

Version 1.0



**General Certificate of Education
June 2010**

GCE Applied Business

BS15

Mark Scheme

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	Assessment Objectives
	The Assessment Objectives represent those qualities which can be demonstrated in candidates' work and which can be measured for the purposes of assessment.
AO1 Knowledge, skills and understanding	Candidates demonstrate knowledge and understanding of the specified content and relevant business skills.
AO2 Application of knowledge, skills and understanding	Candidates apply knowledge and understanding of the specified content and relevant business skills.
AO3 Research and analysis	Candidates use appropriate methods in order to obtain and select information from a range of sources to analyse business problems.
AO4 Evaluation	Candidates evaluate evidence to reach reasoned judgements.
Quality of Written Communication	<p>The quality of written communication is assessed in all assessment units where candidates are required to produce extended written material. Candidates will be assessed according to their ability to:</p> <ul style="list-style-type: none"> • select and use a form and style of writing appropriate to purpose and complex subject matter • organise relevant information clearly and coherently, using specialist vocabulary when appropriate • ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear. <p>The assessment of the quality of written communication is included in Assessment Objective 4.</p>

1**Total for this question: 23 marks**

1(a) *Using examples, explain why John would use different business documents when selling toys to the local toy shop rather than selling at a craft fair.* (5 marks)

Level	Descriptor	Marks	Assessment Objective
3	Demonstrates understanding of why different business documents are used in different circumstances.	4–5	AO1
2	Demonstrates understanding of business document(s).	2–3	
1	Identifies an appropriate business document.	1	

Relevant answers might include the following:

- when selling at a craft fair, transactions will be for cash or cheque, however, when selling to the local toy shop trade credit will be involved. Therefore, the documents at a craft fair will be basic, such as a receipt, whereas for the toy shop a suite of business documents will be used
- using business documents will help to:
 - keep track of business transactions for example sales, returns, debtors
 - avoid disputes with customers
 - maintain a professional image if John sells to the large retail chain.

1(b) Using **Item A**, explain the cash flow problems John might face if he adopts:

- Option 2
- Option 3.

(6 marks)

Apply the marking grid below for each Option.

Level	Descriptor	Marks	Assessment Objective
2	Explains the cash flow problems John might face if he adopts the option.	2–3	AO2
1	Demonstrates understanding of cash flow problems in general.	1	AO1

Relevant answers might include the following:

Option 2

- there will be a one-off £1500 negative cash flow due to the set-up fee for the website
- in addition, John will have to buy materials and make the toys so that he has sufficient in stock to sell. This will have a negative effect on cash flow
- sales will probably be by credit card so, whilst John will need to pay up front for materials, he will not need to wait for payment for his sales
- the toys that John produces are likely to be expensive to make so he could have a lot of cash tied up in stock
- John has no other income as he will be working full time in the business.

Option 3

- there is a gap in time between paying for goods, and receiving money. John may not be able to obtain credit for his purchases but *Toy Place Ltd* will expect 60 days trade credit. This, along with the size of the order, could make a cash flow problem more acute
- John will be in danger of over trading. Profitable but not able to pay his bills. This option does mean a big increase in activity which could make the problem worse
- the toys that John produces are likely to be expensive to make so he could have a lot of cash tied up in stock and debtors
- it is risky as there is only one customer who may cancel the order or default in payment
- John has no other income as he will be working full time in the business.

1(c) Which of the three options available to John do you think that he should take? Use **Item A** to justify your decision. (12 marks)

Level	Descriptor	Marks	Assessment Objective
3	Analyses the financial impact of option(s).	4–5	AO3
2	Describes the financial impact of option(s).	2–3	AO2
1	Demonstrates understanding of financial criteria used for decision making.	1	AO1

Relevant answers might include the following:

Option 1

- this is the safest option as he is still able to work part time
- few problems with cash flow
- there is a good gross profit margin of 50%
- although high gross profit margin, overall sales are not high
- will not need to rent bigger premises or employ an assistant.

Option 2

- he should be able to recoup the website start-up costs quickly
- sales will triple and, although the gross profit margin is reduced, overall profits will be much higher
- there are potential cash flow problems
- will need to rent bigger premises and employ an assistant
- if the business expands it might benefit from economies of scale.

Option 3

- this option will only double sales and is only for six months. Gross profit margin is less than Options 1 or 2
- could lead to more than tripling of sales but gross profit margin still less than Options 1 or 2
- there is potential for major cash flow problems
- could help the business become better known and this might help with future profits
- will need to rent bigger premises and employ an assistant
- if the business expands it might benefit from economies of scale.

See next page for Evaluation.

For AO4, you should award marks using the scheme below.

Note that AO4 also assesses candidates' quality of written communication. When deciding on the AO4 level to be awarded, consider the degree to which the candidate orders and communicates his/her ideas.

Level	Descriptor	Marks	Assessment Objective
3	Makes a reasoned judgement supporting one option in comparison with others using evidence from Item A . Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in accepted conventions of written communication.	6–7	AO4 and Quality of written Communication
2	Judges the suitability of option(s) using evidence from Item A . Ideas are communicated in a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	3–5	
1	Judges with limited evidence the suitability of the option(s). Ideas are communicated with some structure evident with occasional use of appropriate technical terms. There are some errors in accepted conventions of written communication.	1–2	

2

Total for this question: 26 marks

2(a) Using **Figure 2**, calculate the amount for fixed assets to be shown in the forecast balance sheet for *Playtime Ltd* as at 31/03/2011 with the central warehouse. (4 marks)

Identify asset to be depreciated - £400 000 (1)

Demonstrates understanding of straight line depreciation (1)

Recognises the need to add the original fixed asset value - £2 250 000 (1)

Recognises the need to add the value of the new central warehouse £600 000 (1)

Award 4 marks for £3 150 000

2(b) Using **Item B**, analyse the effect of implementing each of the options on *Playtime Ltd*'s liquidity. (10 marks)

Level	Descriptor	Marks	Assessment Objective
4	Explains the effect of the option(s) on the liquidity of <i>Playtime Ltd</i> .	8–10	AO3
3	Explains the effect of the option(s) on the assets or liabilities of <i>Playtime Ltd</i> .	6–7	AO2
2	Describes the effect of the option(s) on the assets or liabilities of <i>Playtime Ltd</i> .	4–5	
1	Demonstrates understanding of liquidity.	1–3	AO1

Relevant answers might include the following:

Option 1

- there will be an initial negative effect on the liquidity of *Playtime Ltd*. There will be cash outflows of £500 000 and £1 000 000 while the savings of £700 000 will mean a net decrease in liquidity of £800 000 in the first year
- in the second and subsequent years, the savings of £700 000 will improve liquidity.

Option 2

- there will be an initial negative effect on liquidity of £1 000 000 and the 30% reduction in stock benefit to cash flow is unlikely to be immediate. Therefore, this option is initially worse for liquidity
- in subsequent years, the 30% decrease in stock holding is likely to be significant given that cost of sales is projected to be £8 900 000
- it is possible that this option will be more beneficial in the longer run.

2(c) *The Directors have decided to implement Option 2.*

*To what extent do you agree with their decision? Use **Item B** and your answer to 2(b) to justify your answer. (12 marks)*

Level	Descriptor	Marks	Assessment Objective
3	Analyses the financial performance of <i>Playtime Ltd.</i>	4–5	AO3
2	Describes the financial performance of <i>Playtime Ltd.</i>	2–3	AO2
1	Demonstrates understanding of how financial performance is measured.	1	AO1

Relevant answers might include the following:

What is the problem?

- losses are growing
- liquidity is poor
- sales are static / falling
- costs need to be cut.

How to deal with it:

Option 1

- costs £1 500 000 to implement but would create £700 000 worth of savings and would therefore take over two years to pay back the initial investment
- it would reduce the size of the business and this may affect the prices the business pays for purchases and thus reduce margins. It would also remove some profitable stores
- in the very short term this is the cheaper option but does not help liquidity as much in the long term.

Option 2

- costs £1 000 000 to introduce but reduces the stock held by over £1 000 000 when fully operational thus improving liquidity once the warehouse is running
- allows business to retain its scale by keeping all the stores open which should help to create economies of scale and help margins and overall profitability.

See next page for Evaluation.

For AO4, you should award marks using the scheme below.

Note that AO4 also assesses candidates' quality of written communication. When deciding on the AO4 level to be awarded, consider the degree to which the candidate orders and communicates his/her ideas.

Level	Descriptor	Marks	Assessment Objective
3	Makes a reasoned judgement supporting one option in comparison with others using evidence from Item B . Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in accepted conventions of written communication.	6–7	AO4 and Quality of written Communication
2	Judges the suitability of option(s) using evidence from Item B . Ideas are communicated in a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	3–5	
1	Judges with limited evidence the suitability of the option(s). Ideas are communicated with some structure evident with occasional use of appropriate technical terms. There are some errors in accepted conventions of written communication.	1–2	

3**Total for this question: 31 marks**

3(a) Using **Figure 3**, analyse the changes that took place in the financial position of *Mothercare plc* between 2007 and 2008. (8 marks)

Level	Descriptor	Marks	Assessment Objectives
3	Analyses the data in Figure 3 to identify the significance of the changes in the financial position of <i>Mothercare plc</i> between 2007 and 2008.	6–8	AO3
2	Uses the data in Figure 3 to describe the changes in the financial position of <i>Mothercare plc</i> between 2007 and 2008.	3–5	AO2
1	Demonstrates understanding of financial terms.	1–2	AO1

Relevant answers might include the following:

- all the solvency ratios have deteriorated
 - the current and the acid-test ratios are now below the recommended levels. How does this compare to other high street retailers? Is this temporary as a result of integration?
 - gearing has increased but the business is still quite low geared, so possibly compares well with competitors
 - domestic customers will be paying in cash which will help cash-flow.
- profitability
 - gross profit margin has stayed roughly the same
 - net profit margin has dropped dramatically, has *ELC* added to costs? The number of staff has increased. Has this been addressed?
 - return on capital employed is also well down
 - how do these figures compare with competitors and the high street in general?
- net assets of the business have increased so the business is likely to be worth more
- turnover has increased.

3(b) Using **Item C**, analyse the possible effect that the purchase of *ELC* could have had on the financial position of *Mothercare plc* in 2008. (9 marks)

Level	Descriptor	Marks	Assessment Objective
3	Analyses Item C to identify the effect(s) that the purchase of <i>ELC</i> could have had on the financial position of <i>Mothercare plc</i> .	7–9	AO3
2	Uses Item C to describe the effect(s) that the purchase of <i>ELC</i> could have had on the financial position of <i>Mothercare plc</i> .	4–6	AO2
1	Demonstrates understanding of the effect(s) of a takeover on any business.	1–3	AO1

Relevant answers might include the following:

Benefits

- increased buying power meaning that *Mothercare plc* may have been able to negotiate quantity discounts which could improve profitability
- *ELC* was a competitor of *Mothercare plc* so competition has been reduced
- able to close some *ELC* shops saving rent etc and incorporate into *Mothercare plc* shops making *Mothercare plc* more efficient and profitable
- *Mothercare plc* is still low geared post purchase of *ELC* so interest payments will not have increased drastically.

Drawbacks

- solvency and profitability position have worsened which may be due to the cost of integration of *ELC* into *Mothercare plc*
- would profits have been better if *ELC* had not been bought? For example, could the £85 million have been better spent on internet or international markets?

3(c) To what extent do you agree with the Chief Executive's optimism for the future of Mothercare plc? Use **Item C** to justify your answer. (14 marks)

Level	Descriptor	Marks	Assessment Objectives
3	Uses Item C to analyse the significance of the opportunities and problems facing <i>Mothercare plc</i> .	5–7	AO3
2	Uses Item C to describe how the opportunities and problems affect <i>Mothercare plc</i> .	2–4	AO2
1	Demonstrates understanding of factors affecting business success.	1	AO1

Relevant answers might include the following:

Reasons for optimism:

- recession proof product
- benefits of economies of scale
- development of overseas business
- reduced competition
- increased turnover.

Reasons against optimism:

- closure of competitors points to difficulties within the market
- solvency, whilst slightly improved, is still low
- reduced profit margins including ROCE
- possible over reliance on foreign market in a recession.

See next page for Evaluation.

For AO4, you should award marks using the scheme below.

Note that AO4 also assesses candidates' quality of written communication. When deciding on the AO4 level to be awarded, consider the degree to which the candidate orders and communicates his/her ideas.

Level	Descriptor	Marks	Assessment Objective
3	Makes a reasoned judgement about the optimism of the Chief Executive using evidence from Item C . Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in accepted conventions of written communication.	6–7	AO4 and Quality of written Communication
2	Judges the optimism of the Chief Executive using evidence from Item C . Ideas are communicated in a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	3–5	
1	Judges with limited evidence the optimism of the Chief Executive. Ideas are communicated with some structure evident with occasional use of appropriate technical terms. There are some errors in accepted conventions of written communication.	1–2	