

GCSE 2004

June Series



Mark Scheme

Applied Business (3830/3)

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

(a) Using the information in **Item A**, identify which document would be used in the following situations. Tick **one** box only for each answer.

(i) *Robbie's Rolls* will send this document to *Betterbuy Bakers* when it wants to buy some bread. (1 mark)

- Purchase order (1)

(ii) *Betterbuy Bakers* will send this document to *Robbie's Roll's* with the bread. (1 mark)

- Delivery note (1)

(iii) *Betterbuy Bakers* will send this document to *Robbie's Rolls* to request payment for the bread. (1 mark)

- Invoice (1)

(iv) *Betterbuy Bakers* will send this document to *Robbie's Rolls* at the end of the month to inform *Robbie's Rolls* of how much is owed. (1 mark)

- Statement of account (1)

- (b) Robbie and Katie have started the business and need to pay for the bread that *Robbie's Rolls* has bought from *Betterbuy Bakers*.

State a suitable method of payment that could be used. Give a reason for your answer.
(3 marks)

Suitable methods of payment:

- cheque;
- direct debit;
- standing order;
- cash;
- debit card;
- credit card.

Not allowed eg:

- mortgages;
- HP;
- any sources of finance eg trade credit.

Reasons for use of above could be developed around:

- more secure than cash;
- helps with record keeping/can check against bank statement.

Level	Descriptor	Mark
3	Candidate explains reason in context	3
2	Candidate provides reason for stated method	2
1	Candidate states suitable method of payment	1

- (c) (i) Robbie needs to complete the purchase order below. Fill in the missing figures in the shaded boxes. (4 marks)

Purchase Order					
			<i>Robbie's Rolls</i> 16 Victoria Street Weatherfield WF13 4NX		
Purchase Order Number: 000001			Date: 14 May 2004		
To: Betterbuy Bakers 80 Watford Road Weatherfield WF21 6YX					
Quantity	Description	Unit price		Total amount	
		£	p	£	p
120	Packs of white rolls	2	00	240	00 (1)
300	Packs of brown rolls	2	00	600	00 (1)
50	Vanilla slices	0	50	25	00 (1)
Total				865	00 (1)

NB OFR applies to 'total'

- (i) After completing and posting the purchase order, Robbie realised that he should have ordered 210 packs of white rolls and not 120 packs.

Explain **two** possible problems for *Robbie's Rolls* that may result from this mistake.

(6 marks)

Problems could include:

- left with too little stock;
- reduced/less profit;
- other financial records might be inaccurate as a consequence and may take time to rectify;
- lost sales;
- dissatisfied customers.

Apply twice

Level	Descriptor	Mark
3	Candidate explains problem in context	3
2	Candidate describes problem	2
1	Candidate states problem	1

- (d) Robbie and Katie have little business experience and decide to buy a computer and software package for £2000 to help them with the financial record keeping of the business.

State and explain **one** advantage and **one** disadvantage that might result from buying a computer and software package. (6 marks)

Advantages include:

- speed;
- accuracy;
- integration;
- presentation;
- security – passwords, limited access, back-ups.

Disadvantages include:

- security – hackers;
- cost of computer and software;
- training;
- virus;
- computer failure.

Level 3 response could include:

- references to training required;
- £2000 is a large sum for this business;
- it is a new business;
- they have little management experience.

Apply twice

Level	Descriptor	Mark
3	Candidate explains advantages/disadvantages	3
2	Candidate describes advantages/disadvantages	2
1	Candidate states advantages/disadvantages	1

2

Total for this question: 31 marks

- (a) Complete the table below for *Robbie's Rolls* to identify whether the costs listed are start-up costs or running costs. Place **one** tick in the appropriate column for each cost. (6 marks)

Costs	Start-up costs	Running costs
Buying a fridge to store sandwich fillings	✓	
Fillings for sandwiches		✓
Electricity for the business		✓
Wages of the shop assistant		✓
Advertising the opening of the shop	✓	
Shop front sign	✓	

- (b) To work out if *Robbie's Rolls* will break even, Robbie knows he will need to identify which costs are fixed and which are variable.

- (i) Complete the table below to identify for Robbie whether the costs are fixed or variable. Place **one** tick in the appropriate column for each cost. (4 marks)

Costs	Fixed costs	Variable costs
Buying a fridge to store sandwich fillings	✓	
Fillings for sandwiches		✓
Advertising the opening of the shop	✓	
Shop front sign	✓	

- (ii) Robbie thinks that the electricity used to run the business is a variable cost but Katie disagrees.

Decide whether the cost of electricity used in the shop is fixed or variable. Explain your decision. (4 marks)

Reason – likely to be a definition of fixed/variable.

Explanation will depend on how much the candidate gets into the example. A Level 3 response might hint at semi-variable costs.

Level	Descriptor	Mark
3	Candidate explains choice in context	3-4
2	Candidate explains choice	2
1	Statement supporting choice/basic definition	1

- (c) Robbie and Katie have decided that *Robbie's Rolls* will introduce a sandwich delivery service.

The sandwich delivery service will have:

- fixed costs of £200 per week;
- variable costs of £1.50 per sandwich;
- average selling price of £2.50 per sandwich.

Using the formula below, calculate how many sandwiches *Robbie's Rolls* will need to sell each week to break even.

$$\text{Break-even point (1)} = \frac{\text{fixed costs (1)}}{\text{(average selling price per unit less variable cost per unit) (1)}}$$

(3 marks)

Break-even point = 200 sandwiches

- (d) (i) Explain the possible effects on the break-even point for *Robbie's Rolls* if the fixed costs for its sandwich delivery service were to rise to £250 per week. (3 marks)

Possible answers include:

- the break-even point would rise to 250 (or increase by £50);
- they would make less profit;
- they would need more customers/sandwiches sold;
- might have to increase sales price;
- might have to reduce variable cost.

Level	Descriptor	Mark
3	Candidate explains in context what might happen to break even point	3
2	Candidate explains what might happen to break even point	2
1	Candidate states what might happen to break even point	1

- (ii) Identify **two** possible actions that Robbie and Katie could take if the fixed costs for the sandwich delivery service were to rise to £250. Explain the possible effects of each action. *(8 marks)*

Possible actions include:

- raise prices;
- reduce variable costs;
- not starting the service;
- try to win more customers.

‘In context’ could include references to:

- they may need to win customers through low prices;
- as they are new there may be little customer loyalty.

Explanation (apply twice)

Level	Descriptor	Mark
3	Candidate explains the effect of the action in context	3-4
2	Candidate explains effect of the action	2
1	Candidate states the action	1

- (iii) Which one of the actions that you identified in (d)(ii) would you recommend? Justify your answer. *(3 marks)*

Recommendation

Level	Descriptor	Mark
3	Candidate offers judgement justified in context	3
2	Candidate offers judgement plus justification	2
1	Candidate offers undeveloped judgement based on evidence	1

3

Total for this question: 16 marks

- (a) Complete the cash-flow forecast for *MVB Designs Ltd* by inserting your answers in the shaded boxes below. (4 marks)

<i>MVB Designs Ltd</i>				
Cash-flow forecast for the four months ended 31 October 2004				
	July	August	September	October
CASH IN				
Credit sales	21000	21000	26000	30000
Total inflow	21000	21000	26000	30000
CASH OUT				
Payments for stock	13000	15000	15000	15000
Wages	8000	8000	9600	9600
Purchase of new equipment		11000		
Other costs	1800	1800	1800	2000
Total outflow	22800	35800	26400	26600
Net monthly cash flow	(1800)	(14800)	(400)	3400
Opening balance	16000	14200	(600)	(1000)
Closing balance	14200	(600)	(1000)	2400

- (b) Using **Item C** and your completed cash-flow forecast in (a), explain why it was important for *MVB Designs Ltd* to draw up a cash-flow forecast for the four months ended 31 October 2004. (4 marks)

Importance includes:

- allows MVB to plan expenditure, eg when should new machine be bought etc;
- allows MVB to check/monitor cash flow, can prompt action;
- could be used to aid decision making – should they expand?
- could allow “what if” scenarios.

Level	Descriptor	Mark
3	Candidate explains importance in context	3-4
2	Candidate explains importance	2
1	Candidate states importance	1

(c) (i) Identify and explain **two** actions that could be taken by *MVB Designs Ltd* to improve its cash-flow position. (6 marks)

Actions include:

- delay in purchase of new equipment;
- delay in employing new staff;
- leasing equipment;
- overdraft;
- bank loan;
- offering less credit.

Apply twice

Level	Descriptor	Mark
2	Candidate explains action in context	2-3
1	Candidate states suitable action	1

(ii) Which one of the actions that you identified in (c)(i) would you recommend *MVB Designs Ltd* to take? Justify your answer. (2 marks)

Recommendation

Level	Descriptor	Mark
2	Fully supported recommendation	2
1	Partially supported recommendation	1

4

Total for this question: 30 marks

- (a) Using the information in **Item D**, complete the Profit and Loss Statement for the year ended 31 May 2004 for *MVB Designs Ltd* by filling in the **shaded** boxes in the table below. (7 marks)

<i>MVB Designs Ltd</i>			
Profit and Loss Statement for the year ended 31 May 2004			
Sales revenue		£360000	
Less: cost of sales		£150000	
Gross profit		£210000	OFR
Less: expenses			
Wages	£90000		
Insurance	£ 3000		
Electricity	£20000		
Delivery to customers	£ 1000		
Office expenses	£ 2000		
Total expenses		£116000	OFR
NET PROFIT		£ 94000	OFR

- (b) *MVB Designs Ltd* prepares an annual Balance Sheet, showing the fixed assets, current assets and liabilities of the business.

Identify the section of the Balance Sheet where the following items appear by placing **one** tick in the appropriate column for each item listed below. (7 marks)

Items	Fixed Assets	Current Assets	Liabilities
Creditors			✓
Stock of materials		✓	
Premises	✓		
Shareholders' funds			✓
Debtors		✓	
Machinery	✓		
Bank overdraft			✓

- (c) (i) *MVB Designs Ltd* is planning to take out a bank loan to finance its expansion. Explain **one** advantage and **one** disadvantage of using this source of finance. (6 marks)

Advantages include;

- allows the cost to be spread over a period of time, aids cash flow;
- owners do not lose control of the business as loan can be paid back unlike venture capital or share issue;
- will own whatever has been bought unlike lease.

Disadvantages include:

- will need to pay interest, profits going to the bank rather than owners;
- may need to give security.

Context issues:

- current cash flow position – size of the bank loan.

Apply twice

Level	Descriptor	Mark
3	Candidate explains advantages/disadvantages in context	3
2	Candidate explains/describes advantages/disadvantages	2
1	Candidate states advantages/disadvantages	1

- (ii) What information from the Profit and Loss Statement in (a) might be useful to the bank in deciding whether or not to give a loan to *MVB Designs Ltd*? Explain your answer. (4 marks)

Profit and Loss calculates the net profit of the business. The bank will want to know that the business is profitable enough to pay back the loan. Candidates can make use of the figures eg currently makes a profit of £94000

Level	Descriptor	Mark
Level 3	Candidate explains information in context	3-4
Level 2	Candidate explains/describes information	2
Level 1	Candidate states information	1

- (iii) What other information might be useful for the bank in making this decision? Explain and justify your choice. (6 marks)

Answers could include references to:

- the balance sheet will show the assets and liabilities of the business. It can show if the loan is secured;
- the cash-flow statement shows if the business has the money to pay back the loan, an indication of solvency.

Level	Descriptor	Mark
3	Candidate justifies information in context	5-6
2	Candidate explains/describes information	3-4
1	Candidate states information	1-2