



*Rewarding Learning*

**ADVANCED  
General Certificate of Education  
January 2012**

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## **GCE Applied Business**

**Assessment Unit A2 7**

*assessing*

**Finance**

**[A6B11]**

**FRIDAY 20 JANUARY, MORNING**

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**MARK  
SCHEME**

1 (a) Explain the following terms, giving one example of each.

(i) **Fixed Costs**

These are costs that remain the same irrespective of output levels, e.g. rent, rates, salaries.

Marking: [1] for explanation

[1] for example [2]

(ii) **Variable Costs**

These are costs that change as output levels change, e.g. raw materials, direct labour.

Marking: [1] for explanation

[1] for example [2]

(b) You are required to:

(i) **Calculate the breakeven point (in terms of sales quantities of cuckoo clocks) [3]**

Breakeven points in sales quantities = fixed costs/contribution per unit

Fixed costs = £720

Contribution per unit = (sales revenue – variable cost)

Sales revenue = £35

Variable cost = £15

Contribution per unit = £20

Breakeven in sales quantities = £720/£20 = 36 cuckoo clocks

Marking: [3] for calculation [3]

(ii) **Calculate the breakeven point (in terms of sales revenue of cuckoo clocks) [3]**

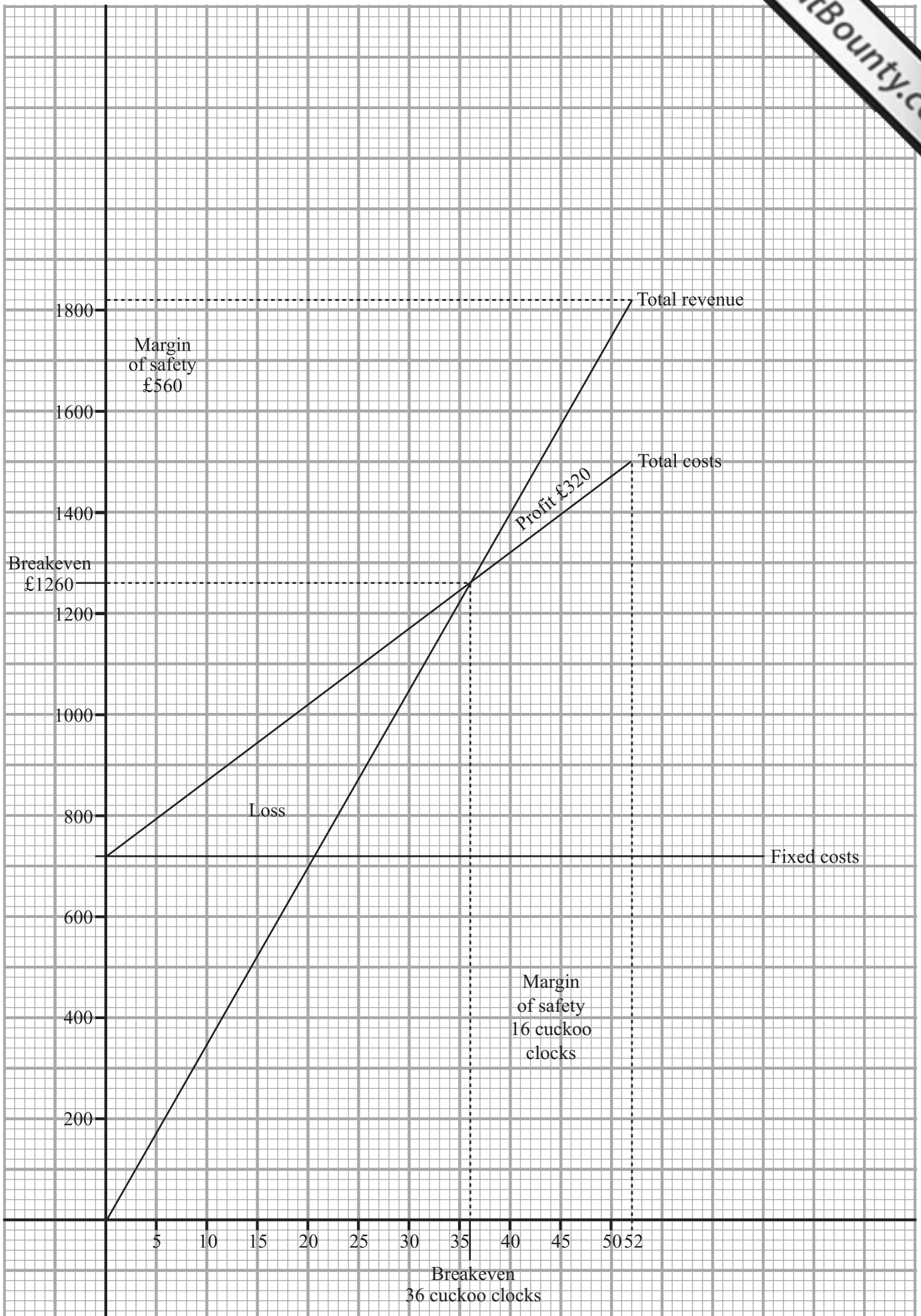
Breakeven points in sales revenues = breakeven point × sales price

Breakeven point = 36 cuckoo clocks

Selling price = £35

Breakeven in sales revenue = 36 × £35 = £1260

Marking: [3] for calculation [3]



(c) Using the relevant information, draw a breakeven graph and show the following on the graph:

(i) **Total revenue**

£0 at 0 cuckoo clocks to £1820 at 52 cuckoo clocks

(ii) **Total Costs**

£720 at 0 cuckoo clocks to £1500 at 52 cuckoo clocks

(iii) **Breakeven point in terms of quantity and revenue**

Breakeven = 36 cuckoo clocks

Breakeven in sales revenue = £1260

(iv) **Total Profit if 52 cuckoo clocks are sold per week**

Profit at 52 cuckoo clocks is £320

(v) **Margin of Safety if 52 cuckoo clocks are sold each week in terms of both quantity and revenue**

Margin of safety at 52 cuckoo clocks is 16 cuckoo clocks (quantity)

Margin of safety at 52 cuckoo clocks is £560 (sales revenue)

**Scale to be used: 1 cm = £100; 1 cm = 5 cuckoo clocks**

Marking: ([1] × 7) for calculation

[7]

(d) **Discuss three limitations for a business such as Mr Clock's of using breakeven analysis.**

- It is only an aid and can be seen as too simplistic
- The model assumes that all output is sold and no stocks are held – this is not the case in the real world of business
- Breakeven analysis is based on a static model – in business conditions change daily both internal and external
- The effectiveness of breakeven analysis depends on the quality and accuracy of the data used to construct the charts
- It assumes that the costs and revenue are linear – we know that in business that they are not – think of economies of purchasing
- Ignores competition and market research
- May be difficult for Jack Slipper to apportion overheads correctly between fixed and variable components.
- Ignores economies/diseconomies of scale.
- Assumes all output (cuckoo clocks) is achieved
- May be difficult to apply to a 'multi-product' environment.

[12]

	<b>AO1 Knowledge and Understanding</b>	<b>AO2 Application</b>	<b>AO3 Analysis</b>	<b>AO4 Evaluation</b>
Level 3	<p><b>3 marks</b></p> <p>Candidate demonstrates a good understanding of the limitations of breakeven analysis.</p> <p>Candidate makes good use of specialist vocabulary when it is appropriate.</p>	<p><b>3 marks</b></p> <p>Candidate applies knowledge effectively.</p>	<p><b>3 marks</b></p> <p>Candidate thoroughly analyses the limitations of breakeven analysis.</p>	<p><b>3 marks</b></p> <p>Candidate gives a full discussion of the limitations of breakeven analysis. Candidate demonstrates good spelling, punctuation and grammar. The meaning of the text is clear. The candidate has consistently used a form and style of writing appropriate to the purpose of the question. Answer is organised in a clear and coherent manner.</p>
Level 2	<p><b>2 marks</b></p> <p>Candidate demonstrates an adequate understanding of the limitations of breakeven analysis.</p> <p>Candidate makes adequate use of specialist vocabulary when it is appropriate.</p>	<p><b>2 marks</b></p> <p>Candidate attempts to apply reasonable knowledge.</p>	<p><b>2 marks</b></p> <p>Candidate shows some attempt to analyse the limitations of breakeven analysis.</p>	<p><b>2 marks</b></p> <p>Candidate gives a satisfactory discussion of the limitations of breakeven analysis. Candidate demonstrates satisfactory spelling, punctuation and grammar. The meaning of the text is clear most of the time. The candidate demonstrates a satisfactory level of writing, form and style of writing appropriate to the purpose of the question. Answer is organised in a satisfactory manner.</p>
Level 1	<p><b>1 marks</b></p> <p>Candidate demonstrates some understanding of the limitations of breakeven analysis.</p> <p>Candidate makes some use of specialist vocabulary when it is appropriate.</p>	<p><b>1 marks</b></p> <p>Candidate attempts to apply some knowledge.</p>	<p><b>1 marks</b></p> <p>Candidate shows little attempt to analyse the limitations of breakeven analysis.</p>	<p><b>1 marks</b></p> <p>Candidate attempts some discussion of the limitations of breakeven analysis. Candidate makes limited use of spelling, punctuation and grammar. The meaning of the text is not always clear. The candidate demonstrates a limited form and style of writing appropriate to the purpose of the question. The organisation of the answer is limited.</p>

Level 0	<b>0 marks</b> Candidate demonstrates no understanding of the limitations of breakeven analysis.  Candidate makes no use of specialist vocabulary when it is appropriate.	<b>0 marks</b> Candidate does not attempt to apply knowledge.	<b>0 marks</b> Candidate shows no attempt to analyse the limitations of breakeven analysis.	<b>0 marks</b> Candidate makes no attempt to discuss the limitations of breakeven analysis.
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AVAILABLE MARKS
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2 (a) You are required to prepare a cash budget for Bumblebee Garden Centre for the months of July, August, and September only.

**Table B – Cash Budget**

	July	August	September
<b>Opening Balance</b>	<b>8,800</b>	<b>10,800</b>	<b>0</b>
<b>Cashflows in:</b>			
Cash Sales Revenue	66,300	<b>58,650</b>	<b>43,350</b>
Trade Receivable Receipts	<b>14,700</b>	<b>13,350</b>	11,700
<b>Total Cashflows in:</b>	<b>81,000</b>	72,000	<b>55,050</b>
<b>Cashflows Out:</b>			
Wages	6,500	6,100	5,800
Purchases	<b>62,400</b>	67,000	<b>47,500</b>
Overheads	<b>10,100</b>	<b>9,700</b>	<b>9,500</b>
<b>Total Cashflows out:</b>	<b>79,000</b>	<b>82,800</b>	<b>62,800</b>
<b>Closing Balance</b>	<b>10,800</b>	<b>0</b>	<b>(7,750)</b>

Marking:

[1] will be awarded for inclusion/correct calculation of the following figures in the cash budget:

	£	marks
Trade receivable receipts	14700; 13350	2
Cash sales revenue	58650; 43350	2
total cashflows in	81000; 55050	2
purchases	62400; 47500	2
overheads	9500	1
total cashflows out	79000; 82800; 62800	3
closing balance	10800; 0; -7750	3

Total 15 marks [15]

(b) **Discuss three limitations for a business such as Bumblebee Garden Centre of using budgets:**

- The benefit of the budget must exceed the cost;
- Budget information may not be accurate, poor quality information results in budgets that are meaningless;
- The budget may demotivate;
- Budgets may lead to dysfunctional management;
- Unrealistic budgets can lead managers to make decisions that might be detrimental to Bumblebee Garden Centre;
- Budgets may be set at too low a level;
- Budgetary slack or padding the budgets;
- There is a need to revise/update the budget which at the time was based on a certain set of circumstances/best information;
- Budgets can become very inflexible.

	<b>AO1 Knowledge and Understanding</b>	<b>AO2 Application</b>	<b>AO3 Analysis</b>	<b>AO4 Evaluation</b>
Level 3	<p><b>3 marks</b></p> <p>Candidate demonstrates a good understanding of the limitations of budgets.</p> <p>Candidate makes good use of specialist vocabulary when it is appropriate.</p>	<p><b>3 marks</b></p> <p>Candidate applies knowledge effectively.</p>	<p><b>3 marks</b></p> <p>Candidate thoroughly analyses the limitations of budgets.</p>	<p><b>3 marks</b></p> <p>Candidate gives a full discussion of the limitations of budgets. Candidate demonstrates good spelling, punctuation and grammar. The meaning of the text is clear. The candidate has consistently used a form and style of writing appropriate to the purpose of the question. Answer is organised in a clear and coherent manner.</p>
Level 2	<p><b>2 marks</b></p> <p>Candidate demonstrates an adequate understanding of the limitations of budgets.</p> <p>Candidate makes adequate use of specialist vocabulary when it is appropriate.</p>	<p><b>2 marks</b></p> <p>Candidate attempts to apply reasonable knowledge.</p>	<p><b>2 marks</b></p> <p>Candidate shows some attempt to analyse the limitations of budgets.</p>	<p><b>2 marks</b></p> <p>Candidate gives a satisfactory discussion of the limitations of budgets. Candidate demonstrates satisfactory spelling, punctuation and grammar. The meaning of the text is clear most of the time. The candidate demonstrates a satisfactory level of writing, form and style of writing appropriate to the purpose of the question. Answer is organised in a satisfactory manner.</p>
Level 1	<p><b>1 marks</b></p> <p>Candidate demonstrates some understanding of the limitations of budgets.</p> <p>Candidate makes some use of specialist vocabulary when it is appropriate.</p>	<p><b>1 marks</b></p> <p>Candidate attempts to apply some knowledge.</p>	<p><b>1 marks</b></p> <p>Candidate shows little attempt to analyse the limitations of budgets.</p>	<p><b>1 marks</b></p> <p>Candidate attempts some discussion of the limitations of budgets. Candidate makes limited use of spelling, punctuation and grammar. The meaning of the text is not always clear. The candidate demonstrates a limited form and style of writing appropriate to the purpose of the question. The organisation of the answer is limited.</p>



Level 0	<p><b>0 marks</b></p> <p>Candidate demonstrates no understanding of the limitations of budgets.</p> <p>Candidate makes no use of specialist vocabulary when it is appropriate.</p>	<p><b>0 marks</b></p> <p>Candidate does not attempt to apply knowledge.</p>	<p><b>0 marks</b></p> <p>Candidate shows no attempt to analyse the limitations of budgets.</p>	<p><b>0 marks</b></p> <p>Candidate makes no attempt to discuss the limitations of budgets.</p>
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[12]

AVAILABLE MARKS

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- 3 (a) John works as a baker. He is thinking of purchasing a new machine to produce apple pies. The cost of the machine is £10,000. John estimates the following sales patterns of apple pies:

Year	Sales Quality	Sales Price
2012	1,000	£1.00
2013	6,000	£1.50
2014	12,000	£1.50

Calculate the Payback Period for the apple pie machine.

	Annual Cash Flow (£)	Cumulative Cash Flow (£)
Initial Investment	(10,000)	(10,000)
2012	1,000	(9,000)
2013	9,000	0
2014	18,000	18,000

Payback Period: 2 years

Marking: [1] for each figure (x7); [1] for correct answer. [8]

3 (b) John is thinking of selling his bakery. Evaluate each of the following financial statements which John should prepare, indicating why the contents of each financial statement would be important.

(i) **Income Statement:**

In the event of sale of the existing business, the current owner would be interested in the information contained within the financial statements for the following reasons:

- Costs – owner can monitor costs of running the business;
- Profitability: helps to determine if John’s business is currently profitable and identify trends in profitability over time.
- Such information will ultimately affect the purchase price to be paid for their share of the business, since a profitable business will command a premium purchase price;
- Information dates quickly (historical);
- Some data is an estimate, thus not completely accurate, e.g. depreciation.

[8]

	<b>AO1 Knowledge and understanding</b>	<b>AO2 Application</b>	<b>AO3 Analysis</b>	<b>AO4 Evaluation</b>
Level 2	<b>2 marks</b> Candidate demonstrates a good understanding of income statements and their uses. Candidate makes good use of specialist vocabulary when it is appropriate.	<b>2 marks</b> Candidate applies knowledge effectively.	<b>2 marks</b> Candidate thoroughly analyses income statements and their uses.	<b>2 marks</b> Candidate gives a full evaluation of income statements and their uses in context of case study, and comes to a final judgement. Candidate demonstrates good spelling, punctuation and grammar. The meaning of the text is clear. The candidate has consistently used a form and style of writing appropriate to the purpose of the question. Answer is organised in a clear and coherent manner.
Level 1	<b>1 mark</b> Candidate demonstrates some understanding of income statements and their uses. Candidate makes some use of specialist vocabulary when it is appropriate.	<b>1 mark</b> Candidate attempts to apply some knowledge.	<b>1 mark</b> Candidate shows little attempt to analyse income statements and their uses.	<b>1 mark</b> Candidate attempts some evaluation of income statements and their uses in the context of the case study. Candidate makes limited use of spelling, punctuation and grammar. The meaning of the text is not always clear. The candidate demonstrates a limited form and style appropriate to the purpose of the question. The organisation of the answer is limited.
Level 0	<b>0 marks</b> Candidate demonstrates no understanding of income statements and their uses. Candidate makes no use of specialist vocabulary when it is appropriate.	<b>0 marks</b> Candidate does not attempt to apply knowledge.	<b>0 marks</b> Candidate shows no attempt to analyse income statements and their uses.	<b>0 marks</b> Candidate makes no attempt to evaluate income statements and their uses in the context of the case study.

**(ii) Statement of Financial Position:**

- Solvency: the new owner would want to determine if John’s business is currently solvent, i.e. pay its debts. The amount of working capital within the business is important since the new business owner will have to decide how much cash resources to commit to the business in order to continue business operations and finance possible expansion;
- This document can be used as part of a business plan;
- Asset Values (Written Down Values/Net Book Values per Statement of Financial Position): the new business owner would want to identify exactly what was included in the purchase price of John’s business – this might include the non-current assets and the current assets which are expressed at their net book values within the financial statements in most cases. These may be very different from current/market values, e.g. premises at cost;
- Acquisition Price (Financial Statement Data): John and the new business owner must review the information contained within the financial statements in order to determine a fair price to be paid for the acquisition of John’s business, but also to avoid any liabilities in the future.
- The statement focuses on financial data only and does not address qualitative issues of the business, e.g. customer goodwill.

[8]

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	<b>AO1 Knowledge and understanding</b>	<b>AO2 Application</b>	<b>AO3 Analysis</b>	<b>AO4 Evaluation</b>
Level 2	<b>2 marks</b> Candidate demonstrates a good understanding of statement of financial position and its uses. Candidate makes good use of specialist vocabulary when it is appropriate	<b>2 marks</b> Candidate applies knowledge effectively.	<b>2 marks</b> Candidate thoroughly analyses statement of financial position and its uses.	<b>2 marks</b> Candidate gives a full evaluation of statement of financial position and its uses in context of case study, and comes to a final judgement. Candidate demonstrates good spelling, punctuation and grammar. The meaning of the text is clear. The candidate has consistently used a form and style of writing appropriate to the purpose of the question. Answer is organised in a clear and coherent manner.
Level 1	<b>1 mark</b> Candidate demonstrates some understanding of statement of financial position and its uses. Candidate makes some use of specialist vocabulary when it is appropriate.	<b>1 mark</b> Candidate attempts to apply some knowledge.	<b>1 mark</b> Candidate shows little attempt to analyse statement of financial position and its uses.	<b>1 mark</b> Candidate attempts some evaluation of statement of financial position and its uses in the context of the case study. Candidate makes limited use of spelling, punctuation and grammar. The meaning of the text is not always clear. The candidate demonstrates a limited form and style appropriate to the purpose of the question. The organisation of the answer is limited.
Level 0	<b>0 marks</b> Candidate demonstrates no understanding of statement of financial position and its uses. Candidate makes no use of specialist vocabulary when it is appropriate.	<b>0 marks</b> Candidate does not attempt to apply knowledge.	<b>0 marks</b> Candidate shows no attempt to analyse statement of financial position and its uses.	<b>0 marks</b> Candidate makes no attempt to evaluate statement of financial position and its uses in the context of the case study.

AVAILABLE MARKS

Total

80