# Check In test

# Accounting and finance

## Questions

1. A business who supplies goods to SJ foods on credit will be most interested in SJ foods:

(a) breakeven point

(b) efficiency ratios

(c) liquidity position

(d) profitability **[1]**

1. A company overstates its profits and understates its losses in its published accounts.  
   Which one of the following accounting conventions has the company broken?

(a) Consistency

(b) Materiality

(c) Prudence

(d) Realisation **[1]**

1. A farm grows three crops – wheat, barley and corn. Overheads are allocated to each crop in proportion to revenue. In 2015 the overheads of the farm totalled £2,000,000. Revenue figures were as follows:

* wheat = £3,000,000
* barley = £1,000,000
* corn = £4,000,000.

The overheads allocated to the wheat crop are:

(a) £250,000

(b) £666,667

(c) £750,000

(d) £1,500,000 **[1]**

1. A stepped fixed cost:

(a) changes incrementally at certain output levels

(b) is the additional cost of making one more unit

(c) remains the same at all levels of output

(d) varies directly with output **[1]**

1. Which of the following best describes a cash flow statement?

(a) A forecast of the working capital requirements of a business

(b) A prediction of cash inflows and outflows

(c) A record of bank account withdrawals and deposits

(d) A summary of actual incomes and outgoings of cash **[1]**

1. A lorry which cost £60,000 has a residual value of £5000 at the end of 10 years. Depreciation is charged using the straight-line method.

What is the net book value of the lorry at the end of year 2?

(a) £43,000

(b) £44,000

(c) £48,000

(d) £49,000 **[1]**

1. The accountant for a small online baby clothes retailer has calculated the following figures for Dinky Clothes in 2015:

* opening stock: £3200
* closing stock: £3800
* cost of sales: £11,200.

Dinky Clothes’ stock turnover ratio in 2015 is:

(a) 0.31

(b) 0.34

(c) 2.9

(d) 3.2 **[1]**

1. A company has a current ratio of 4.3 and an acid test ratio of 0.27.

The ratios show that the company:

(a) can pay all of its current liabilities immediately

(b) has spent far too much on overheads

(c) is holding a lot of stock

(d) needs to purchase more current assets **[1]**

1. State **two** disadvantages to a business of being highly geared. **[2]**

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1. Using the figures in the table below, calculate Lewis plc’s dividend yield in 2015. **[2]**

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| **Lewis plc financial data 2015** | |
| Total dividend paid | £6 million |
| Number of shares issued | 90 million |
| Market price of share | 238p |

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1. Complete the **four** unshaded boxes in the cash flow statement below. **[4]**

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| **Cash flow statement for Ying Ltd** | **May 2015 (£)** | **June 2015 (£)** |
| **Inflows:** |  |  |
| **Sales revenue** | **25,000** | **22,000** |
| **Business loan** | **0** |  |
| **Total inflows** | **25,000** | **27,000** |
| **Outflows:** |  |  |
| **Stock** |  | **4000** |
| **Wages** | **6000** | **6000** |
| **Overheads** | **4000** | **4000** |
| **Total outflows** | **15,000** | **14,000** |
| **Net cash flow** |  | **13,000** |
| **Opening balance** | **(12,000)** | **(2000)** |
| **Closing balance** | **(2000)** |  |

1. Explain why a public limited company might find ARR (average rate of return) a more  
   useful technique than payback when appraising an investment. **[4]**

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## Mark scheme

| **Question** | | **Answer** | **Marks** | **AO** | **Rationale** |
| --- | --- | --- | --- | --- | --- |
| **1** |  | **(c)** | **1** | **1** | **(a)** A supplier would want the business to do more than breakeven, but it will not be the main priority.  **(b)** A supplier is unlikely to be interested in these, a competitor on the other hand may be extremely interested.  **(c)** **Correct answer:** The supplier requires payment so will be most interest in liquidity.  **(d)** A supplier would want the business to make a profit, but it will not be the main priority. |
| **2** |  | **(c)** | **1** | **1** | **(a)** Consistency requires that the numerical data in the accounts is determined by the same basis each year so that effective comparisons can be made.  **(b)** Materiality does not require a business to value insignificant items, rather come to an overall determination of value which is representative.  **(c)** **Correct answer:** The convention of prudence demands that where there is an element of doubt conservative values should be used so as not to put the business into too positive a light.  **(d)** Realisation requires transaction dates, rather than payment dates to be used. |
| **3** |  | **(c)** | **1** | **2** | **(a)** Candidate calculates one eighth of the overheads, but fails to multiply by 3.  **(b)** Candidate erroneously divides £2 million by £3m,  **(c)** **Correct answer:** Revenue totals £8 million. Wheat accounts for 3/8 of the farm’s revenue. Therefore wheat should be allocated 3/8 of the overheads. 3/8 x £2m = £750,000.  **(d)** Candidate erroneously divides £3 million by £2 million and converts to millions. |
| **4** |  | **(a)** | **1** | **1** | **(a)** **Correct answer:** A fixed cost which increases at specific output levels.  **(b)** This is the definition of marginal cost.  **(c)** This is a fixed cost, rather than a stepped fixed cost.  **(d)** This is a variable cost. |
| 1. **5** |  | **(d)** | **1** | **1** | **(a)** Whilst cash flow could be equated with working capital, this is a budgeted figure.  **(b)** This would describe a cash flow forecast.  **(c)** These details would be shown on a bank statement.  **(d) Correct answer:** It concerns cash flows but is a record of historical cash-flow rather than predicted. |
|  |  | **(d)** | **1** | **2** | **(a)** The candidate incorrectly calculates yearly depreciation to be £6000 and erroneously deducts from £55,000 rather than £60,000.  **(b)** Candidate correctly calculates the annual depreciation charge of £5500, but deducts the £11,000 from £55,000 rather than £60,000  **(c)** Candidate ignores the residual value and calculates the yearly depreciation charge to be £6000. For year 2, £12,000 is deducted for £60,000, which equals £48,000.  **(d) Correct answer:** £60,000 - £5000 = £55,000. £55,000/10 = £5500 charge for depreciation each year. End of year 2: £60,000 – (2 x £5500) = £49,000. |
|  |  | **(d)** | **1** | **2** | **(a)** Candidate inverts the formula: £3500/£11200 = 0.31.  **(b)** Candidate inverts the formula and erroneously uses the closing stock figure: £3800/£11200 = 0.34.  **(c)** Candidate erroneously uses the closing stock figure, calculating the turnover ratio as cost of sales/closing stock: £11200/£3800 = 2.9.  **(d) Correct answer:** Cost of sales/average stock. Average stock = (£3200 +£3800)/2 = £3500. Turnover ratio = £11200/£3500 = 3.2. |
|  |  | **(c)** | **1** | **1** | **(a)** The business can only pay back 27p of every pound of its current liabilities.  **(b)** The ratio is not concerned with overheads or expenses. A comparison of the gross profit and net profit margins would reveal this.  **(c)**  **Correct answer:** There is a big difference between the two ratios. Given the formula the difference must be accounted for by stock.  **(d)** The solution to a low acid test ratio is not to buy more assets. |

| **Question** | | | **Answer** | **Marks** | **Guidance** |
| --- | --- | --- | --- | --- | --- |
| **9** |  |  | One mark for each correct identification, to a maximum of two identifications. | **2**  (AO1 2) | Indicative content:   * expensive * increased finance costs * decreased profit * interest rates can increase * struggle to meet interest payments * risk of not being able to service the debt * potential lender less willing to lend * susceptible to fall in demand/sale revenue * greater risk of being liquidated.   **No** context required. |
| **10** |  |  | Up to two marks.  Award full marks for 2.8% (irrespective of workings).  Otherwise:  1 mark for 6.67p. | **2**  (AO2 2) | Indicative content:  Dividend per share = total dividends paid  number of share issued  Dividend per share = £6 million/90 million = 6.67p  Dividend yield = dividend per share x 100  market price of share  Dividend yield = 6.67p/238p x 100 = 2.8% |
| **11** |  |  | One mark for each correct identification to a maximum four identifications.  No OFR. | **4**  (AO2 4) | Indicative content:   * May stock: £15,000 - £6000 - £4000 = £5000 * May net cash flow: £25,000 - £15,000 = £10,000 * June business loan: £27,000 - £22,000 = £5000 * June closing balance: -£2000 + £13,000 = £11,000. |
| **12** |  |  | One mark for each point of explanation, but allow development marks. | **4**  (AO1 2)  (AO2 2) | Indicative content:   * ARR calculates the rate of return * ARR looks at profitability over time * ARR shows investment yield * PB only looks at speed of payback * PB ignores returns on investment after payback * PB assumes the shorter the payback period the better the investment.   Context **required** for more than two marks.  Exemplar response:  Payback only looks at how long it takes to payback the original budget spend (1) it does not take into account the investment yield which will be earned (1). As one of the main objectives of a public limited company’s shareholders is to receive a return on their investment (1), the investment yield, and therefore the dividends that the company can pay to retain its investors, is likely to be a more important factor in investment appraisal than the speed of the return (1). |

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