required. Tax rates will be specified in the assessments.
- 3.6 Payroll costs include gross pay, net pay, overtime, bonus, time and piece rate.
  - Knowledge of specific bonus schemes is not required.
  - Knowledge of tax and deduction tables is not required.
- 3.9 Includes simple interest and charges

## 2 Business Finance – Level 1

### 2.2 Sample Question Paper



8990-01-001

Sample 2

---

**Candidate's name** (Block letters please)

---

**Centre no**

**Date**

---

Time allowed: 1 hour  
(plus 5 minutes reading time).

No note making is allowing during the reading time.

Answer **all** questions.

Show all your workings. All **final** answers must be written in blue or black ink.

Your answers should be written in the question booklet in the spaces provided.

If additional separate sheets of paper are used, make sure each page is clearly labelled with your name

Recommended equipment: calculator, pencil, ruler, protractor, eraser.

Section	Section B				TOTAL
A	Task 1	Task 2	Task 3	Task 4	
/15	/13	/23	/20	/29	/100

**Section A**

Answer all questions.

**1** Sue is paid £213.50 for a 35 hour week. Calculate how much Sue earns per hour.

.....

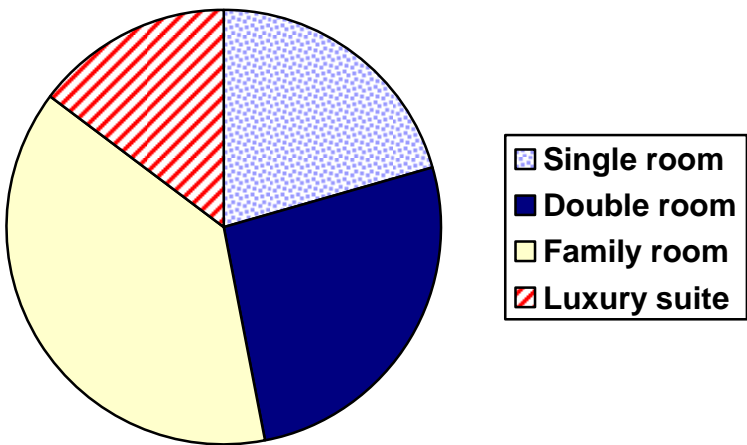
..... (1 mark)

**2** A business borrows £12 500 at 6% per annum simple interest. Calculate the amount of interest payable in one year.

.....

..... (1 mark)

**3** The pie chart below shows the room usage for First Class Hotels in the last year.



Which type of room is most popular?

.....

..... (1 mark)



- 4** A cinema is investigating the age of its customers to help management in determining the type of movie to show. The following are the ages of customers who used the cinema one afternoon.

24, 63, 65, 59, 72, 73, 69, 64, 64, 38, 63, 65, 68, 64, 22, 21, 46, 31, 35, 70

State the mode.

.....

..... **(1 mark)**

- 5** The manager of a florist is reviewing prices. A bunch of flowers costs £2.50 in wages, £3.00 in materials and £1.00 in other costs. The manager decides to add 80% for profit in addition to total costs.

Calculate the price of the bunch of flowers.

.....

..... **(2 marks)**

- 6** A mechanic services cars. A service takes one hour and 15 minutes to complete.

Calculate the number of services the mechanic can complete in 35 working hours.

.....

..... **(1 mark)**

- 7** Ali earns a basic £16 440 per annum. He is also entitled to a bonus of £1 644. Deductions are 25% of gross pay.

Calculate Ali's net pay for **one month**.

.....

..... **(2 marks)**

- 8** Ben, Leon and Rebecca are shareholders. Ben and Leon each own 35% of the shares of a company. Rebecca owns 30%

Calculate the amount Ben would receive if Rebecca receives a dividend of £7 200.

.....

..... **(2 marks)**

- 9** A manager is to attend a conference in the USA. In addition to an air fare of £2 100 the cost of the conference is \$2 000 The cost of the hotel is \$1 500. The rate of exchange is \$1.96:£1.00.

Calculate the total cost of the manager's attendance at the conference in £ sterling.

.....

..... **(2 marks)**

- 10** Jenny Chung pays £1 320 for shop heating and lighting in the first quarter of the year. The cost is 25% higher in the second and third quarters. The cost is 50% higher in the fourth quarter than the first quarter.

Calculate the amount Jenny Chung pays for heating and lighting for the year.

.....

..... **(2 marks)**

(Total 15 marks)

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## Section B

### Complete all tasks

You are employed in the office of Jan Peters Ltd, a small plumbing company, and have been asked to complete a number of tasks.

#### Task 1

A phone call has been taken from a potential customer and the information below has been obtained. Your manager has added her notes to the information and you have been asked to produce a costed estimate before she returns the telephone call.

Telephone message	Dated: today	To call back: asap today
<div><div><p>Mr Johnson who you spoke to recently about replacing his radiators needs two of them replaced as soon as possible.</p><p>Please return phone call to advise price.</p><p>His telephone number is (0116) 255 1073</p></div><div><p><b>Manager's note:</b></p><p><i>Will require</i></p><ul style="list-style-type: none"><li>- 2 radiator packs @ £475.90 each,</li><li>- 2 thermostats @ £65.40 each</li><li>- 6 metres of copper piping @ £3.05 per metre</li></ul><p><i>Labour costs – 7 hours @ £18.00 per hour</i></p><p><i>Additional costs/expenses £15.00.</i></p></div></div>		

Using the information above complete the estimate on the facing page.

**ESTIMATE**

**Jan Peters Ltd  
4 - 6 Station Road  
Leicester**

**Customer Name:** .....

**Telephone number:** .....

**Date:** .....

**£**

**Materials**

@

=

@

=

@

=

**Labour**

@

=

**Costs/expenses**

**TOTAL**

**(Total 13 marks)**

## Task 2

Your manager has asked you to order the following stationery for the company:

- 4 Reams of A4 white copy paper
- 1 Box staples (No. 53)
- 500 Plain pocket white envelopes
- 2 Boxes medium red pens

Using the following price list complete the order form opposite.

<b>Office Suppliers Limited – Price list (office supplies)</b>			
<b>Product Description</b>	<b>Product Reference</b>	<b>Unit Quantity</b>	<b>List Price £</b>
<i>Paper</i>			
A4 Copy (white)	P 26	Ream	5.20
A4 Copy (coloured)	P 27	Ream	6.95
A4 Printer (white)	P 45	Ream	6.10
<i>Envelopes</i>			
White plain pocket	E 11	Box – 250	19.10
White window pocket	E 12	Box – 250	20.20
<i>Pens</i>			
Fine black	PN 22	Box – 100	8.25
Medium black	PN 23	Box – 100	8.40
Fine red	PN 24	Box – 100	7.35
Medium red	PN 25	Box – 100	8.05
<i>Sundries</i>			
Paper clips	PC 10	Box – 500	8.40
Stapler (No. 53)	SR 14	Unit	3.26
Staples (No. 53)	SS 17	Box – 1000	5.50
Trade discount of 5% is available on orders up to £100.00 Trade discount of 10% is available on the total of all orders above £100.00 Delivery for orders up to £80.00 is charged at £5.00 Delivery is free for orders above £80.00 in value Sales tax of 17.5% applies to all orders			

Office Suppliers Limited – Order Form				
<b>Ordered by:</b> Jan Peters Ltd 4 - 6 Station Road Leicester		<b>Your account ref:</b> 1069		
Product Description	Product Reference	Unit Quantity	List Price £	Total value of goods £
All goods supplied are subject to a 30-day free guarantee		Total goods		
		Trade discount		
		Sub-total		
		Delivery charge (if any)		
		Sub-total		
		Sales tax @ 17.5%		
		TOTAL		

(Total 23 marks)

**Task 3**

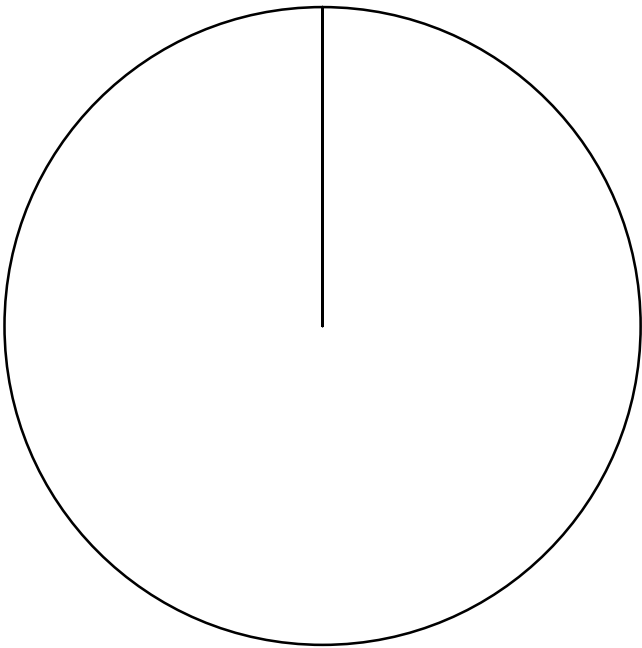
The company are considering setting up an emergency plumbing service. Your manager has asked you to analyse some past information as part of that investigation.

- a) i) Calculate, in degrees, the proportion of emergency jobs that took place over a six month period and complete the total plumbing jobs and degrees in the table below. (7 marks)

	Oct	Nov	Dec	Jan	Feb	March	Total
Plumbing Jobs	30	45	45	60	90	30	
Degrees							

- ii) Use the information in the table to prepare a pie chart to indicate the proportion of plumbing jobs that take place over the period. (5 marks)

**Monthly Proportion of Plumbing Jobs**



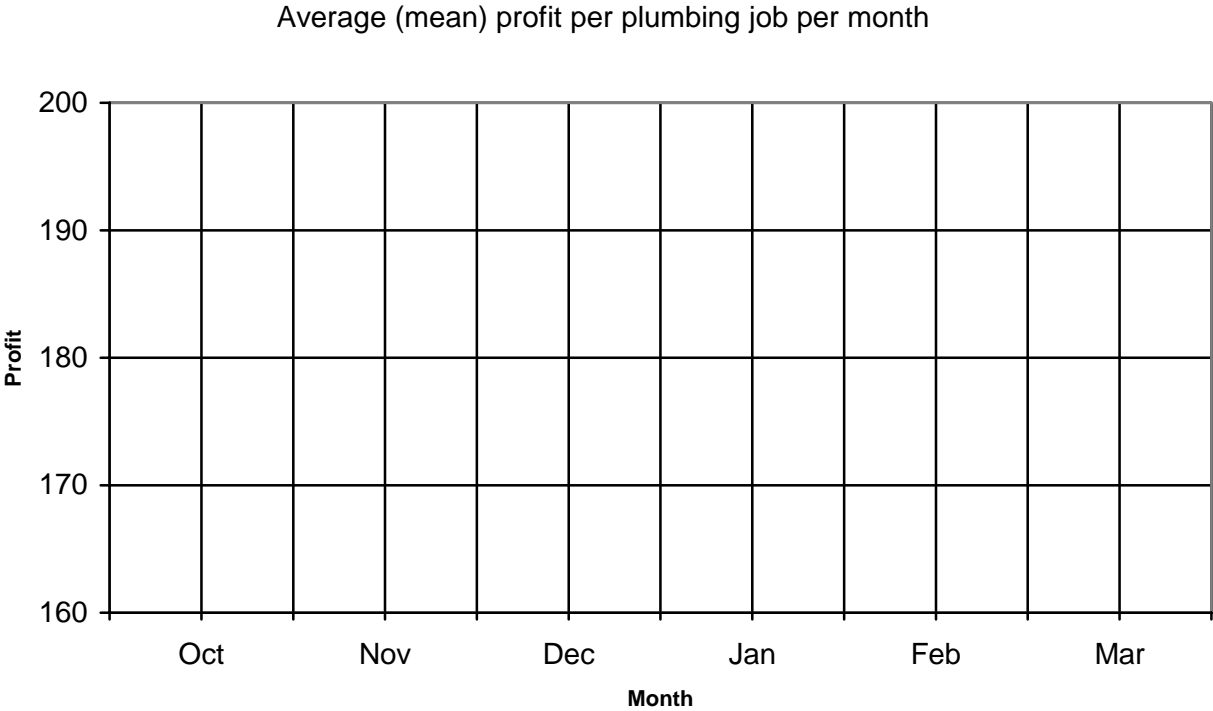


- b) The profit earned on emergency plumbing jobs in the period investigated is shown below.
- i) Calculate the average (mean) profit per job in each month.

	Oct	Nov	Dec	Jan	Feb	Mar
Plumbing jobs	30	45	45	60	90	30
Profit earned (£)	5 250	8 100	8 190	11 580	17 640	5 280
Average profit per plumbing job (£)						

(6 marks)

- ii) Use the information in b) i) to complete the following line graph.



(2 marks)

**(Total 20 marks)**

## Task 4

You have been asked to complete a number of payroll calculations.

- a) Three employees are to be paid in cash for this week and you have been asked to prepare a cash analysis to determine the notes and coins needed for their pay.

Complete the cash analysis below using the minimum amount of notes and coins.

Employee	Net pay £	£50	£20	£10	£5	£2	£1	50p	20p	10p
Peter Lloyd	345.20									
Sue Lim	290.60									
Ahmed Hassan	282.00									
<b>Total number of notes/coins</b>										
<b>TOTALS £</b>										

(11 marks)

- b) Using the information provided, calculate the net pay for the following employees in the table opposite.

Time Sheet Summary		
Employee	Sam Pointer	Tina Leong
<b>Basic rate of pay</b>	£6.88 per hour	£6.94 per hour
<b>Overtime rate</b>	Time and a half	Double time
<b>Hours at basic rate</b>	35 hours	16 hours
<b>Hours worked this week</b>	38½ hours	18 hours

Gross pay is subject to a deduction of 25%.

Employee	Sam Pointer	Tina Leong
	£	£
Basic rate per hour		
Overtime pay per hour		
Basic pay this week		
Overtime pay this week		
Gross pay		
Less deductions (25%)		
Net pay		

(18 marks)

**(Total 29 marks)**

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## **2 Business Finance – Level 1**

### 2.3 Sample Marking Scheme

## Section A

- 1     £6.10 **(1)**
- 2     £750 **(1)**
- 3     Family **(1)**
- 4     64 **(1)**
- 5     £11.70 **(2)**     $[(£2.50 + £3.00 + £1.00) \text{ (1)}] \times [180\% \text{ (1)}]$
- 6     28 **(1)**
- 7     £1 130.25 **(2)**     $\frac{[£16440 + £1644 \times 75\%] \text{ (1)}}{12 \text{ (1)}}$
- 8     £8400 **(2)**      $[(£7\ 200 \div 30) \text{ (1)}] \times 35 \text{ (1)}$
- 9     £3885.71 **(2)**      $[(\$2\ 000 + \$1\ 500) \div 1.96) \text{ (1)} + £2\ 100 \text{ (1)}]$
- 10    £6 600 **(2)**     $£1\ 320 + [2 (£1\ 320 \times 125\% \text{ (1)})] + [(£1\ 320 \times 150\%) \text{ (1)}]$

**(15 marks)**

## Section B

NB \* = own figure

### Task 1

<u>ESTIMATE</u>			
<b>Jan Peters Ltd</b>		<b>Customer Name: Mr Johnson.....</b>	
<b>4 - 6 Station Road</b>		<b>Telephone number: (0116) 255 1073.....</b>	
<b>Leicester</b>		<b>Date: exam date.....</b>	
		<b>£</b>	<b>(1)</b>
<b>Materials</b>			
2 radiator packs	@ £475.90	=	951.80 (1)
(1) for both entries			
2 thermostats	@ £65.40	=	130.80 (1)
(1) for both entries			
6 metres of copper piping	@ £3.05	=	18.30 (1)
(1) for both entries			
<b>Labour</b>	7 hours @ £18.00	=	126.00 (1)
(1) for both entries			
<b>Costs/expenses</b>		<u>15.00</u>	(1)
<b>TOTAL</b>		<u>1 241.90</u>	(2)/(1) *

(Total 13 marks)

Task 2

Office Suppliers Limited – Order Form				
<b>Ordered by:</b> <b>Jan Peters Ltd</b> <b>4 - 6 Station Road</b> <b>Leicester</b>		<b>Your account ref: 1069</b>		
Product Description	Product Reference	Unit Quantity	List Price £	Total value of goods £
A4 copy paper (white)	P 26	4 Reams	5.20 <b>(1)</b>	20.80 <b>(1)*</b>
Staples (No. 53)	SS 17	1 Box	5.50 <b>(1)</b>	5.50 <b>(1)*</b>
White plain pocket envelopes	E 11	2 Boxes	19.10 <b>(1)</b>	38.20 <b>(1)*</b>
Medium red pens	PN 25	2 Boxes	8.05 <b>(1)</b>	16.10 <b>(1)*</b>
<b>(2) for 3 or 4 correct details</b> <b>(1) for 1 or 2 correct details</b>	<b>(2) for 3 or 4 correct refs</b> <b>(1) for 1 or 2 refs</b>	<b>(2) for 3 or 4 correct refs</b> <b>(1) for 1 or 2 refs</b>		
All goods supplied are subject to a 30-day free guarantee			Total goods	80.60 <b>(1)*</b>
			Trade discount	<u>4.03</u> <b>(1)*</b>
			Sub-total	76.57 <b>(2)*</b>
			Delivery charge (if any)	<u>5.00</u> <b>(1)*</b>
			Sub-total	81.57 <b>(1)*</b>
			Sales tax @ 17.5%	<u>14.27</u> or <u>14.28</u> <b>(1)*</b>
			TOTAL	95.84 or 95.85 <b>(2) / (1)*</b>

**(Total 23 marks)**



Task 3

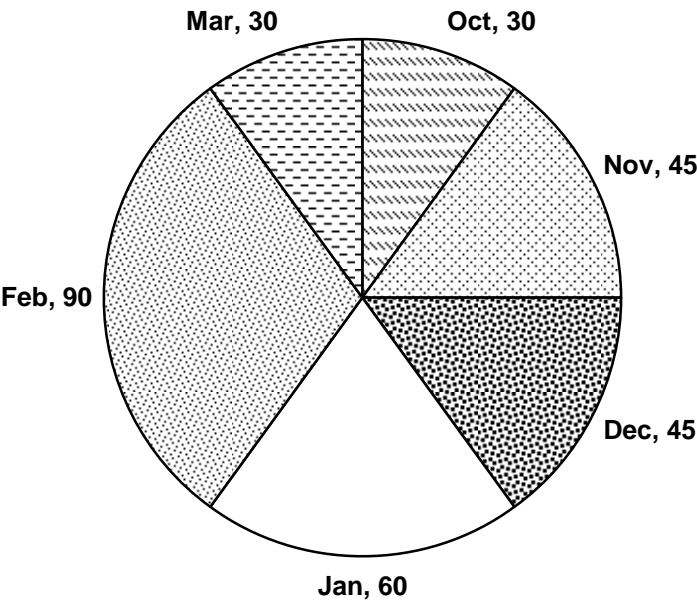
a) i)

Month	Oct	Nov	Dec	Jan	Feb	March	Total
Plumbing Jobs	30	45	45	60	90	30	300 <b>(1)</b>
Degrees	36 <b>(1)</b>	54 <b>(1)</b>	54 <b>(1)</b>	72 <b>(1)</b>	108 <b>(1)</b>	36 <b>(1)</b>	

(7 marks)

ii)

Monthly Proportion of Plumbing Jobs



- (5\*) completely correct & labelled **or**
- (4\*) 4 or 5 sectors correct & labelled  
or 6 correct, not labelled **or**
- (3\*) 2 or 3 sectors correct & labelled  
or 4 or 5 correct, not labelled **or**
- (2\*) 1 sector correct & labelled or 2 or  
3 correct, not labelled **or**
- (1\*) 1 sector correct not labelled

(5 marks)

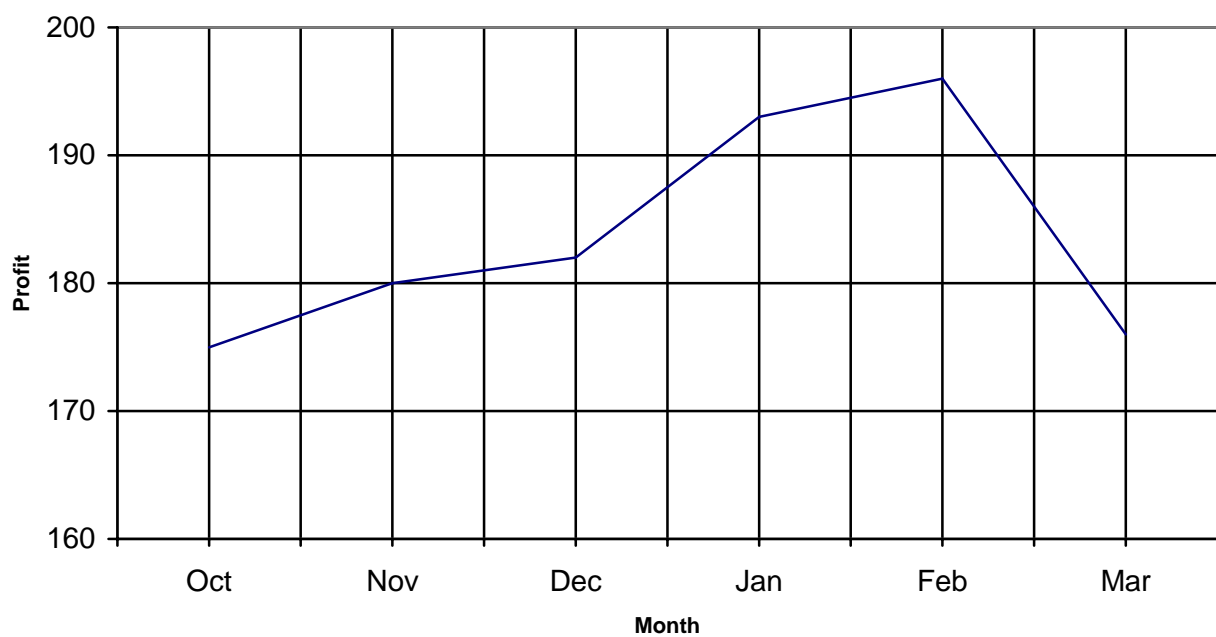
b) i)

	Oct	Nov	Dec	Jan	Feb	Mar
Plumbing jobs	30	45	45	60	90	30
Profit earned (£)	5 250	8 100	8 190	11 580	17 640	5 280
Average profit per plumbing job (£)	175 <b>(1)</b>	180 <b>(1)</b>	182 <b>(1)</b>	193 <b>(1)</b>	196 <b>(1)</b>	176 <b>(1)</b>

(6 marks)

ii)

Average (mean) profit per plumbing job per month



2 marks for completely correct line graph. **(2)**

1 mark for line graph consistent with calculated average profits **(1)**

(2 marks)

**(Total 20 marks)**

#### Task 4

a)

Employee	Net pay £	£50	£20	£10	£5	£2	£1	50p	20p	10p	
Peter Lloyd	345.20	6	2		1				1		<b>(2) for 4 correct or (1) for 2/3 correct per line</b>
Sue Lim	290.60	5	2					1		1	
Ahmed Hassan	282.00	5	1	1		1					
<b>Total number of notes/coins</b>		16	5	1	1	1	-	1	1	1	<b>(2)*</b>
<b>TOTALS £</b>	<b>917.80 (1)</b>	800.00	100.00	10.00	5.00	2.00	-	0.50	0.20	0.10	<b>(2)*</b>

(11 marks)

b)

Employee	Sam Pointer	Tina Leong
	£	£
<b>Basic rate per hour</b>	6.88 <b>(1)</b>	6.94 <b>(1)</b>
<b>Overtime pay per hour</b>	10.32 <b>(2)</b>	13.88 <b>(2)</b>
<b>Basic pay this week</b>	240.80 <b>(1)</b>	111.04 <b>(1)</b>
<b>Overtime pay this week</b>	36.12 <b>(1)*</b>	27.76 <b>(1)*</b>
<b>Gross pay</b>	276.92 <b>(1)*</b>	138.80 <b>(1)*</b>
<b>Less deductions (25%)</b>	69.23 <b>(2)*</b>	34.70 <b>(2)*</b>
<b>Net pay</b>	207.69 <b>(1)*</b>	104.10 <b>(1)*</b>

(18 marks)

**(Total 29 marks)**

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## 2.4 Sample worked paper and assessment (Level 1)

The following shows how a candidate might perform in the sample paper above. It highlights common errors and is based on experience of past and similar examinations and tasks. This approach provides the opportunity to analyse questions more closely than by looking at the correct answers and gives teachers and learners the opportunity to consider strategies to employ in the examination.

The marks which are likely to be awarded are indicated together with explanations and justifications in the same way that tutors and teachers would provide feedback to students.

Calculations shown are usually one of the many possible methods that may be taught or used by candidates.

Further generic points are covered in later sections providing tips and hints for teachers and learners.

**Section A**

Answer all questions.

- 1 Sue is paid £213.50 for a 35 hour week. Calculate how much Sue earns per hour.

..... $\frac{213.50}{35}$  = £6.10... (1) .....

.....

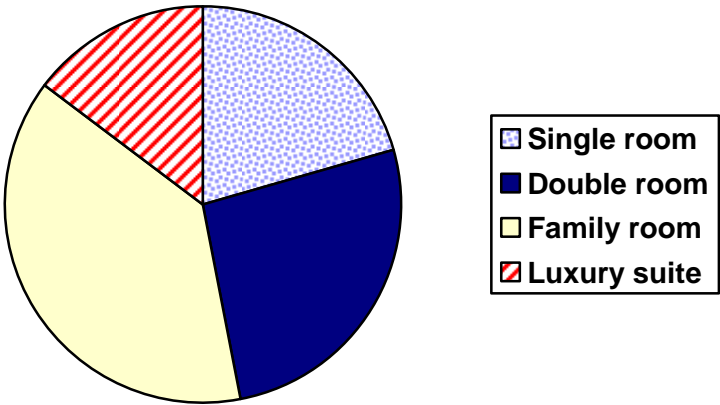
It is always a good technique to show workings because examiners will give credit for the correct method even if the answer is incorrect. However, as there is only one mark for this question, no mark will be awarded if the answer is incorrect. There is therefore the temptation simply to use a calculator and write down the figure in the display. The benefit of showing workings in this instance is that when checking through all the answers a quick visual check can be made such as  $6 \times 35 = 210$  which indicates rough accuracy and the places of decimals are appropriate.

- 2 A business borrows £12 500 at 6% per annum simple interest. Calculate the amount of interest payable in one year.

..... $\frac{12\,500 \times 6}{100}$  = £750... (1) .....

.....

- 3 The pie chart below shows the room usage for First Class Hotels in the last year.



Which type of room is most popular?

Family room... (1) .....

.....

The correct answer in this case can be identified by sight. Sometimes the sizes of the segments may not be as clear and it may be necessary to use a protractor.

- 4 A cinema is investigating the age of its customers to help management in determining the type of movie to show. The following are the ages of customers who used the cinema one afternoon.

24, 63, 65, 59, 72, 73, 69, 64, 64, 38, 63, 65, 68, 64, 22, 21, 46, 31, 35, 70

State the mode.

.....  $\frac{1\ 076}{20} = 53.8$  ... (O) .....

**The candidate has confused the mode with the mean. The use of the word state means that there is no calculation.**

- 5 The manager of a florist is reviewing prices. A bunch of flowers costs £2.50 in wages, £3.00 in materials and £1.00 in other costs. The manager decides to add 80% for profit in addition to total costs.

Calculate the price of the bunch of flowers.

.....  $(2.50 + 3.00 + 1.00) = £6.50$      $80\% \times £6.50 = £5.20$  .....

.....  $£6.50 + £5.20 = £11.70$  ..... (2) .....

**The answer is correct and full workings have been shown. As there are several elements in the calculation marks can be gained for some correct workings.**

- 6 A mechanic services cars. A service takes one hour and 15 minutes to complete.

Calculate the number of services the mechanic can complete in 35 working hours.

.....  $\frac{35 \times 60}{75} = 28$  ..... (1) .....

**There are different ways in which to calculate the answer. A candidate could divide 35 by 1.25. The danger with calculations of time is that under pressure the candidate forgets that there are 60 minutes in an hour and uses the calculation 35 divided by 1.15. It is probably therefore safest to make calculations in minutes in this case.**

- 7 Ali earns a basic £16 440 per annum. He is also entitled to a bonus of £1 644. Deductions are 25% of gross pay.

Calculate Ali's net pay for **one month**.

$$\dots\dots\dots 75\% (\pounds 16\,440 + \pounds 1\,644) = \pounds 13\,563 \dots\dots\dots$$

$$\dots\dots\dots \pounds 13\,563 \div 12 = \pounds 1\,130.25 \dots\dots\dots (2) \dots\dots\dots$$

**It is easy in a question like this to miss that the calculation is required for one month rather than a year. In the examination it can be helpful to highlight or underline key points and this is shown above.**

- 8** Ben, Leon and Rebecca are shareholders. Ben and Leon each own 35% of the shares of a company. Rebecca owns 30%

Calculate the amount Ben would receive if Rebecca receives a dividend of £7 200.

$$\dots\dots\dots \frac{\pounds 7\,200}{30} \times 35 = \pounds 8\,400 \text{ (2)} \dots\dots\dots$$

**This should be a relatively straightforward calculation but candidates can find it difficult so it may be better to show the full calculation in teaching.**

- 9** A manager is to attend a conference in the USA. In addition to an air fare of £2 100 the cost of the conference is \$2 000. The cost of the hotel is \$1 500. The rate of exchange is \$1.96:£1.00.

Calculate the total cost of the manager's attendance at the conference in £ sterling.

$$\dots\dots \frac{(2\,000 + 1\,500)}{1.96} = \pounds 1785.71 \dots (1) \dots\dots\dots$$

**The £2 100 air fare is omitted but the foreign exchange calculation is correct.**

- 10** Jenny Chung pays £1 320 for shop heating and lighting in the first quarter of the year. The cost is 25% higher in the second and third quarters. The cost is 50% higher in the fourth quarter than the first quarter.

Calculate the amount Jenny Chung pays for heating and lighting for the year.

$$\dots\dots\dots \pounds 1\,320 \times \frac{(100 + 125 + 125 + 150)}{100} = \pounds 6\,600 \text{ (2)} \dots\dots\dots$$



## Section B

### Complete all tasks

You are employed in the office of Jan Peters Ltd, a small plumbing company, and have been asked to complete a number of tasks.

#### Task 1

A phone call has been taken from a potential customer and the information below has been obtained. Your manager has added her notes to the information and you have been asked to produce a costed estimate before she returns the telephone call.

Telephone message	Dated: today	To call back: asap today
<p>Mr Johnson who you spoke to recently about replacing his radiators needs two of them replaced as soon as possible.</p> <p>Please return phone call to advise price.</p> <p>His telephone number is (0116) 255 1073</p>	<p><b>Manager's note:</b></p> <p><i>Will require</i></p> <ul style="list-style-type: none"><li>- 2 radiator packs @ £475.90 each,</li><li>- 2 thermostats @ £65.40 each</li><li>- 6 metres of copper piping @ £3.05 per metre</li></ul> <p><i>Labour costs – 7 hours @ £18.00 per hour</i></p> <p><i>Additional costs/expenses £15.00.</i></p>	

Using the information above complete the estimate on the facing page.

<b><u>ESTIMATE</u></b>																																																	
<b>Jan Peters Ltd</b> <b>4 - 6 Station Road</b> <b>Leicester</b>	<b>Customer Name:</b> .....Mr Johnson <div style="text-align: right;">(1)</div> <b>Telephone number:</b> .....0116 255 1073  <b>Date:</b> .....31 April..... <div style="text-align: right;">£</div>																																																
<table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="5"><b>Materials</b></td> </tr> <tr> <td style="width: 30%;"></td> <td style="width: 20%;">Radiators</td> <td style="width: 5%;">@</td> <td style="width: 15%;">475.90</td> <td style="width: 50%;">= 951.80 (1)</td> </tr> <tr> <td></td> <td>Thermostats</td> <td>@</td> <td>65.40</td> <td>= 130.80(1)</td> </tr> <tr> <td></td> <td>Pipes</td> <td>@</td> <td>3.05</td> <td>= <u>18.30</u> (1)</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>1 100.90</td> </tr> <tr> <td><b>Labour</b></td> <td>7 hours</td> <td>@</td> <td>18.00</td> <td>= 126.00(1)</td> </tr> <tr> <td></td> <td></td> <td>(1)</td> <td></td> <td></td> </tr> <tr> <td><b>Costs/expenses</b></td> <td></td> <td></td> <td></td> <td>15.00(1)</td> </tr> <tr> <td><b>TOTAL</b></td> <td></td> <td></td> <td></td> <td><u>1 241.90</u>(2)</td> </tr> </table>					<b>Materials</b>						Radiators	@	475.90	= 951.80 (1)		Thermostats	@	65.40	= 130.80(1)		Pipes	@	3.05	= <u>18.30</u> (1)					1 100.90	<b>Labour</b>	7 hours	@	18.00	= 126.00(1)			(1)			<b>Costs/expenses</b>				15.00(1)	<b>TOTAL</b>				<u>1 241.90</u> (2)
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One mark is given for the correct name and telephone number. The missing bracket around the area code number would not result in a loss of marks. The date should be the date the candidate took the exam and clearly cannot be 31 April.

Numerically the answer is correct. There is a sub-total for materials which would be reasonable in practice but cannot be expected so is not included in the marking scheme. It would not be penalised in the candidate's answer. The details of radiators, thermostats and pipes are insufficient to appreciate the details of the materials so the candidate has not gained any marks for these. The details for labour are clear.

## Task 2

Your manager has asked you to order the following stationery for the company:

- 4 Reams of A4 white copy paper
- 1 Box staples (No. 53)
- 500 Plain pocket white envelopes
- 2 Boxes medium red pens

Using the following price list complete the order form opposite.

<b>Office Suppliers Limited – Price list (office supplies)</b>			
<b>Product Description</b>	<b>Product Reference</b>	<b>Unit Quantity</b>	<b>List Price £</b>
<i>Paper</i>			
A4 Copy (white)	P 26	Ream	5.20
A4 Copy (coloured)	P 27	Ream	6.95
A4 Printer (white)	P 45	Ream	6.10
<i>Envelopes</i>			
White plain pocket	E 11	Box – 250	19.10
White window pocket	E 12	Box – 250	20.20
<i>Pens</i>			
Fine black	PN 22	Box – 100	8.25
Medium black	PN 23	Box – 100	8.40
Fine red	PN 24	Box – 100	7.35
Medium red	PN 25	Box – 100	8.05
<i>Sundries</i>			
Paper clips	PC 10	Box – 500	8.40
Stapler (No. 53)	SR 14	Unit	3.26
Staples (No. 53)	SS 17	Box – 1000	5.50
Trade discount of 5% is available on orders up to £100.00 Trade discount of 10% is available on the total of all orders above £100.00 Delivery for orders up to £80.00 is charged at £5.00 Delivery is free for orders above £80.00 in value Sales tax of 17.5% applies to all orders			

Office Suppliers Limited – Order Form				
<b>Ordered by:</b> <b>Jan Peters Ltd</b> <b>4 - 6 Station Road</b> <b>Leicester</b>		<b>Your account ref: 1069</b>		
Product Description	Product Reference	Unit Quantity	List Price £	Total value of goods £
A4 copy paper (white)	P 26	4	5.20 (1)	20.80 (1)
Staples (No. 53)	SS 17	1	5.50 (1)	5.50 (1)
Plain pocket envelopes (white)	E 11	2	19.10 (1)	38.20 (1)
Red pens (medium) (2)	PN 25 (2)	2	8.05 (1)	16.10 (1)
All goods supplied are subject to a 30-day free guarantee		Total goods		80.60 (1)
		Trade discount		<u>4.03</u> (1)
		Sub-total		84.63
		Delivery charge (if any)		<u>0.00</u> (1)*
		Sub-total		84.63 (1)*
		Sales tax @ 17.5%		<u>14.81</u> (1)*
		TOTAL		99.44 (1)*

Details of product description and reference are correct so the candidate has earned two marks for each for these. Unfortunately the units of quantity have been omitted which makes the order unclear for practical use so no marks have been awarded for unit quantity. All the figures up to and including the trade discount are correct so marks have been well earned. The discount has been added to the total goods so marks have not been earned for the sub-total before the delivery charge. However, the delivery charge has been dealt with correctly (no charge over £80.00 invoice value) so a mark has been earned for the sub-total after the delivery charge because it has been calculated by the correct method. Examiners use this (own figure) approach in marking and the instances where it may be applied are indicated by a star \* in the marking schemes. The own figure approach has been applied also to the sales tax and final total. In the mark scheme both figures rounded up and down for sales tax and final total will be accepted to allow for different rules on rounding of sales tax around the world.

18/23

### Task 3

The company are considering setting up an emergency plumbing service. Your manager has asked you to analyse some past information as part of that investigation.

- a) i) Calculate, in degrees, the proportion of emergency jobs that took place over a six month period and complete the total plumbing jobs and degrees in the table below.

Month	Oct	Nov	Dec	Jan	Feb	March	Total
Plumbing Jobs	30	45	45	60	90	30	300 <b>(1)</b>
Degrees	36 <b>(1)</b>	54 <b>(1)</b>	54 <b>(1)</b>	72 <b>(1)</b>	108 <b>(1)</b>	36 <b>(1)</b>	

Workings:

$$30/300 \times 360 = 36$$

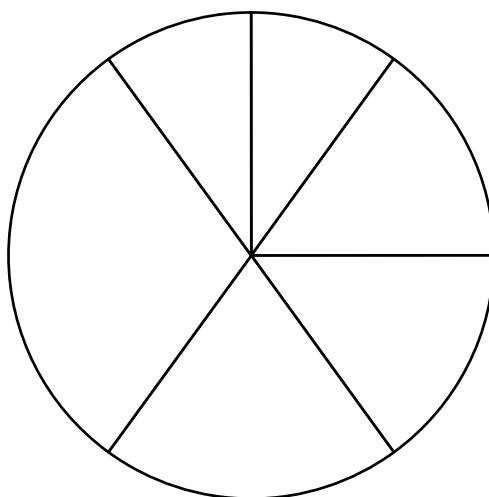
$$45/300 \times 360 = 54$$

$$60/300 \times 360 = 72$$

$$90/300 \times 360 = 108$$

- ii) Use the information in the table to prepare a pie chart to indicate the proportion of plumbing jobs that take place over a period.

**Monthly Proportion of Plumbing Jobs**



(4)

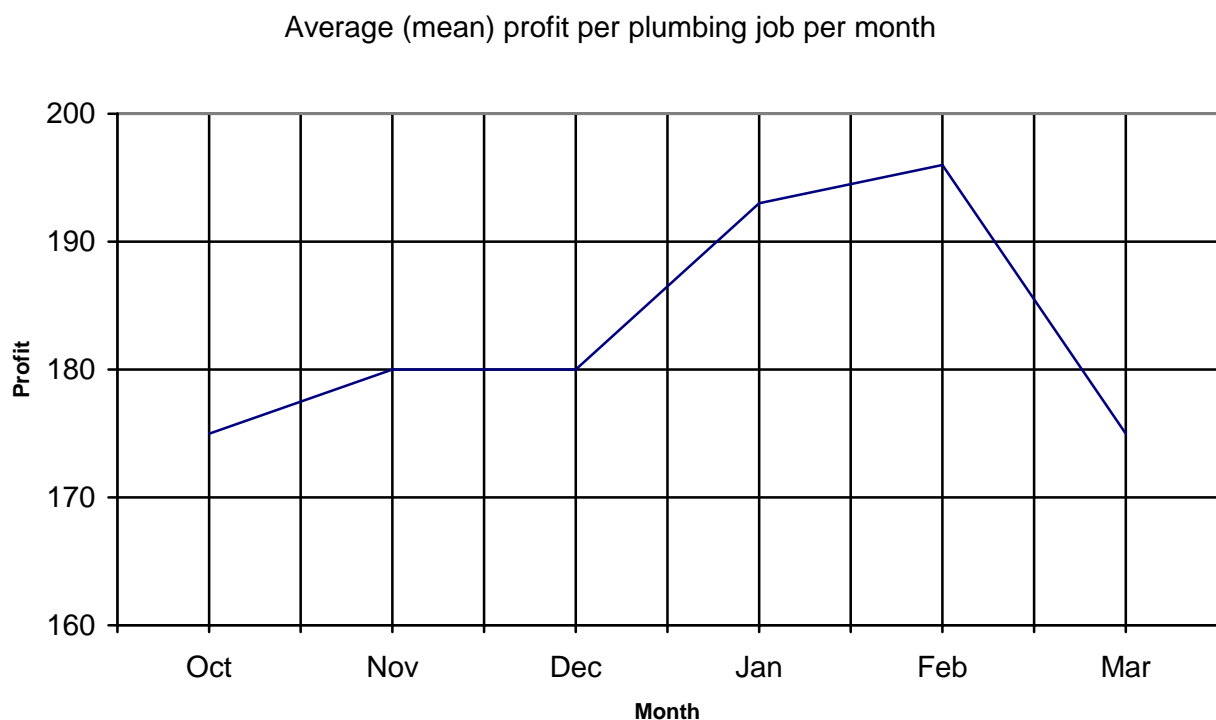
Usually there will be room for workings on the examination paper, for example, the various lines under each question in the first section of the examination. In the table of jobs and degrees there is only one mark for each figure so answers are either correct or incorrect and the mark gained or lost in each case. There is room on the page for workings so the candidate is free to use this. The candidate has gained full marks for calculations. Unfortunately no sectors were labelled on the pie chart so not all the marks available were earned. The sectors were all the correct size.

b) i) The profit earned on emergency plumbing jobs in the period investigated is shown below.

Calculate the average (mean) profit per job in each month.

	Oct	Nov	Dec	Jan	Feb	Mar
Plumbing jobs	30	45	45	60	90	30
Profit earned (£)	5 250	8 100	8 190	11 580	17 640	5 280
Average profit per plumbing job (£)	<b>175</b> <b>(1)</b>	<b>180</b> <b>(1)</b>	<b>180</b>	<b>193</b> <b>(1)</b>	<b>196</b> <b>(1)</b>	<b>175</b>

ii) Use the information in b) i) to complete the following line graph.



(1\*)

The candidate either misread figures in b) i) or may have been rushing because this task on the paper was left to last. Tasks can be completed in any order and it is important to plan the examination carefully and read the details carefully. The information in the graph is consistent with calculations.

16/20

#### Task 4

You have been asked to complete a number of payroll calculations.

- a) Three employees are to be paid in cash for this week and you have been asked to prepare a cash analysis to determine the notes and coins needed for their pay.

Complete the cash analysis below using the minimum amount of notes and coins.

Employee	Net pay £	£50	£20	£10	£5	£2	£1	50p	20p	10p	
Peter Lloyd	345.20	6	2		1				1		(2)
Sue Lim	290.60	5	2						3		(1)
Ahmed Hassan	282.00	4	4			1					
<b>Total number of notes/coins</b>		15	8	-	1	1	-	-	4	-	(2)*
<b>TOTALS £</b>	917.80 (1)	750.00	160.00	-	5.00	2.00	-	-	0.80	-	(2)*

Although the final total is correct the candidate has not applied the requirement to use the minimum amount of note and coins. This means a greater volume of notes and coins would, in reality, need to be obtained from the organisation's bank than is necessary. In the answer marks have been lost for the notes and coins for Sue Lim and Ahmed Hassan. However, the method of totalling the number of notes and coins and calculating the sums is correct even if the figures are incorrect so the own figure rule applies.

- b) Using the information provided, calculate the net pay for the following employees in the table opposite.

Time Sheet Summary		
Employee	Sam Pointer	Tina Leong
<b>Basic rate of pay</b>	£6.88 per hour	£6.94 per hour
<b>Overtime rate</b>	Time and a half	Double time
<b>Hours at basic rate</b>	35 hours	16 hours
<b>Hours worked this week</b>	38½ hours	18 hours

Gross pay is subject to a deduction of 25%.

Employee	Sam Pointer	Tina Leong
	£	£
Basic rate per hour	6.88 (1)	6.94 (1)
Overtime pay per hour	3.44	13.88 (2)
Basic pay this week	240.80 (1)	111.04 (1)
Overtime pay this week	132.44	249.84
Gross pay	373.24 (1)*	360.88 (1)*
Less deductions (25%)	93.31 (2)*	90.22 (2)*
Net pay	279.93 (1)*	270.66 (1)*

The candidate has made several errors in the payroll calculations. Overtime pay should be 1.5 times the basic rate of pay but the calculation has incorrectly been made at 0.5 times.

Commonly overtime is expressed as time and a quarter (1.25 x basic pay), time and a half and double time. Basic pay calculations are correct on the answer but the overtime has been calculated as the overtime rate multiplied by the total hours worked. Overtime is only earned on the hours worked in addition to basic hours. Usually tasks are likely to reflect the reality that basic hours are the same for all employees. In this case the two employees have different basic hours and that may reflect the fact that Tina Leong is working unsocial hours, for instance at the weekend, during holidays or at night. The own figure rule is applied to gross pay which has been correctly calculated as the candidate's basic pay plus overtime pay. Deductions are 25% of the candidate's calculation of gross pay and net pay has been calculated as gross pay less deductions.

22/29

The candidate has made several small errors of understanding and calculation but overall gained 78% and would be awarded a First Class Pass. The impact of the own figure rule in the answers has ensured that the candidate has not been over-penalised for miscalculations.



## **3 Business Finance – Level 2**

### **3.1 Syllabus Assessment Criteria**

**Level:** 2

**Credit value:** 4

#### **Unit aims**

The aim of the level 2 qualification is to enable learners to have an understanding of the preparation of numerical, graphical and financial formats sufficient to provide useful information for management needs in monitoring, decision making and problem solving.

#### **Learning outcomes**

There are **seven** learning outcomes to this unit. The learner will be able to:

1. know how to prepare business budgets
2. understand budget deviations and variances
3. know how a business may maintain liquidity
4. prepare costing information for business
5. record stock movements in a business
6. understand principles of credit control
7. understand how to use business performance indicators

#### **Guided learning hours**

It is recommended that **30** hours should be allocated for this unit. This may be on a full-time or part-time basis.

#### **Details of the relationship between the unit and relevant national occupational standards**

This unit is linked to the Level 2 and 3 NVQ in Accounting and Level 4 FSSC National Occupational Standards in Accounting.

#### **Endorsement of the unit by a sector or other appropriate body (if required)**

This unit is endorsed by the Financial Services Skills Council (FSSC).

#### **Key Skills**

This unit contributes towards the Key Skills in the following areas:

- Communication
- Application of Number

#### **Assessment and grading**

This unit will be assessed by a one hour thirty minute question paper, which will be externally marked.

The examination paper consists of a number of practical tasks, all of which should be completed by the learner but the order in which they are undertaken will not be specified. Pro-formas will be provided for the completion of graphs, charts, tables and business documents testing application of understanding. All learning outcomes will be tested in every examination paper although details will vary between papers.

## **Unit 002**

## **Level 2 Award in Business Finance**

### **Outcome 1**

### **Know how to prepare business budgets**

#### **Assessment Criteria**

Underpinning knowledge

The learner can:

- 1.1 calculate increases and decreases in quantities and money value of materials
- 1.2 calculate increases and decreases in hours, wage rates and labour costs
- 1.3 calculate increases and decreases in expenses
- 1.4 calculate increases and decreases in amounts and money value of income
- 1.5 make allowance for the timing of receipts and payments arising from credit transactions
- 1.6 prepare sales, production, materials, labour, expenses and cash budgets

#### **Guidance notes**

- 1.1-1.4 Increases and decreases may be measured in terms of a given percentage or fraction.

**Unit 002**  
Outcome 2

**Level 2 Award in Business Finance**  
Understand budget deviations and variances

**Assessment Criteria**

Underpinning knowledge

The learner can:

2.1 identify variances (deviation) between actual outcomes and budget information

2.2 calculate variances (deviation) between actual and budget data

**Guidance notes**

2.1-2.2 Emphasis is on significant favourable and adverse variances.

**Unit 002**  
Outcome 3

**Level 2 Award in Business Finance**  
Know how a business may maintain liquidity

**Assessment Criteria**

Underpinning knowledge

The learner can:

3.1 identify how a business may maintain a level of liquidity in accordance with cash budgets and forecasts

**Guidance notes**

3.1 Invest surplus funds, obtain loans and obtain overdrafts.

## **Unit 002**

### **Outcome 4**

## **Level 2 Award in Business Finance**

### **Prepare costing information for business**

#### **Assessment Criteria**

Underpinning knowledge

The learner can:

- 4.1 identify fixed, variable, direct and indirect costs
- 4.2 extract data about income and expenditure from given information
- 4.3 prepare estimates and job costs
- 4.4 check estimates and job for accuracy

#### **Guidance notes**

- 4.3 Calculations may include mark-up.

**Unit 002**  
Outcome 5

**Level 2 Award in Business Finance**  
Record stock movements in a business

**Assessment Criteria**

Underpinning knowledge

The learner can:

5.1 apply stock valuation methods to record the movement in stock

5.2 calculate cost information

**Guidance notes**

5.1- 5.2 Using First In, First Out (FIFO), Last In, First Out (LIFO) and Weighted Average Cost (AVCO) perpetual method.

**Unit 002**  
Outcome 6

**Level 2 Award in Business Finance**  
Understand principles of credit control

**Assessment Criteria**

Underpinning knowledge

The learner can:

- 6.1 explain the benefits and risks of providing credit
- 6.2 calculate credit prices and compare them with cash prices
- 6.3 use an age analysis of debtors to determine appropriate action in accordance with given policies and circumstances
- 6.4 calculate average periods of credit given
- 6.5 calculate bad and doubtful debts

**Guidance notes**

- 6.4 Calculations should be of time periods.
- 6.5 Calculations of amounts and percentages.

## **Unit 002**

### **Outcome 7**

## **Level 2 Award in Business Finance**

### **Understand how to use business performance indicators**

#### **Assessment Criteria**

Underpinning knowledge

The learner can:

7.1 extract and organise information into appropriate form from data provided

7.2 calculate performance indicators

7.3 prepare information about financial and non-financial performance in graphical format

7.4 compare performance indicators with benchmarking information

#### **Guidance notes**

7.1 Data may be listed in tables or graphical format

7.2 Measuring customer growth, satisfaction, quality of service, efficiency, effectiveness and productivity.

Indicators may be in any numerical form including whole numbers, fractions, percentages and in financial units.

7.3 Line graphs, bar charts and pie charts

7.4 Benchmarking information may be from trends in the same organisation over time, comparative organisation or collected industry relevant data.



### 3 Business Finance – Level 2

#### 3.2 Sample Question Paper



8990-02-002

Sample 2

---

**Candidate's name** (Block letters please)

---

**Centre no**

---

**Date**

---

Time allowed: 1 hour and 30 minutes  
(plus 5 minutes reading time).

No note making is allowed during the reading time.

Answer **all** questions.

Show all your workings. All **final** answers must be written in blue or black ink.

Your answers should be written in the question booklet in the spaces provided.

If additional separate sheets of paper are used, make sure each page is clearly labelled with your name

Recommended equipment: calculator, pencil, ruler, protractor, eraser.

Task 1	Task 2	Task 3	Task 4	Task 5	Task 6	TOTAL
/23	/18	/11	/14	/9	/25	/100

## Complete all tasks

You are employed as an administrative assistant in the office of Krystal Glass. You have been asked to assist your manager by completing a number of tasks.

### Task 1

A team involved in a small scale project for a three month period to introduce new glassware has provided forecast figures for June to August as below. You have been asked to prepare a cash budget for the project.

The following are forecasts for the months June to August.

	Materials \$	Wages \$	Additional costs \$	Sales \$
June	3 800	2 100	1 200	7 700
July	3 220	2 550	1 200	7 300
August	2 600	3 090	1 200	6 800

30% of the income from sales will be received in the month of sale. The other 70% will be received one month after sale.

Materials will be paid for one month after the month of production. All other costs will be paid in the month incurred.

It is proposed that the project team will be provided with a bank balance of \$1 000 on 1 June.

- a) Calculate the cash receipts from sales in each of the four months June to September.

	June \$	July \$	August \$	September \$
Received in month of sale				
Received one month after sale				
<b>Total cash receipts from sales</b>				

(6 marks)

b) Calculate the cash payments in each of the four months June to September.

	June \$	July \$	August \$	September \$
Materials				
Wages				
Additional costs				
<b>Total payments</b>				

(3 marks)

c) Complete the cash flow summary for the four months June to September.

	June \$	July \$	August \$	September \$
Opening balance				
Receipts				
<b>Sub-total</b>				
Payments				
<b>Closing balance</b>				

(13 marks)

d) As part of your task your manager has asked you to check if the opening balance of \$1 000 will be sufficient for the project. Tick (✓) the appropriate box.

Yes	
No	

(1 mark)

**(Total 23 marks)**

## Task 2

The company is currently preparing production budgets and you have been asked to prepare the production budget for toughened glass from the following information.

Stock of toughened glass available today	4 000 units
Expected stock of toughened glass at the end of year	5 000 units
Expected sales income for the year	\$810 000
Sales price per unit	\$18

One unit of toughened glass is made from four units of plain glass, two units of plastic sheet and three units of glue.

- a) Complete the production budget for toughened glass for the next year using the form below.

Production Budget: Toughened glass	Units
Sales	
Plus stock at end of year	
Sub-total	_____
Less stock available today	
Production	_____

(6 marks)

- b) Calculate the number of units of each material below which will be needed for the year's production of toughened glass.

Ingredients of toughened glass	Units
Plain glass	
Plastic sheet	
Glue	

(3 marks)

- c) It is expected to take one hour and a half to complete each unit of toughened glass at a rate of \$7 per hour.

Complete the labour budget for toughened glass.

Labour Budget: Toughened glass	
Budgeted production (units)	
Hours per unit	
<b>Total budgeted hours</b>	_____
Budgeted wage rate per hour	
<b>Total wages</b>	_____

(5 marks)

- d) The cost of plastic sheets is expected to rise because of increased raw material prices from \$1.90 to \$2.00 per unit.

- i) Calculate the total cost of plastic sheets at \$2.00 which will be required for the year's budgeted production of toughened glass.

.....

.....

.....

.....

(2 marks)

- ii) Calculate the variance between the budgeted cost of plastic sheets calculated in (d) (i) and the cost before the price increase. State if the variance would be favourable or adverse.

.....

.....

.....

.....

(2 marks)

**(Total 18 marks)**

**Task 3**

Safety equipment is required in the business and the maintenance department has been asked to undertake the installation work.

An estimate has been provided and you are asked to check the estimate to ensure it is arithmetically correct and restate it on a company job cost sheet. 20% is added for all inter-departmental work to arrive at the cost of the job.

Krystal Glass	
Maintenance Department	ESTIMATE
	\$
Preparation	
3 employees @ \$115 per person per day for one day	= 335.00
Installation	
Materials	= 190.00
3 employees @ \$125 per person per day for two days	= 375.00
Administration expenses	= 30.00
Direct expenses	= <u>50.00</u>
TOTAL	980.00

a) Check the arithmetical accuracy of the estimate and describe any errors below:

.....

.....

.....

.....

(2 marks)

- b) Complete the following Job Cost Sheet.

Krystal Glass	
Job Cost Sheet	
	\$
Direct materials	
Direct labour	
@	
@	
Direct expenses	_____
Total direct costs	
Indirect costs	_____
Sub-total	
Departmental mark-up (20%)	_____
Cost of job	

(9 marks)

**(Total 11 marks)**

#### Task 4

The company traditionally uses the weighted average cost (AVCO) method to value glue. The company directors have decided that FIFO would be more appropriate.

Before a decision is made to change the valuation basis, your manager wishes to see if the difference between AVCO and FIFO is significant.

She has provided you with the stock records for the last three months commencing with the opening balance of 4 000 units on 1 March.

Stock records of Glue – Weighted Average Cost (AVCO)

Date	Receipts			Issues			Balance		
	Quantity units	Price \$	Value \$	Quantity units	Price \$	Value \$	Quantity units	Price \$	Value \$
1 Mar	Balance						4 000	1.40	5 600
14 Mar				3 500	1.40	4 900	500	1.40	700
1 Apr	4 500	1.50	6 750				500	1.40	700
							<u>4 500</u>	1.50	<u>6 750</u>
							5 000	1.49	7 450
17 Apr				4 600	1.49	6 854	400	1.49	596
1 May	4 400	1.55	6 820				400	1.49	596
							<u>4 400</u>	1.55	<u>6 820</u>
							4 800	1.54	7 416
16 May				4 200	1.54	6 489	600	1.54	927



Complete the stock records for March to May for glue using the First In, First Out (FIFO) basis.

### Stock records of Glue – First In, First Out (FIFO)

[illegible]

(14 marks)

**(Total 14 marks)**

**Task 5**

Management are reviewing the success of the present policy of offering customers 30 days credit.

You have been asked to make some calculations to help with the review. The following is the aged debtors analysis at 31 May.

		Period Outstanding				
Debtor	Total \$	Current \$	30 days \$	60 days \$	90 days \$	Over 90 days \$
Patel and Khan	112 500	100 000	12 500			
John Petersen	41 200	32 000	9 000	200		
Apollo Ltd	27 400	24 200	3 200			
Westersons Ltd	13 500				6 250	7 250
Lui Leong	41 000	26 000	15 000			
Stan More & Sons	8 600	8 600				
Cindy Simons Ltd	45 800	10 000	21 000	9 300	5 500	
	290 000	200 800	60 700	9 500	11 750	7 250

The total credit sales for the year were \$3 610 000. It is the company's policy to write off as bad debts any amounts outstanding and unresolved for more than 90 days. The company also makes a 4% provision for doubtful debts.

- a) Calculate the percentage of total debtors which should be written off as bad debts.

.....

.....

.....

(2 marks)

- b) Calculate the provision for doubtful debts at 31 May.

.....

.....

.....

(2 marks)

- c) Calculate the average period of credit given by the company in days to one decimal place.

.....

.....

.....

(3 marks)

- d) Comment on the success of the company's credit control policy.

.....

.....

.....

.....

(2 marks)

**(Total 9 marks)**

## Task 6

The company produces a number of glass products. There is strong competition on price from rival companies on some products and management continually monitor productivity in an effort to keep costs down.

The following table provides details for the relevant products collected by the organisation and data from an industry monitor.

Performance Indicator – Production department	Current year	Previous year	Benchmark
Units produced per week	275	260	300
Average number of employees	5	5	6
Units returned by customers per week	4	3	6

- a) i) Calculate the number of units produced by one employee each week.

Performance Indicator – Production department	Current year	Previous year	Benchmark
Number of units produced per employee			

(3 marks)

- ii) Calculate the percentage of units returned per week to two places of decimals.

Performance Indicator – Production department	Current year	Previous year	Benchmark
Percentage of units returned per week			

(3 marks)

b) Compare and **comment** on the productivity in the current year and previous year and against benchmark data.

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(7 marks)

- c) The following information has been obtained in respect of goods returned in the last two years.

Reason for return	Current year	Previous year
Broken on delivery	358	195
Incorrect item delivered	82	101
Returned – non-payment	49	32
Other (not disclosed)	61	62
TOTAL	550	390

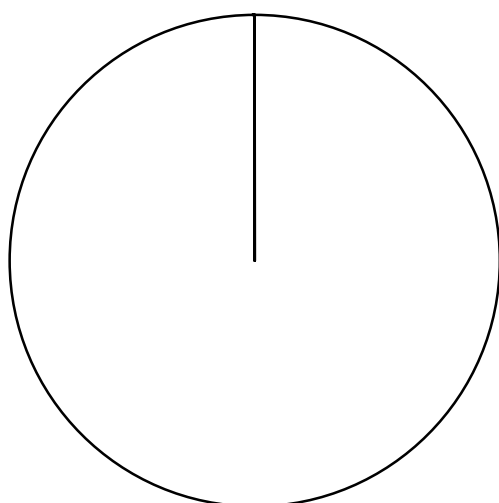
- i) Calculate the proportion of each reason for return each year to the nearest whole number.

	Broken on delivery	Incorrect item delivered	Returned – non-payment	Other
Current year (%)				
Previous year (%)				

(8 marks)

- ii) Prepare a clearly labelled pie chart to show the proportions of goods returned for the current year.

### Proportion of goods returned – current year



(4 marks)

**(Total 25 marks)**

### **3 Business Finance – Level 2**

#### 3.3 Sample Marking Scheme

(NB \* = own figure)

## Task 1

a)

	June \$	July \$	August \$	September \$
Received in month of sale	2 310 <b>(1)</b>	2 190 <b>(1)</b>	2 040 <b>(1)</b>	
Received one month after sale		5 390 <b>(1)</b>	5 110 <b>(1)</b>	4 760 <b>(1)</b>
<b>Total cash receipts from sales</b>	2 310	7 580	7 150	4 760

(6 marks)

b)

	June \$	July \$	August \$	September \$	
Materials		3 800	3 220	2 600	<b>(1) for line</b>
Wages	2 100	2 550	3 090	-	<b>(1) for line</b>
Additional costs	1 200	1 200	1 200	-	<b>(1) for line</b>
<b>Total payments</b>	3 300	7 550	7 510	2 600	

(3 marks)

c)

	June \$	July \$	August \$	September \$
Opening balance	1 000 <b>(1)</b>	10	40	(320)
Receipts	<u>2 310</u> <b>(1*)</b>	<u>7 580</u> <b>(1*)</b>	<u>7 150</u> <b>(1*)</b>	<u>4 760</u> <b>(1*)</b>
<b>Sub-total</b>	3 310	7 590	7 190	4 440
Payments	<u>3 300</u> <b>(1*)</b>	<u>7 550</u> <b>(1*)</b>	<u>7 510</u> <b>(1*)</b>	<u>2 600</u> <b>(1*)</b>
<b>Closing balance</b>	<u>10</u> <b>(1*)</b>	<u>40</u> <b>(1*)</b>	<u>(320)</u> <b>(1*)</b>	<u>1 840</u> <b>(1*)</b>

(13 marks)

(d) No **(1\*)**

(1 mark)

**(23 marks)**



## Task 2

a)

Production Budget: Toughened glass	Units
Sales	45 000 <b>(2)</b>
Plus stock at end of year	<u>5 000</u> <b>(1)</b>
<b>Sub-total</b>	50 000 <b>(1)*</b>
Less stock available today	
<b>Production</b>	<u>4 000</u> <b>(1)</b> <u>46 000</u> <b>(1*)</b>

(6 marks)

b)

Ingredients of Toughened glass	Units
Plain glass	184 000 <b>(1*)</b>
Plastic sheet	92 000 <b>(1*)</b>
Glue	138 000 <b>(1*)</b>

(3 marks)

c)

Labour Budget: Toughened glass	
Budgeted production (units)	46 000 <b>(1*)</b>
Hours per unit	<u>1.5</u> <b>(1)</b>
<b>Total budgeted hours</b>	69 000 <b>(1*)</b>
Budgeted wage rate per hour	<u>7</u> <b>(1)</b>
<b>Total wages</b>	<u>\$483 000</u> <b>(1*)</b>

(5 marks)

d) i) 92 000 units x \$2.00 = \$184 000 **(2\*)**

(2 marks)

ii) 92 000 x 10c = \$9 200 **(1\*)** Adverse **(1\*)**

(2 marks)

**(Total 18 marks)**

### Task 3

- (a) The total for 3 employees for preparation is incorrect **(1)**  
 The total for 3 employees for installation has only been calculated for one day **(1)**

(2 marks)

(b)

<b>Krystal Glass</b>	
<b>Job Cost Sheet</b>	
	\$
Direct materials	190 <b>(1)</b>
Direct labour	
3 @ \$115	345 <b>(1)</b>
2 x 3 @ \$125	750 <b>(1)</b>
Direct expenses	<u>50</u>
Total direct costs	1 335 <b>(1*)</b>
Indirect costs	
	<u>30</u> <b>(1)</b>
Sub-total	1 365 <b>(1*)</b>
Departmental mark-up (20%)	<u>273</u> <b>(1*)</b>
Cost of job	<u>1 638</u> <b>(2) or</b> <b>(1*)</b>

(9 marks)

**(Total 11 marks)**

#### Task 4

Stock records of Glue – First In, First Out (FIFO)

Date	Receipts			Issues			Balance		
	Quantity units	Price \$	Value \$	Quantity units	Price \$	Value \$	Quantity units	Price \$	Value \$
1 Mar	Balance						4 000	1.40	5 600
14 Mar				3 500	1.40	4 900 <b>(1)</b>	500	1.40	700 <b>(1)</b>
1 Apr	4 500	1.50	6 750				500	1.40	700 <b>(1)</b>
							<u>4 500</u>	1.50	<u>6 750</u> <b>(1)</b>
							5 000		7 450 <b>(1)</b>
17 Apr				500	1.40	700 <b>(1)</b>			
				<u>4 100</u>	1.50	<u>6 150</u> <b>(1)</b>			
				4 600		6 850	400	1.50	600 <b>(1*)</b>
1 May	4 400	1.55	6 820				400	1.50	600 <b>(1*)</b>
							<u>4 400</u>	1.55	<u>6 820</u> <b>(1)</b>
							4 800		7 420 <b>(1*)</b>
16 May				400	1.50	600 <b>(1)*</b>			
				<u>3 800</u>	1.55	<u>5 890</u> <b>(1)</b>			
				4 200		6 490	600	1.55	930 <b>(1*)</b>

(14 marks)

**(Total 14 marks)**

### Task 5

- a) Percentage to be written off as bad debts

$$\frac{7\,250 \text{ (1)}}{290\,000 \text{ (1)}} \times 100 = 2.5\%$$

(2 marks)

- b) Provision for doubtful debts

$$(290\,000 - 7\,250) \text{ (1)} \times 4\% = \$11\,310 \text{ (1)*}$$

(2 marks)

- c) Average period of credit given by the company in days.

$$\frac{290\,000 \text{ (1)}}{3\,610\,000 \text{ (1)}} \times 365 \text{ (1)} = 29.3 \text{ days}$$

(3 marks)

- d) The average credit period is just less than 30 days **(1)**

However, some debts are in excess of 30 days **(1)**

Generally successful **(1)**

After 30 days there appears to be some difficulty in recovering debts **(1)**

(max 2 mark)

**(Total 9 marks)**

## Task 6

a) i)

Performance Indicator – Production department	Current year	Previous year	Benchmark
Number of units produced per employee	55 <b>(1)</b>	52 <b>(1)</b>	50 <b>(1)</b>

(3 marks)

ii)

Performance Indicator – Production department	Current year	Previous year	Benchmark
Percentage of units returned per week	1.45 <b>(1)</b>	1.15 <b>(1)</b>	2 <b>(1)</b>

(3 marks)

(b) **Comparison**

Employees produce more units per employee each year as compared with benchmark data **(1)**

Employees produced 4% above the benchmark last year **(1)**

Employees produced 10% more than the benchmark this year **(1)**

The current year has seen an improvement in productivity over last year **(1)**

The company has had fewer returns than the benchmark over the two years **(1)**

More units have been returned in the current year **(1)**

### **Comment**

The company has outperformed the benchmark data **(1)**

The company has suffered more returns following increased production by employees in the current year **(1)**

It is not clear whether the benchmark data related to this year or the previous one **(1)**

Max 5 for comparison

Max 2 for comments

(7 marks)

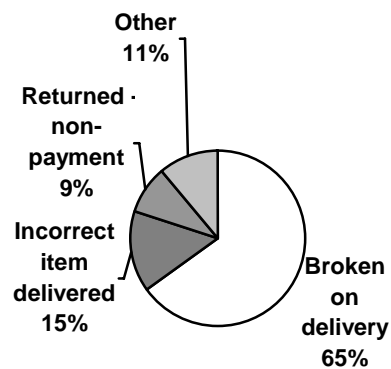
c) i)

	Broken on delivery	Incorrect item delivered	Returned – non-payment	Other
Current year (%)	65 <b>(1)</b>	15 <b>(1)</b>	9 <b>(1)</b>	11 <b>(1)</b>
Previous year (%)	50 <b>(1)</b>	26 <b>(1)</b>	8 <b>(1)</b>	16 <b>(1)</b>

(8 marks)

ii)

**Proportions of goods returned - current year**



- (4\*) completely correct & labelled **or**
- (3\*) 2 or 3 sectors correct & labelled  
or 3 or 4 correct, not labelled **or**
- (2\*) 1 sector correct & labelled or 2 or  
3 correct, not labelled **or**
- (1\*) 1 sector correct not labelled

(4 marks)

**(Total 25 marks)**

### 3.4 Sample worked paper and assessment (Level 2)

The following shows how a candidate might perform in the sample paper above. It highlights common errors and is based on experience of past and similar examinations and tasks. This approach provides the opportunity to analyse questions more closely than by looking at the correct answers and gives teachers and learners the opportunity to consider strategies to employ in the examination.

The marks which are likely to be awarded are indicated together with explanations and justifications in the same way that tutors and teachers would provide feedback to students.

Further generic points are covered in later sections providing tips and hints for teachers and learners.

## Complete all tasks

You are employed as an administration assistant in the office of Krystal Glass. You have been asked to assist your manager by completing a number of tasks.

### Task 1

A team involved in a small scale project for a three month period to introduce new glassware has provided forecast figures for June to August as below. You have been asked to prepare a cash budget for the project.

The following are forecasts for the months June to August.

	Materials \$	Wages \$	Additional costs \$	Sales \$
June	3 800	2 100	1 200	7 700
July	3 220	2 550	1 200	7 300
August	2 600	3 090	1 200	6 800

30% of the income from sales will be received in the month of sale. The other 70% will be received one month after sale.

Materials will be paid for one month after the month of production. All other costs will be paid in the month incurred.

It is proposed that the project team will be provided with a bank balance of \$1 000 on 1 June.

- a) Calculate the cash receipts from sales in each of the four months June to September.

	June \$	July \$	August \$	September \$
Received in month of sale	2 310 (1)	2 190 (1)	2 040 (1)	
Received one month after sale		5 390 (1)	5 110 (1)	4 760 (1)
<b>Total cash receipts from sales</b>	2 310	7 480	7 150	4 760

**The candidate has made an error in the calculation of the total in July but has been successful in recording the cash flows from sales in each month. It is the latter which attracts marks so the candidate would gain six marks for this part of the task. The mark for receipts in July in part c) would be lost.**



b) Calculate the cash payments in each of the four months June to September.

	June \$	July \$	August \$	September \$
Materials	3 800	3 220	2 600	
Wages	2 100	2 550	3 090	
Additional costs	1 200	1 200	1 200	
<b>Total payments</b>	6 100	6 970	6 890	

(1) for line

(1) for line

Timing is a key part of cash budgets. The candidate was correct in both the timing and proportions in the sales calculations but the timing was incorrect in the case of materials. The calculation for the total payments for June is incorrect.

c) Complete the cash flow summary for the four months June to September.

	June \$	July \$	August \$	September \$
Opening balance		(3 790)	(3 280)	(3 020)
Receipts	<u>2 310</u> (1)	<u>7 480</u>	<u>7 150</u> (1)	<u>4 760</u> (1)
<b>Sub-total</b>	2 310	3 690	3 870	1 740
Payments	<u>6 100</u>	<u>6 970</u> (1)*	<u>6 890</u> (1)*	
<b>Closing balance</b>	(3 790) (1)*	(3 280) (1)*	(3 020) (1)*	1 740 (1)*

The candidate omitted the opening balance and with the earlier errors, the figures in the cash budget differ from the marking scheme. Nevertheless the correct method has been used in the addition and subtraction within the monthly columns and the candidate has gained most of the marks available.

d) As part of your task your manager has asked you to check if the opening balance of \$1000 will be sufficient for the project. Tick (✓) the appropriate box.

Yes	
No	✓ (1)

**There are significant overdrafts in the cash budget above. The candidate's closing balances dictate whether the answer to (d) is correct.**

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## Task 2

The company is currently preparing production budgets and you have been asked to prepare the production budget for toughened glass from the following information.

Stock of toughened glass available today	4 000 units
Expected stock of toughened glass at the end of year	5 000 units
Expected sales income for the year	\$810 000
Sales price per unit	\$18

One unit of toughened glass is made from four units of plain glass, two units of plastic sheet and three units of glue.

- a) Complete the production budget for toughened glass for the next year using the form below.

Production Budget: Toughened glass	Units
Sales	810 000
Plus stock at the end of year	<u>5 000</u> (1)
Sub-total	815 000 (1*)
Less stock available today	<u>4 000</u> (1)
Production	<u>811 000</u> (1*)

**Candidates sometimes confuse opening and closing stock but the form which needs to be completed gives guidance on the placing of the stock and indicates where it is added and where subtracted. The candidate has used the sales income in error in this calculation. Opening stock is deducted from the sub-total so the figure for production is calculated using the correct approach.**

- b) Calculate the number of units of each material below which will be needed for the year's production of toughened glass.

Ingredients of toughened glass	Units
Plain glass	3 244 000 (1*)
Plastic sheet	1 622 000 (1*)
Glue	2 433 000 (1*)

Although the figures for the ingredients are all significantly overstated, this is due to the use of the candidate's incorrect production budget total. The correct method has been used in reaching the figures above and the candidate has gained all the marks for this part of the task.

- c) It is expected to take one hour and a half to complete each unit of toughened glass at a rate of \$7 per hour.

Complete the labour budget for toughened glass.

Labour Budget: Toughened glass	
Budgeted production (units)	811 000 (1*)
Hours per unit	1½ (1)
<b>Total budgeted hours</b>	1 216 500 (1*)
Budgeted wage rate per hour	7 (1)
<b>Total wages</b>	173 785.71

The budgeted production, although incorrect, has been brought forward in the correct way. It is acceptable to use fractions such as 1½ as opposed to 1.5 so a mark has been awarded above. It is likely to be easier for 1.5 to be used in calculations. As the total budgeted hours have been calculated in an appropriate way the mark is given. The wages rate of \$7 has been given a mark but the budgeted hours have been divided by the wage rate so no mark has been given for the total wages. The calculation should have been a multiplication.

d) The cost of plastic sheets is expected to rise because of increased raw material prices from \$1.90 to \$2.00 per unit.

i) Calculate the total cost of plastic sheets at \$2.00 which will be required for the year's budgeted production of toughened glass.

.....

..... 1 622 000 .....

      X 2      

..... 3 244 000 ..... (2\*) .....

.....

ii) Calculate the variance between the budgeted cost of plastic sheets calculated in d) i) and the cost before the price increase. State if the variance would be favourable or adverse.

..... 1 622 000 ..... 1 622 000 .....

      X 2                                X 1.90      

..... 3 244 000 ..... 3 081 800 .....

.....

3 244 000 - 3 081 800 = 162 200 (1\*)

.....

Part (d) is based on the earlier calculations and although the figures are incorrect the correct method has been used in (d) (i) so full marks have been awarded for this part of the task. Part (ii) has been calculated in a more extensive way than is shown in the marking scheme. Nevertheless the approach is correct.

A variance should be expressed as Adverse or Favourable so no mark is given for the '+' or a '-' if that has been used. Similarly marks would not be awarded for ↓ or ↑ as is sometimes seen in examinations. It is also better to write 'Favourable' in full rather than Fav. And 'Adverse' is a better description than 'Adv.'

Despite not appearing to be very confident in this topic area the candidate was by being consistent and applying some knowledge correctly, able to earn two thirds of the available marks for this task.

### Task 3

Safety equipment is required in the business and the maintenance department has been asked to undertake the installation work.

An estimate has been provided and you are asked to check the estimate to ensure it is arithmetically correct and restate it on a company job cost sheet. 20% is added for all inter-departmental work to arrive at the cost of the job.

Krystal Glass	
Maintenance Department	ESTIMATE
	\$
Preparation	
3 employees @ \$115 per person per day for one day	= 335.00
Installation	
Materials	= 190.00
3 employees @ \$125 per person per day for two days	= 375.00
Administration expenses	= 30.00
Direct expenses	= <u>50.00</u>
TOTAL	980.00

- a) Check the arithmetical accuracy of the estimate and describe any errors below:

3 employees @ \$115 per person per day for one day = \$345 (1)

.....

3 employees @ \$125 per person per day for two days = \$750 (1)

.....

**Although the candidate has not stated the mistakes in this case it is clear from the amended totals that the candidate is aware of the mistakes and marks have been awarded.**

- b) Complete the following Job Cost Sheet.

Krystal Glass		
Job Cost Sheet		
		\$
Direct materials		190 (1)
Direct labour		
3 @ \$115		345 (1)
2 x 3 @ \$125		750 (1)
Direct expenses		50
		<hr/>
Total direct costs		1 335 (1)
Indirect costs		30 (1)
		<hr/>
Sub-total		1 365 (1)
Departmental mark-up	(20%)	273 (1)
		<hr/>
Cost of job		<u>1 638</u> (2)

This is an excellent answer and the candidate has earned full marks. A candidate who has first studied Level 1 Business Finance will already have dealt with estimates and the extension to the subject offered by this task should enhance understanding.

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#### Task 4

The company traditionally uses the weighted average cost (AVCO) method to value glue. The company directors have decided that FIFO would be more appropriate.

Before a decision is made to change the valuation basis, your manager wishes to see if the difference between AVCO and FIFO is significant.

She has provided you with the stock records for the last three months commencing with the opening balance of 4 000 units on 1 March.

Stock records of Glue – Weighted Average Cost (AVCO)

Date	Receipts			Issues			Balance		
	Quantity units	Price \$	Value \$	Quantity units	Price \$	Value \$	Quantity units	Price \$	Value \$
1 Mar	Balance						4 000	1.40	5 600
14 Mar				3 500	1.40	4 900	500	1.40	700
1 Apr	4 500	1.50	6 750				500	1.40	700
							<u>4 500</u>	1.50	<u>6 750</u>
							5 000	1.49	7 450
17 Apr				4 600	1.49	6 854	400	1.49	596
1 May	4 400	1.55	6 820				400	1.49	596
							<u>4 400</u>	1.55	<u>6 820</u>
							4 800	1.54	7 416
16 May				4 200	1.54	6 489	600	1.54	927



Complete the stock records for March to May for glue using the First In, First Out (FIFO) basis.

Stock records of Glue – First In, First Out (FIFO)

Date	Receipts			Issues			Balance		
	Quantity units	Price \$	Value \$	Quantity units	Price \$	Value \$	Quantity units	Price \$	Value \$
1 Mar	Balance						4 000	1.40	5 600.00
14 Mar				3 500	1.40	4 900 (1)	500	1.40	700.00 (1)
1 Apr	4 500	1.50	6 750						
							<u>4 500</u>	1.50	<u>6 750.00</u> (1)
							5 000		7 450.00 (2)
17 Apr				100	1.40	140			
				<u>4 500</u>	1.50	<u>6 750</u>			
				4 600		6 890	400	1.40	560.00
1 May	4 400	1.55	6 820						
							<u>4 400</u>	1.55	<u>6 820.00</u> (1)
							4 800		7 380.00 (2*)
16 May				4 200	1.55	6 510	400	1.40	560.00
							<u>200</u>	1.55	<u>310.00</u>
							600		870.00 (1*)
The candidate has incorrectly used the LIFO method which has lost marks. It is more usual for candidates to incorrectly use FIFO which they tend to understand well. The first few figures are the same under each method so candidates are likely to earn marks for these. The Candidate has not carried down the values eg 700.00 from 14 March to 1 April. However the correct sub total (\$7 450.00) gains 2 marks.							9/14		

Task 5

Management are reviewing the success of the present policy of offering customers one 30 days credit.

You have been asked to make some calculations to help with the review. The following is the aged debtors analysis at 31 May.

		Period Outstanding				
Debtor	Total \$	Current \$	30 days \$	60 days \$	90 days \$	Over 90 days \$
Patel and Khan	112 500	100 000	12 500			
John Petersen	41 200	32 000	9 000	200		
Apollo Ltd	27 400	24 200	3 200			
Westersons Ltd	13 500				6 250	7 250
Lui Leong	41 000	26 000	15 000			
Stan More & Sons	8 600	8 600				
Cindy Simons Ltd	45 800	10 000	21 000	9 300	5 500	
	290 000	200 800	60 700	9 500	11 750	7 250

The total credit sales for the year were \$3 610 000. It is the company’s policy to write off as bad debts any amounts outstanding and unresolved for more than 90 days. The company also makes a 4% provision for doubtful debts.

- a) Calculate the percentage of total debtors which should be written off as bad debts.

.....

7 250 (1) x 100 = 2.5% .....

290 000 (1)

.....

- b) Calculate the provision for doubtful debts at 31 May.

$$\dots\dots\dots 290\,000 \times 4\% = \$11\,600 \text{ (1*)} \dots\dots\dots$$

**The candidate has correctly calculated the bad debt but made a common error in the calculation of the provision. The amount of the bad debts, a sum which is not expected to be received, cannot also be included as potential 'good debts' on which to calculate the provision.**

- c) Calculate the average period of credit given by the company in days to one decimal place.

$$\frac{290\,000}{3\,610\,000} \text{ (1)} \times 360 = 28.9 \text{ days}$$

$\dots\dots\dots$

**The candidate has incorrectly used a 360 day year in their calculations.**

- d) Comment on the success of the company's credit control policy.

$\dots\dots\dots$

The company collects debts in 28.9 days  $\dots\dots\dots$

**The question calls for a little more than restatement of the calculation in (c). In being asked to comment on success the question is looking for whether the policy is successful or not and some development of that conclusion. To develop the conclusion there is a need to compare the evidence of the calculations and information with the policy as stated.**

## Task 6

The company produces a number of glass products. There is strong competition on price from rival companies on some products and management continually monitor productivity in an effort to keep costs down.

The following table provides details for the relevant products collected by the organisation and data from an industry monitor.

Performance Indicator – Production department	Current year	Previous year	Benchmark
Units produced per week	275	260	300
Average number of employees	5	5	6
Units returned by customers per week	4	3	6

- a) i) Calculate the number of units produced by one employee each week.

Performance Indicator – Production department	Current year	Previous year	Benchmark
Number of units produced per employee	55 (1)	52 (1)	50 (1)

- ii) Calculate the percentage of units returned per week to two places of decimals.

Performance Indicator – Production department	Current year	Previous year	Benchmark
Percentage of units returned per week	1.45% (1)	1.15% (1)	2% (1)

**The candidate has successfully made the calculations in part a) of the task.**

- b) Compare and **comment** on the productivity in the current year and previous year and against benchmark data.

.....  
The business shows more productivity.  
.....

It is better this year than the previous year.  
.....

The benchmark is low.  
.....

Employees have produced more units this year than the previous  
.....

and benchmark. (2)  
.....

**Candidates sometimes find it difficult to express themselves and this is a typical example. The first line about the business showing more productivity is not really something that can be concluded from the information which is specifically about employees and returns of goods. This comment and those about the benchmark being low and 'better than last year' need to be further developed to indicate the candidate's understanding to the examiner.**

**The final sentence about producing more units and developing this by reference to the benchmark and the previous year provides good evidence that the candidate has both made a comparison and drawn a conclusion from that comparison so is worth two marks. Examiners do not expect the wording used by the candidate to be the same as in the marking scheme. Instead they use the marking scheme as an indication of the type of answer that is expected and the approach and skills of communication that gain marks. Candidates are expected to do more than compare between calculations and data given as seen in the mark scheme. They are also expected to give reasons for the comparative information identified.**

- c) The following information has been obtained in respect of goods returned in the last two years.

Reason for return	Current year	Previous year
Broken on delivery	358	195
Incorrect item delivered	82	101
Returned – non-payment	49	32
Other (not disclosed)	61	62
TOTAL	550	390

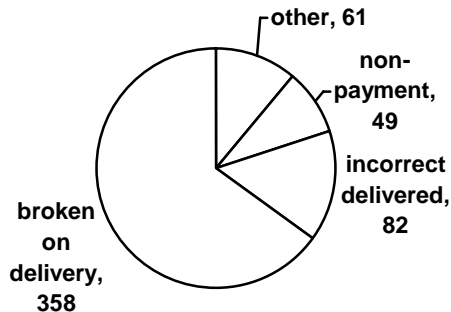
- i) Calculate the proportion of each reason for return each year to the nearest whole number.

	Broken on delivery	Incorrect item delivered	Returned – non-payment	Other
Current year (%)	358:550	82:550	49:550	61:550
Previous year (%)	195:390	101:390	32:390	62:390

(O)

**Examiners are always disappointed when they see answers as in (c) (i) which indicate that candidates do understand what is required but do not answer the task in appropriate form. Unfortunately, whether it is the pressure of the examination or for some other reason candidates do provide such answers in examinations and lose marks. Practice in examination conditions prior to the actual examination and good feedback provided by teachers and tutors should minimise marks being lost in this way.**

- (ii) Prepare a clearly labelled pie chart to show the proportions of goods returned for the current year.



(3)

The contents of the graph illustrate that the candidate does understand what the pie charts are designed to show. The fact that they are drawn with the segments in a different order than on the mark scheme is not important. However, the proportions can be seen visually but giving the proportions in percentage term would give more useful information. Hence the candidate has not achieved full marks.

11/25

The candidate is a good indication of someone who tutors would expect to gain a First Class Pass but has not quite performed up to expectations in the examination. By not developing written answers in appropriate depth and breadth and through errors of interpretation of the tasks the candidate has gained 68%. Probably with more practice before the examination where errors such as those made above could be corrected, this candidate could have easily gained 80% or more.

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## 4 Business Finance – Level 3

### 4.1 Syllabus Assessment Criteria

**Level:** 3

**Credit value:** 8

#### Unit aims

The aim of the qualification is to enable learners to have an understanding of numerical and financial information used by management to monitor and control, take decisions and solve problems within organisations and an ability to undertake analysis of that information.

#### Learning outcomes

There are **four** learning outcomes to this unit. The learner will be able to:

1. know how to allocate, apportion and absorb overhead costs in a business
2. analyse variances in standard costing
3. know how to prepare and use management accounting information for short-term decision making
4. know how to prepare management accounting information for long-term decision making and planning

#### Guided learning hours

It is recommended that **60** hours should be allocated for this unit. This may be on a full-time or part-time basis.

#### Details of the relationship between the unit and relevant national occupational standards (if appropriate)

This unit is linked to the Level 3 NVQ in Accounting and Level 4 FSSC National Occupational Standards in Accounting.

#### Endorsement of the unit by a sector or other appropriate body (if required)

This unit is endorsed by the Financial Services Skills Council (FSSC)

#### Key Skills

This unit contributes towards the Key Skills in the following areas:

- Communication
- Application of Number

#### Assessment and grading

This unit will be assessed by a two hour 30 minute question paper, which will be externally marked.

The examination paper consist of a number of practical tasks, all of which should be completed by the learner but the order in which they are undertaken will not be specified. Pro-formas will be provided for completion including graphs, charts, tables and business documents testing application of understanding. All aspects of the syllabus will be tested in every examination paper although details will vary between papers.

## **Unit 003**

### **Outcome 1**

## **Level 3 Award in Business Finance**

Know how to allocate, apportion and absorb overhead costs in a business

### **Assessment Criteria**

Underpinning knowledge

The learner can:

- 1.1 differentiate between fixed, variable and semi-variable overhead costs
- 1.2 attribute overhead costs to production and service cost centres
- 1.3 calculate overhead absorption rates using labour hour and machine hour methods
- 1.4 make correct adjustments for under or over-recovery of overhead costs

### **Guidance notes**

- 1.2 Overheads can be attributed using direct and step down allocation and apportionment.
- 1.4 Calculations and/or descriptions of impact of under or over-absorption.

**Unit 003**  
Outcome 2

**Level 3 Award in Business Finance**  
Analyse variances in standard costing

**Assessment Criteria**

Underpinning knowledge

The learner can:

2.1 calculate variances for material price and usage

2.2 calculate variances for labour rate and efficiency

2.3 compare actual and standard costs using variance analysis

2.4 recommend appropriate action based on variance analysis

**Guidance notes**

2.3 Material and labour costs.

2.4 Recommendations may be communicated in appropriate form as required: reports, memoranda and financial statements.

## **Unit 003**

### **Outcome 3**

## **Level 3 Award in Business Finance**

Know how to prepare and use management accounting information for short-term decision making

### **Assessment Criteria**

Underpinning knowledge

The learner can:

- 3.1 explain and compare managerial accounting techniques used to support short-term decision making
- 3.2 prepare estimates of future income and costs
- 3.3 calculate contribution
- 3.4 prepare and analyse marginal costing statements

### **Guidance notes**

- 3.1 Techniques: absorption costing, marginal costing, break-even analysis; including contribution and margin of safety; limiting factor.
- 3.2 Estimates in numerical and graphical form including break-even analysis and margin of safety.
- 3.4 Statements and analysis can be in the form of graphs, charts and tables.

## **Unit 003**

### **Outcome 4**

## **Level 3 Award in Business Finance**

Know how to prepare management accounting information for long-term decision making and planning

### **Assessment Criteria**

Underpinning knowledge

The learner can:

- 4.1 explain the management accounting techniques of payback period and net present value
- 4.2 calculate the payback of a capital project
- 4.3 calculate the net present value of a capital project
- 4.4 compare and evaluate capital projects
- 4.5 make recommendations based on the evaluation of capital projects

### **Guidance notes**

- 4.1 In the context of business investment appraisal
- 4.5 Recommendations can be communicated in appropriate form: reports, memoranda and financial statements.

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## 4 Business Finance– Level 3

### 4.2 Sample Question Paper



8990-03-003

Sample 2

---

**Candidate's name** (Block letters please)

---

**Centre no**

**Date**

---

Time allowed: 2 hours 30 minutes  
(plus 5 minutes reading time).

No note making is allowing during the reading time.

Answer **all** questions.

Show all your workings. All **final** answers must be written in blue or black ink.

Your answers should be written in the question booklet in the spaces provided.

If additional separate sheets of paper are used, make sure each page is clearly labelled with your name

Recommended equipment: calculator, pencil, ruler, eraser.

Task 1	Task 2	Task 3	Task 4	Task 5	TOTAL
/12	/22	/20	/22	/24	/100

**Complete all tasks**

You are employed as the assistant management accountant of Haque Ltd and have been asked to complete a number of tasks.

**Task 1**

Haque Ltd is about to launch a new product. You have been provided with the following forecast information for the product.

Product K49	
Fixed costs	\$15 000
Selling price per unit	\$25
Variable costs per unit	\$15
Target profit	\$12 000
Maximum production capacity for product	4 000 units

a) Calculate the following.

i) Breakeven in units.

.....

.....

.....

(2 marks)

ii) Number of units that Haque Ltd must sell to achieve the target profit.

.....

.....

.....

(4 marks)

iii) The profit/(loss) which would be earned by Haque Ltd at the maximum production capacity.

.....

.....

.....

(4 marks)



b) Explain the term limiting factor and its importance in a) iii) above.

.....

.....

.....

(2 marks)

**(Total 12 marks)**

## Task 2

Haque Ltd has two production departments and a service department. The following information has been provided by the chief accountant.

	Department A	Department B	Service Department
Number of employees	60	100	10
Floor area (square metres)	26 000	13 000	2 600
Machines (at cost \$)	150 000	75 000	Nil
Machine hours	8 180	4 240	---
Labour hours	24 630	32 600	---
Work completed by service department	30%	70%	---

The overheads of the service department are to be apportioned between Department A and Department B on the basis of work completed.

- a) Analyse the overhead costs in the statement below using the basis of apportionment shown. Complete the table below.

Cost	Basis of apportionment	Total \$	Department A \$	Department B \$	Service \$
Machine insurance	Machine cost	4 500			
Rent and rates	Area	41 600			
Heat and light	Area	49 920			
Salaries	Number of employees	153 000			
		249 020			
Service: percentage of work completed					

(16 marks)

- b) Your manager has asked you also to calculate the overhead absorption rates based on machine hours for Department A and labour hours for Department B.

i) Overhead absorption rate – Department A

.....

.....

.....

.....

(3 marks)

ii) Overhead absorption rate – Department B

.....

.....

.....

.....

(3 marks)

**(Total 22 marks)**

### Task 3

Haque Ltd manufactures a number of products and the following information has been provided for three products for the last year.

	P 1 \$	P 2 \$	P3 \$
Sales	45 000	42 000	34 000
Total costs	28 000	36 000	36 000
Profit/(loss)	17 000	6 000	(2 000)

Variable costs amount to 75% of the total costs. The remaining 25% of total costs are fixed costs which have been allocated to each product. The total fixed costs remain the same regardless of the number of products manufactured.

- a) Complete the following marginal costing analysis identifying the contribution for each product.

	P 1 \$	P 2 \$	P 3 \$	Total \$
Sales				
Variable costs				
Contribution				
Fixed costs				
Profit/(loss)				

(10 marks)

- b) The sales director has suggested that the company should no longer manufacture product P 3. However, the finance director suggested increasing its sales price by 10%.

Prepare a brief report in response to these suggestions.

Report		
To: Board of directors		Date: Today
From: Assistant Management Accountant		
Subject: Product P 3		

(10 marks)

**(Total 20 marks)**

**Task 4**

Haque Ltd is considering purchasing new equipment. Your manager has asked you to make some calculations to assist in this decision.

You have been supplied with the following forecasts for the equipment.

Cost of the equipment	\$260 000
Estimated useful life	5 years
Scrap value at end of five years	\$20 000

Year	Cash Inflow \$	Cash outflow \$
1	180 000	100 000
2	230 000	120 000
3	250 000	180 000
4	200 000	180 000
5	180 000	160 000

All cash inflows and outflows take place at the end of the year except for the capital cost of \$260 000 which is paid immediately. The scrap value is not included in the cash inflows and outflows.

The following is an extract from the net present value tables at 8%, the cost of capital of Haque Ltd.

Year	Discount factor
0	1.000
1	0.926
2	0.857
3	0.794
4	0.735
5	0.698

a) Calculate the payback period for the new equipment.

.....

.....

.....

.....

.....

(2 marks)

b) Calculate the net present value of the new equipment by completing the table below.

Year	Net cash Inflow \$	Discount Factor	Net present value \$
Year 0			
Year 1			
Year 2			
Year 3			
Year 4			
Year 5			
Total			

(14 marks)

c) Explain if Haque Ltd should purchase the equipment.

.....

.....

.....

.....

.....

.....

.....

.....

(6 marks)

**(Total 22 marks)**

**Task 5**

Haque Ltd has introduced a standard costing system. Your manager has asked you to analyse the following data.

The standard costs of one unit produced by the business are as follows.

Direct materials    22 kg @ \$5.00 per kg  
Direct wages        4½ hours @ \$12.00 per hour

The actual costs for 500 units were recently recorded as follows.

Direct materials    \$55 500 (10 000 kg)  
Skilled labour       \$25 000 (2 000 hours)

- a) Calculate the following variances.
- i) Direct materials price variance:

.....

.....

.....

.....

(4 marks)

- ii) Direct materials usage variance:

.....

.....

.....

.....

(4 marks)



iii) Skilled labour rate variance:

.....

.....

.....

.....

(4 marks)

iv) Skilled labour efficiency variance:

.....

.....

.....

.....

(4 marks)

a) Explain **one** reason why **each** of the variances you have calculated has occurred.

i) Direct materials price

.....

.....

.....

(2 marks)

ii) Direct materials usage

.....

.....

.....

(2 marks)

iii) Skilled labour rate

.....

.....

.....

(2 marks)

iv) Skilled labour efficiency

.....

.....

.....

(2 marks)

**(Total 24 marks)**

## **4 Business Finance – Level 3**

### 4.3 Sample Marking Scheme

(NB \* = own figure)

### Task 1

a) (i)  $\frac{15\,000}{10} = 1\,500$

(ii)  $\frac{27\,000}{10} = 2\,700$

(iii)  $\$40\,000 - \$15\,000 = \$25\,000$

(10 marks)

- a) The limiting factor is something which prevents an organisation achieving results beyond a certain parameter. (1)

The production capacity limits the number of units available for sale to 4 000 units and more cannot be sold even if there was a market for more of product K 49 (1)  
(2 marks)

**(Total 12 marks)**

## Task 2

a)

Cost	Basis of apportionment	Total \$	Department A \$	Department B \$	Service \$
Machine insurance	Machine cost	4 500	3 000 <b>(1)</b>	1 500 <b>(1)</b>	
Rent and rates	Area	41 600	26 000 <b>(1)</b>	13 000 <b>(1)</b>	2 600 <b>(1)</b>
Heat and light	Area	49 920	31 200 <b>(1)</b>	15 600 <b>(1)</b>	3 120 <b>(1)</b>
Salaries	Number of employees	153 000	54 000 <b>(1)</b>	90 000 <b>(1)</b>	9 000 <b>(1)</b>
		249 020	114 200	120 100	14 720
Service: percentage of work completed			4 416 <b>(1*)</b>	10 304 <b>(1*)</b>	(14 720) <b>(1*)</b>
			118 616 <b>(1*)</b>	130 404 <b>(1*)</b>	NIL

(16 marks)

b)

Overhead absorption rate – Department A

$$\frac{\text{Total costs}}{\text{Direct machine hours}} = \frac{118\,616 \text{ **(1*)**}}{8\,180 \text{ **(1)**}} = £14.50 \text{ **(1*)**}$$

Overhead absorption rate – Department B

$$\frac{\text{Total costs}}{\text{Direct labour hours}} = \frac{130\,404 \text{ **(1*)**}}{32\,600 \text{ **(1)**}} = £4.00 \text{ **(1*)**}$$

(6 mark)

**(22 marks)**

### Task 3

a)

	P 1 \$	P 2 \$	P 3 \$	Total \$
Sales	45 000	42 000	34 000	121 000
Variable costs	<u>21 000</u> <b>(1)</b>	<u>27 000</u> <b>(1)</b>	<u>27 000</u> <b>(1)</b>	<u>75 000</u>
Contribution	24 000 <b>(1)</b>	15 000 <b>(1)</b>	7 000 <b>(1)</b>	46 000
Fixed costs	<u>7 000</u> <b>(1)</b>	<u>9 000</u> <b>(1)</b>	<u>9 000</u> <b>(1)</b>	<u>25 000</u>
Profit/(loss)	17 000	6 000	(2 000)	21 000 <b>(1)</b>

(10 marks)

b)

Report	
To: Board of Directors	Date: Today
From: Assistant Management Accountant	
Subject: Product P 3	
<p>Product P 3 is making a loss of \$2 000 but makes a positive contribution of \$7 000 <b>(2)</b> This contributes towards the fixed costs of Haque Ltd <b>(1)</b></p> <p>By no longer manufacturing product P 3 its fixed costs would be paid for by products P 1 and P 2 <b>(1)</b> leading to a reduction in profits to \$14 000 <b>(1)</b> because of the lost contribution <b>(1)</b></p> <p>Increasing the sales price at the same volume of sales would add \$3 400 to sales <b>(1)</b> and product P 3 would make a profit <b>(1)</b></p> <p>However, the increased prices might affect the sales volume <b>(1)</b></p> <p>Haque Ltd should also consider the fairness of the present method of allocating fixed costs <b>(2)</b> (NB Marks to be awarded for comments consistent with figures)</p>	

(max 10 marks)

**(Total 20 marks)**

#### Task 4

- a) Payback period: 3 years **(2)**

(Workings)

Outflow		260 000
Inflow – Year 1	80 000	
Year 2	110 000	
Year 3	<u>70 000</u>	<u>260 000</u>

(2 marks)

- b)

Year	Inflow/(outflow) \$	Discount Factor	Net present value \$
Year 0	(260 000) <b>(1)</b>	1.000	(260 000) <b>(1)</b>
Year 1	80 000 <b>(1)</b>	0.926	74 080 <b>(1*)</b>
Year 2	110 000 <b>(1)</b>	0.857	94 270 <b>(1*)</b>
Year 3	70 000 <b>(1)</b>	0.794	55 580 <b>(1*)</b>
Year 4	20 000 <b>(1)</b>	0.735	14 700 <b>(1*)</b>
Year 5	40 000 <b>(2)</b>	0.698	<u>27 920</u> <b>(1*)</b>
			6 550 <b>(1*)</b>

(14 marks)

- c) Based on the figures the company should purchase the equipment **(1)**  
because the net present value is positive **(2)**  
and the payback period is relatively short **(1)** therefore there is a low risk **(1)**

The net present value is low however and minor changes in cash flows could make the purchase unwise **(1)**

However, the figures for cash flows are forecast so are they realistic? **(2)**

The net present value calculations are based on a cost of capital of 8%. Is this reasonable for the period of the project? **(2)**

(NB Accept other reasonable points and marks are to be awarded for comments consistent with the calculations.)

(max 6 marks)

**(Total 22 marks)**

## Task 5

a)

i) Direct materials price variance

$$(5.00 - 5.50) \text{ (1)} \times 10\,000 \text{ (1)} = 5\,000 \text{ (1) Adverse (1)}$$

ii) Direct materials usage variance:

$$(11\,000 - 10\,000) \text{ (1)} \times 5 \text{ (1)} = 5\,000 \text{ (1) Favourable (1)}$$

iii) Skilled labour rate variance

$$(12.00 - 12.50) \text{ (1)} \times 2\,000 \text{ (1)} = 1\,000 \text{ (1) Adverse (1)}$$

iv) Skilled labour efficiency variance

$$(2\,250 - 2\,000) \text{ (1)} \times 12.00 \text{ (1)} = 3\,000 \text{ (1) Favourable (1)}$$

(16 marks)

b)

i) Direct materials price

Prices of materials have increased **(1)**

Possibly higher quality materials at a higher price **(1)**

ii) Direct materials usage

Fewer materials have been wasted **(1)**

Because of more expensive, higher grade materials **(1)**

iii) Skilled labour rate

Wages have increased/ more paid per hour **(1)**

Because of a pay rise or higher grade labour **(1)**

iv) Skilled labour efficiency

Workers have used fewer hours than expected **(1)**

Because of higher grade labour/ in response to pay rises and/or greater motivation **(1)**

(8 marks)

(NB Accept reasons consistent with calculations and other acceptable answers)

**(Total 24 marks)**



## 4.4 Sample worked paper and assessment (Level 3)

The following shows how a candidate might perform in the sample paper above. It highlights common errors and is based on experience of past and similar examinations and tasks. This approach provides the opportunity to analyse questions more closely than by looking at the correct answers and gives teachers and learners the opportunity to consider strategies to employ in the examination.

The marks which are likely to be awarded are indicated together with explanations and justifications in the same way that tutors and teachers would provide feedback to students.

Further generic points are covered in later sections providing tips and hints for teachers and learners.

Task 1

Haque Ltd is about to launch a new product. You have been provided with the following forecast information for the product.

Product K49	
Fixed costs	\$15 000
Selling price per unit	\$25
Variable costs per unit	\$15
Target profit	\$12 000
Maximum production capacity for product	4 000 units

a) Calculate the following

i) Breakeven in units.

.....

$$\frac{15\,000}{25-15} = 1\,500$$

.....

The candidate has shown full workings for the calculation and has gained full marks. In this case the calculation is required in units. Sometimes questions will ask for breakeven to be calculated in \$ or £ or both units and monetary units.

ii) Number of units that Haque Ltd must sell to achieve the target profit.

270

.....

In this case the candidate has used a ‘high risk’ strategy presumably having made the calculations elsewhere. The figure may have been computed using a calculator and the candidate had misread the calculator screen as 270. So four marks have been lost. The question paper rubric advises showing full workings and tutors give the same advice but nevertheless some candidates still do not show workings and virtually every examination report mentions that point. Tutors are recommended to penalise candidates in assignments and to emphasise the point whenever workings are not shown. It is also recommended that the benefit of showing workings is stressed. This is illustrated elsewhere in this worked paper and assessment.

- iii) The profit/(loss) which would be earned by Haque Ltd at the maximum production capacity.

Sales	4 000 x \$25	100 000
Variable costs	4 000 x \$15	<u>60 000</u>
		40 000
Fixed costs	.....	<u>15 000</u> .....
Profit		25 000 (4)

In contrast to part (ii) very full workings have been shown in this case. It is unlikely that a candidate would take two different approaches in one examination but this is used above to illustrate how a step by step approach offers an examiner the information to provide marks at different steps in the calculations if the final total is incorrect. It is quite common to see candidates who are studying book-keeping as well as business finance to fall back to effectively a profit and loss account approach in a calculation like this rather than start with a figure for contribution (i.e. 40 000 above). Both approaches lead to the same answer and are likely to be fully rewarded and there is some benefit in transferring understanding and skills between syllabuses. However, in business finance contribution, is probably a more useful concept in the way it can be used in decision making.

- b) Explain the term limiting factor and its importance in (a) (iii) above.

.....

A limiting factor is a factor that limits what a business can do

.....

The answer has just restated the question and offers no real explanation. Therefore no marks have been awarded.

The question asks for the importance of the limiting factor which has been ignored by the candidate. This is a good example of what examiners mean when they say, in examination reports, that 'the candidate has not answered the question' or 'has not read the question'.

## Task 2

Haque Ltd has two production departments and a service department. The following information has been provided by the chief accountant.

	Department A	Department B	Service Department
Number of employees	60	100	10
Floor area (square metres)	26 000	13 000	2 600
Machines (at cost \$)	150 000	75 000	Nil
Machine hours	8 180	4 240	---
Labour hours	24 630	32 600	---
Work completed by service department	30%	70%	---

The overheads of the service department are to be apportioned between Department A and Department B on the basis of work completed.

- a) Analyse the overhead costs in the statement below using the basis of apportionment shown. Complete the table below.

Cost	Basis of apportionment	Total \$	Department A \$	Department B \$	Service \$
Machine insurance	Machine cost	4 500	3 000 (1)	1 500(1)	
Rent and rates	Area	41 600	26 000(1)	13 000(1)	2 600(1)
Heat and light	Area	49 920	31 200(1)	15 600(1)	3 120(1)
Salaries	Number of employees	153 000	54 000(1)	90 000(1)	9 000(1)
		249 020	114 200	120 100	14 720
Service: percentage of work completed			4 416(1)	10 304(1)	
			118 616(1)	130 404(1)	

### Workings:

Machine cost - 150 000: 75 000 = 2:1       $\frac{2}{3} \times 4\,500 = 3\,000$

Area - total 41 600 R&R as area H&L  $\frac{26\,000}{41\,600} \times 49\,920 = 31\,200$

13000 is half of 31 200

2 600 is 1/10 of 31 200

Employees - 170       $(60 \times 153\,000) / 170 = 54\,000$

$(100 \times 153\,000) / 170 = 90\,000$

$90\,000 / 10 = 9\,000$

The candidate has shown good understanding and has used the space at the bottom of the page for workings. That is perfectly acceptable and makes good use of the paper. It is conventional in preparing a statement like this to show that the service costs have been fully transferred to the production departments and this is illustrated by the bracketed (14 720) on the marking scheme which attracts a mark. Bracketed figures indicate that they are negative or are deducted and is a convention from accounting.

- b) Your manager has asked you to calculate the overhead absorption rates based on machine hours for Department A and labour hours for Department B.

Overhead absorption rate – Department A

.....  
118 616 (1)  
 .....8 180 (1).....

Overhead absorption rate – Department B

.....130 404 (1).....  
 32 600 (1)  
 .....

The candidate has shown workings but unfortunately has omitted the final calculated rate. Nevertheless four out of six marks have been earned.

19/22

### Task 3

Haque Ltd manufactures a number of products and the following information has been provided for three products for the last year.

	P 1	P 2	P 3
	\$	\$	\$
Sales	45 000	42 000	34 000
Total costs	28 000	36 000	36 000
Profit/(loss)	17 000	6 000	(2 000)

Variable costs amount to 75% of the total costs. The remaining 25% of total costs are fixed costs which have been allocated to each product. The total fixed costs remain the same regardless of the number of products manufactured.

- a) Complete the following marginal costing analysis identifying the contribution for each product.

	P 1	P 2	P 3	Total
	\$	\$	\$	\$
Sales	45 000	42 000	34 000	121 000
Variable costs	<u>21 000</u> (1)	<u>27 000</u> (1)	<u>27 000</u> (1)	75 000
Contribution	24 000 (1)	15 000 (1)	7 000 (1)	46 000
Fixed costs				25 000
Profit/(loss)				21 000 (1)

**This is typical of an answer from a candidate who has learnt a particular answer format or has studied and worked particular past examination papers carefully. At Levels 1 and 2 Business Finance there will be similar tasks from one examination to the next. Candidates tackling Level 3 should have greater ability to apply their skills to 'new' situations and so should expect more flexibility from one examination to the next. Nevertheless, tasks will not be extremely different so use of past examination papers as part of revision is a valid approach to study.**

- b) The sales director has suggested that the company should no longer manufacture product P 3. However, the finance director suggested increasing its sales price by 10%.

Prepare a brief report in response to these suggestions.

Report		
To: Board of directors		Date: Today
From: Assistant Management Accountant		
Subject: Product P 3		
<p>Product 3 provides a positive contribution so the company should continue to manufacture it. (1)</p> <p>Stopping manufacture will mean that the fixed costs absorbed by Product 3 will need to be spread among the other products (1)</p> <p>Stopping production of Product 3 will mean a \$7 000 reduction in profit (1)</p> <p>An increase in the selling price of Product 3 is a good idea because it will then make a profit (1)</p>		

**The comments made by the candidate are reasonable and identify key elements of the situation but do not develop the explanation fully. Links between the price change and sales volume show the appreciation of this course of action. A more numerically based analysis provides a greater focus on detail, something which would be needed in practice so that a decision made on this information is likely to be more appropriate to the precise situation.**

11/20

Task 4

Haque Ltd is considering purchasing new equipment. Your manager has asked you to make some calculations to assist in this decision.

You have been supplied with the following forecasts for the equipment.

Cost of the equipment	\$260 000
Estimated useful life	5 years
Scrap value at end of five years	\$20 000

Year	Net Cash Inflow \$	Cash outflow \$	Workings
1	180 000	100 000	80 000
2	230 000	120 000	110 000
3	250 000	180 000	70 000
4	200 000	180 000	20 000
5	180 000	160 000	20 000

All cash inflows and outflows take place at the end of the year except for the capital cost of \$260 000 which is paid immediately. The scrap value is not included in the cash inflows and outflows.

The following is an extract from the net present value tables at 8%, the cost of capital of Haque Ltd.

Year	Discount factor
0	1.000
1	0.926
2	0.857
3	0.794
4	0.735
5	0.698

a) Calculate the payback period for the new equipment.

80 + 110 + 70 = 260      3 years (2)

.....

In this case the candidate has decided to include the workings next to the columns on the examination paper which is a reasonable strategy. It would be better if the workings under (a) above were under a heading of ‘\$’000’ but no doubt the examiner would appreciate that the candidate understood this from the workings on the task itself.



- a) Calculate the net present value of the new equipment by completing the table below.

Year	Inflow \$	Discount Factor	Net present value \$
Year 0	(260 000) (1)	1.000	(260 000) (1)
Year 1	80 000 (1)	0.926	74 080 (1)
Year 2	110 000 (1)	0.857	94 270 (1)
Year 3	70 000 (1)	0.794	55 580 (1)
Year 4	20 000 (1)	0.735	14 700 (1)
Year 5	20 000	0.698	<u>13 960 (1*)</u>
			(7 410) (1*)

**The candidate has shown good understanding of the requirements of the task but unfortunately has taken the workings from the examination paper and forgotten the scrap value in the final year. This has meant that the final Net Present Value (NPV) is negative.**

- b) Explain if Haque Ltd should purchase the equipment.

Haque Ltd should not purchase the equipment (1) because the NPV is \$(7 410)

.....  
and as this is a negative NPV the company will lose money on this investment.

.....(2)

The payback period is over half way through the asset life at three years of five.

.....

**The answer is completely different in respect of the net present value than the marking scheme but marks have been given because it is consistent with the candidate's calculations in (b). The sentence about the payback period is factually correct but has been expressed in a way which does not assist in the decision about whether to purchase or not.**

**As is quite typical of many examination answers, this candidate has not questioned the validity of the information. These are all forecast figures and subject to change and at Level 3 candidates should be beginning to demonstrate a questioning nature. Marks would be awarded for this.**

17/22

## Task 5

Haque Ltd has introduced a standard costing system. Your manager has asked you to analyse the following data.

The standard costs of one unit produced by the business are as follows.

Direct materials 22 kg @ \$5.00 per kg

Direct wages 4½ hours @ \$12.00 per hour

The actual costs for 500 units were recently recorded as follows.

Direct materials \$55 500 (10 000 kg)

Skilled labour \$25 000 (2 000 hours)

a) Calculate the following variances.

i) Direct materials price variance

$$\$55\,000 \div 500 = \$1100.00 \quad 22 \times \$5.00 = \$110.00$$

.....  
Variance \$990  
.....

ii) Direct materials usage variance

$$500 \times 22 = 11\,000$$

Used      10 000

.....  
Variance      1 000      (1)      Less used so Favourable (1)  
.....

iii) Skilled labour rate variance

$$\$25\,000 \div 2\,000 = \$12.50$$

... Budget ..... \$12.00 .....

Variance              \$0.50      (1)              More so Adverse

.....

iv) Skilled labour efficiency variance

$$2\,000 \div 500 = 4 \text{ hours}$$

.....  
Budget                      4 ½ hours

.....  
Variance                  ½ hour less so Favourable

**To gain marks in a test of variances candidates need a good understanding of the subject and to know the formulae. Less well-prepared candidates will typically perform to the standard indicated above. They will try to answer the task using logic and the result is typically not a good performance. Although marks are allocated to 'Favourable' and 'Adverse' in the marking scheme, candidates need to demonstrate an understanding of the correct approach to be awarded marks for these terms. Marks have been awarded for appropriate workings above.**

b) Explain **one** reason why **each** of the variances you have calculated have occurred.

i)            Direct materials price

There is a variance of \$990

.....  
ii)           Direct materials usage

The variance is favourable so less material has been wasted (1)

.....  
This is because it is good quality or employees have worked with it well

.....  
Perhaps it is more expensive (1)

.....  
iii)           Skilled labour rate

This is adverse by \$0.50/\$12.00 = 4.2% so employees have had a good pay

.....  
rise. Or they might be new skilled people instead of unskilled (2)

iv) Skilled labour efficiency

Employees have worked more quickly than the budget perhaps because of the pay

rise or because they have agreed to work faster or because they are Skilled (2)

The candidate has picked up some good marks in the narrative explanations and this is quite typical of a task like this. So long as a candidate has some figures and has selected either favourable or adverse in the calculations it is worth tackling the explanations because usually some explanation based on the figures given can be thought through. Candidates should attempt the written part of the task even if they feel they have performed badly on the calculations.

Examiners will mark the answer as given and match what is said with their professional understanding, the mark scheme and the figures calculated so that candidates will be appropriately rewarded for the answer given.

9/24

The candidate has shown a reasonable understanding of most of the topics but clearly has areas where knowledge is not perfect. Nevertheless there is sufficient understanding to gain a pass and the candidate has achieved 62%

From the comments on narrative questions it is unlikely that this candidate has the abilities to express Level 3 thinking and questioning and attain a First Class Pass at this stage. However, there is clearly a good foundation of understanding and with more study, practice and some thought about the technique of answering questions in a context such as this scenario, a good result may be possible in the future.

## 5 General Guidance

### 5.1 Guidance for Tutors

#### **Preparing candidates for the examination**

Success in examinations is achieved by demonstrating to the examiner that the candidate has the appropriate level of knowledge and understanding to achieve a particular grade, whether that be a Pass or a First Class Pass.

The underlying knowledge and understanding and the appropriate way of applying that knowledge and understanding to specific problems and syllabus areas forms most of teaching, tested through formative and summative assignments during the course of study.

When preparing candidates for the examination, revision through the use of tests and past examinations is useful in highlighting areas of strength and weakness, identifying links between different parts of the syllabus and in building greater depth and breadth of understanding. At Level 1 and less at Level 2 that will be built by repetition in practicing similar questions such as the completion of orders for stationery. At Level 3 candidates will need to use their understanding and abilities in slightly different contexts to those they have seen before. Feedback provided by tutors and the interaction between students in class will help candidates develop a more questioning attitude. This should assist in enhancing problem solving and decision making skills.

Timing is important in all levels of examination and candidates should be assisted to develop sufficient familiarity with topics to be able to recognise what is required in specific tasks and to deal with them quickly and accurately. Some candidates can spend a long time trying to be successful in one task to the detriment of the rest of the examination and they should be guided to spend an appropriate time on each task. It can be very helpful for candidates to tackle one or two mock examinations in examination conditions and learn ways to cope with nervousness or any other difficulties.

Examination syllabuses and papers will, where appropriate, use decimal currencies including £, and \$, metric units, including centimetres and the 24 hour clock. Global contexts and scenarios will be used where appropriate, including names, addresses and date formats worldwide.

## Hints, tips and recommendations

Students often have differing attitudes to numeracy and different levels of skills and it may be useful to use a variety of techniques in teaching. Numeracy games, quizzes, short self-marked tests and in-class tests marked by other students in the class can be useful although not all of these approaches would work or be acceptable in all areas of the world. Nevertheless, techniques other than rote-learning can be useful in motivating students.

The topic of 'performance indicators' at levels 1 and 2 and the various decision making techniques at Level 3 offer the opportunity for students in class to work in small groups (two to four) to generate different ideas between them. This can be useful for tutors who then have the opportunity to 'discuss topics on a one-to-one basis or with the group.

Candidates should be familiar with and be able to use the following equipment which they need in the examination.

- non-programmable calculator
- protractor

Business Finance is primarily a practical subject helping managers in planning and controlling businesses and in decision making. The techniques of costing and budgeting in particular are widely used and valuable in organisations and it is well worth ensuring that candidates understand how useful the techniques they are studying will be in practice. It may be useful to bring in experts or arrange visits to local organisations so that they can see how the various techniques are used in practice. This can help understanding and will be motivating.

## Performance codes

The following performance codes are recorded on the candidates result slip when candidates have not achieved a pass grade. Most of the codes identify specific syllabus areas where the candidate needs further development to achieve a pass.

	Level 1 – Business Finance	Level 2 – Business Finance	Level 3 – Business Finance
Narrow fail	AA	AA	AA
Insufficient work submitted	AB	AB	AB
Application of numerical skills	FT	FT	
Graphical skills	FU	FU	
Orders	FV		
Job costs and estimates	FW	FW	
Payroll	FX		
Performance indicators	FY	FY	
Cash budget		FZ	
Non-cash budgets		GM	
Stock records		GN	
Credit control		GO	
Overhead apportionment			GP
Variance analysis			GQ
Break-even			GR
Marginal costing			GS
Capital investment appraisal			GT

**AA – Narrow fail**– Fail within 5%

**AB – Insufficient work submitted** - A task or part of a task has not been completed

**FT – Application of numerical skills** – lack of knowledge of basic numeracy skills

**FU - Graphical skills** – inability to present and analyse data in tables, charts and graphs

**FV - GT** - Candidates need further development in these areas.

## **Why candidates fail**

In numerical tasks candidates fail for a variety of reasons:

- lack of understanding of the question and hence making incorrect calculations
- providing an incorrect answer without workings, when the workings may provide a number of marks
- spending too much time on one task to the detriment of the examination as a whole
- not completing a task because they have been unsuccessful in an earlier part of the task.

In narrative answers candidates fail for the following reasons:

- not answering the question as it is set. Sometimes they may have a revision question in their minds and reproduce an answer they have learnt and which was appropriate to the earlier question but not that in the examination
- simply stating in words what previous calculations show. Explanation of the figures is needed
- not answering in appropriate depth and breadth (i.e. looking at a problem from more than one angle)
- omitting the obvious in answers because they feel it is too obvious and examiners would not be interested in basic points.



## Reading List

Level 1 – ‘Maths The Basic Skills’ (ISBN 0-7487-7700-8) by June Haighton, Deborah Holder, Bridget Phillips and Veronica Thomas, published by Nelson Thornes - £13.99

Levels 1 and 2 – ‘Application of Number’ (ISBN 0-19-914796-5) by Brian Gaultier & Leslye Buchanan, published by Oxford University Press - £17.00

Levels 2 and 3 – ‘Management Accounting’ (ISBN 0-479-05770-X) by Michael Jones - £27.99

Levels 2 and 3 – ‘Accounting, Costing and Management’ (ISBN 978-0-19-832823-0) by Riad Izhar and Janet Hontoir, published by Oxford University Press - £24.99

Levels 2 and 3 – ‘Mastering Accounting’ (ISBN 0-333-51198-0) by George Bright & Michael Herbert, published by Palgrave - £16.99

## Links to other useful information

Level 1 - Basic number skills -

<http://www.bbc.co.uk/skillswise/numbers/wholenumbers/>

Level 1 - Basic maths - <http://www.aaamath.com/>

Level 1 - Quiz resource - <http://www.thatquiz.org/>

Level 2 - Cash budgets

[http://www.va-interactive.com/inbusiness/editorial/finance/ibt/cash\\_bud.html](http://www.va-interactive.com/inbusiness/editorial/finance/ibt/cash_bud.html)

<http://www.bizhelp24.com/accounting/budgeting-in-small-business-3.html>

Level 2 - Stock records -

[http://www.accounting2u.com/Yr10worksheet\\_copy\(110\).htm](http://www.accounting2u.com/Yr10worksheet_copy(110).htm)

Level 2 - Aged debtors analysis - <http://www.bizhelp24.com/cash-flow-control/-aged-debt-analysis-3.html>

Level 2 - Overview of performance indicators - <http://www.sfedl.co.uk/small-business-section/bite-size-checklists/using-performance-indicators/>

<http://www.businesslink.gov.uk/bdotg/action/detail?type=RESOURCES&itemId=1079681470>

Level 3 - Investment appraisal -

<http://www.bized.co.uk/learn/accounting/management/index.htm>

Level 3 - Costs and budgets - powerpoint presentation -

<http://www.bized.co.uk/learn/business/accounting/budgets/index.htm>

Level 3 - Marginal costing and breakeven -

<http://tutor2u.net/business/presentations/accounts/contribution/default.html>

## Documents available on our website

FAQs

Sample Papers

## **5 General Guidance**

### **5.2 Guidance for Candidates**

#### **Preparing for the examination**

Before the examination, make sure you have plenty of practice. Particular emphasis should be placed on practising calculations both in your head and using a calculator. When completing the examination you should ensure you always show workings. Ensure you pay attention to positioning decimal points.

Make sure you have the correct equipment for the examination eg a calculator, ruler, protractor, pencil and eraser. Graphs and charts may be drawn in pencil but labels must be in ink.

In the examination and your mock examinations:

Read the paper through carefully at the start of the examination, and make sure you know exactly what you have to do. Decide approximately how long you need to spend on each task and divide up the time accordingly.

Read all the information carefully and do not assume anything. Allow time at the end of the examination to check the answers.

Check that you have answered all questions.

#### **Hints, tips and recommendations**

Show all workings in full. It is easy to make a mistake in calculations when under the pressure of an examination. However, if each step of a calculation is detailed, the use of the own figure rule should ensure marks are gained.

Business Finance is concerned with providing clear information for managers. Therefore your answers must be clear, detailed, relevant and in full. For example, if a cash budget indicates a deficit will arise in two months' time, management can arrange for a loan. However, if management is advised that there will be a surplus of cash, action could be taken to invest the surplus in a marketing campaign and the business could find itself in financial difficulties.

It may be useful to provide examples as well as definitions and statements when answering narrative questions. Any explanations should be detailed and refer to the task.

Any graphs and charts should be clearly labelled and a ruler should always be used to ensure the presentation is neat, tidy and accurate.

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**EC1A 9DD**  
**T +44 (0)20 7294 2468**  
**F +44 (0)20 7294 2400**  
**[www.cityandguilds.com](http://www.cityandguilds.com)**

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