

# GCSE 2005

## *January Series*



# Mark Scheme

## Applied Business

3830/3 Business Finance

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*Dr. Michael Cresswell Director General*

1

**Total for this question is: 26 marks**

- (a) Using **Item A**, complete the **shaded** areas below by identifying which document would be used in each of the following situations. (5 marks)

*The White Hart Hotel* sends this document to *Justin's Jacuzzis* when it wants to buy some Jacuzzis.

Purchase order
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*Justin's Jacuzzis* sends this document to *The White Hart Hotel* with the Jacuzzis.

Delivery note
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*Justin's Jacuzzis* sends this document to *The White Hart Hotel* to request payment for the Jacuzzis.

Invoice
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*Justin's Jacuzzis* sends this document to *The White Hart Hotel* at the end of the month to show how much is owed.

Statement of account
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*The White Hart Hotel* sends this document with a cheque to pay for the Jacuzzis.

Remittance advice
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- (b) Jenny needs to complete an invoice for some Jacuzzis that Justin has sold to *The White Hart Hotel*. Fill in the missing figures in the **shaded** boxes. (6 marks)

<b>INVOICE</b>					
<i>Justin's Jacuzzis</i> 21 The Hill Guildfield Surrey SU10 5AN					
Invoice Number: 0001			Date: 4 January 2005		
To: The White Hart Hotel 43 The Lane London WC1 4PT					
Quantity	Description	Unit price		Total amount	
		£	p	£	p
2	Zuma Biojet Jacuzzi	800	00	1600	00
3	Aztec Super Jet Jacuzzi	1200	00	3600	00
		Total		5200	00
		Less 10% trade discount		520	00
		Sub total		4680	00
		Add VAT @17.5%		819	00
		Total due		5499	00

Own figure rule applies (OFR).

(c) As *Justin's Jacuzzi's* is a new business, Justin is worried about making mistakes when preparing invoices for customers.

Explain **two** possible problems that might result if *Justin's Jacuzzi's* send out incorrect invoices. (6 marks)

Problems include:

- send too much/too little stock;
- impact on other financial records (profit and loss);
- lost sales;
- dissatisfied customers.

Level	Descriptor	Marks
3	Candidate fully explains problem	3
2	Candidate partially explains problem	2
1	Candidate states problem	1

Apply twice.

(d)	(i)	Jenny has suggested that the customers will want to pay by cheque. Justin thinks that some customers might want to use other methods of payment.	
		Describe each of the following methods of payment.	
		Credit card	
		Direct debit	<i>(4 marks)</i>

**Credit card**

For example, a type of borrowing (L1) can pay off some or all of the debt each month (L2). If all debt is paid off each month there is no interest (L2).

**Direct debit**

For example, method of paying from bank account without using a cheque (L1). Happens automatically (L2).

Level	Descriptor	Marks
2	Candidate describes a valid feature of the method	2
1	Candidate states a valid feature of the method	1

Apply twice

(ii)	Explain why a customer might prefer to use a credit card.	<i>(2 marks)</i>
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1 mark for basic explanation, 1 mark for development

Answers can include:

- convenient, can pay over the telephone;
- allows payment to be spread over time;
- period of interest free credit.

(e) Jenny asked Justin to buy a computer to help her with the financial record-keeping of the business.

State and explain **one** advantage that might result from using a computer for the **financial record-keeping** of the business. *(3 marks)*

Advantages include:

- speed;
- accuracy;
- integrated – delivery notes – invoices – statements;
- credit control;
- presentation.

Level	Descriptor	Marks
3	Candidate fully explains advantage of financial record-keeping	3
2	Candidate partially explains advantage of financial record-keeping	2
1	Candidate states advantage	1

2

**Total for this question is: 34 marks**

- |     |   |
|-----|---|
| (a) | Using <b>Item B</b> , identify <b>two</b> start-up costs for <i>Justin's Jacuzzi's</i> . Explain why the costs you have identified are start-up costs. <span style="float: right;">(6 marks)</span> |
|-----|---|

Examples could include:

- market research to identify if there is a market for Jacuzzi's and the size of the market;
- premises (first month's deposit on rent);
- decorating the premises to make it suitable as a showroom;
- advertising the opening of the business/showroom, differentiate between on-going advertising.
- office equipment – computer for Jenny;
- fixtures and fittings;
- stock for display. *Justin's Jacuzzi's* will need to have a range of Jacuzzi's available to show potential customers.

Level	Descriptor	Marks
3	Candidate fully explains cost in context	3
2	Candidate partially explains cost	2
1	Candidate states cost	1

Apply twice.

- |     |   |
|-----|---|
| (b) | Using <b>Item B</b> , identify <b>two</b> running costs for <i>Justin's Jacuzzi's</i> . Explain why the costs you have identified are running costs. <span style="float: right;">(6 marks)</span> |
|-----|---|

Examples could include:

- rent on the premises will need to be paid each month;
- insurance - candidate might explain different types of relevant insurance eg public liability for showroom;
- salaries - Jenny will need to be paid each month;
- purchases of Jacuzzi's for resale throughout the year;
- delivery charges to customers.

Level	Descriptor	Marks
3	Candidate fully explains cost in context	3
2	Candidate partially explains cost	2
1	Candidate states cost	1

Apply twice.

(c) Some of *Justin's Jacuzzis*' costs are fixed and some are variable.

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

Costs	Fixed costs	Variable costs
Paying rent for the premises	✓	
Buying Jacuzzis to sell		✓
Insurance of the premises	✓	
Cost of telephone calls made		✓

(d) Justin has calculated that *Justin's Jacuzzis* will have:

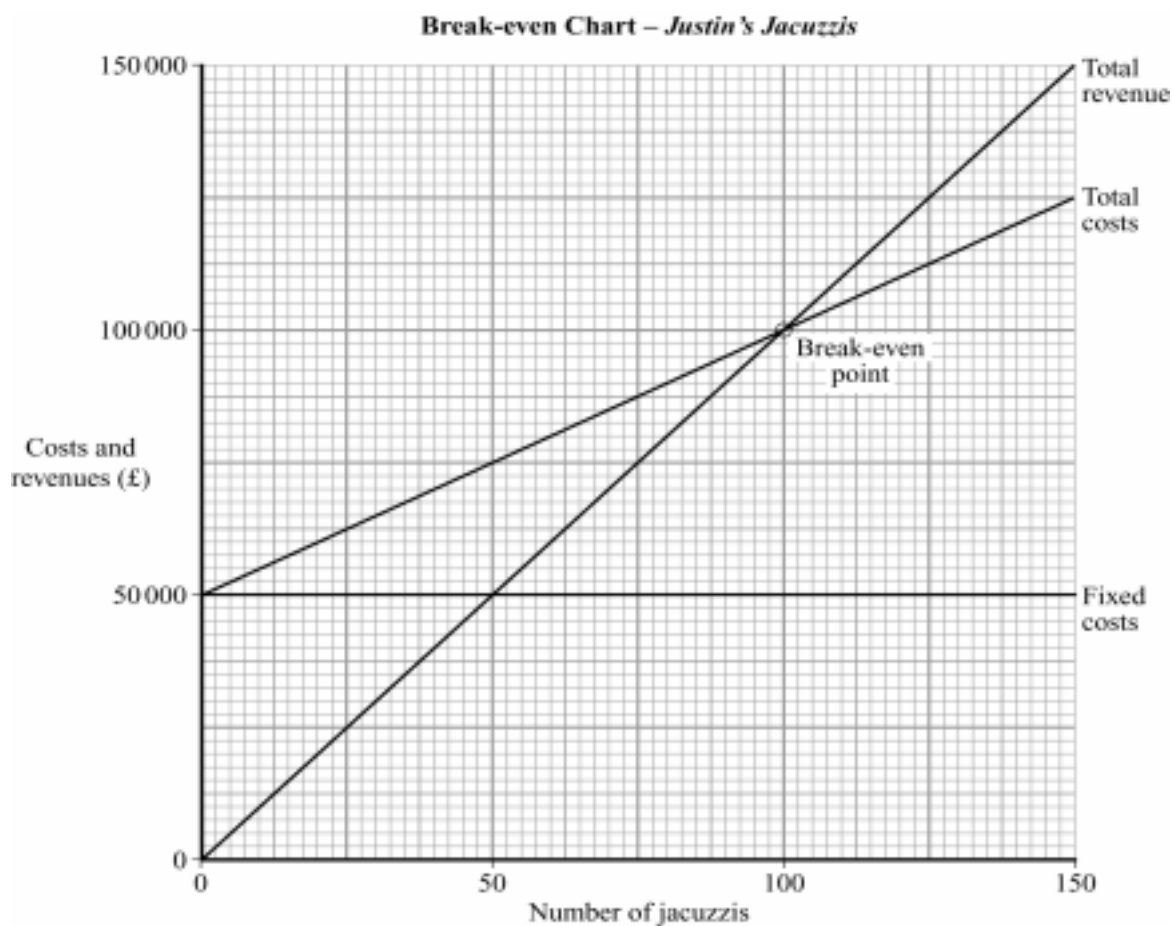
- fixed costs of £50 000 per year;
- variable costs of £500 per Jacuzzi;
- a selling price of £1 000 per Jacuzzi.

Using the information above, complete the **shaded** boxes in the table below. (5 marks)

Number of Jacuzzis sold	0	50	100	150
Fixed costs (£)	50 000	50 000	50 000	50 000
Total variable costs (£)	0	25 000	50 000	75 000
Total costs (£)	50 000	75 000	100 000	125 000
Total sales revenue (£)	0	50 000	100 000	150 000

(e) Using your completed table in question 2 (d) above, complete the break-even chart below by:

- (i) drawing the line for total sales revenue; (OFR) (1 mark)
- (ii) labelling the break-even point. (OFR) (1 mark)





(f) Using the formula below, calculate how many Jacuzzis the business would need to sell each year to break even if the selling price rose to £1 500. (3 marks)

$$50 (1) = \frac{\text{£}50000 (1)}{\text{£}1000 (1)}$$

50 on its own (3).

(g) (i) Using the information in question 2(d) opposite, explain the possible effects on *Justin's Jacuzzis* if fixed costs were to rise to £60 000, but variable costs and selling price remained the same. (3 marks)

Examples:

- break-even point will rise (L1);
- Justin will need to sell more Jacuzzis to break-even (L2);
- break-even will rise to 120 Jacuzzis (L3).

Level	Descriptor	Marks
3	Candidate explains effect in context	3
2	Candidate explains effect	2
1	Candidate states effect	1

(ii) Identify **one** possible action that Justin could take if the fixed costs for *Justin's Jacuzzis* were to rise to £60 000. Explain the possible effects of the action. (5 marks)

Actions include:

- raise prices;
- reduce variable costs;
- try to win more customers.

Level	Descriptor	Marks
3	Candidate fully explains action or effect in context	4-5
2	Candidate partially explains action or effect	2-3
1	Candidate states action or effect	1

3

Total for this question is: 19 marks

- (a) (i) Complete *Justin's Jacuzzi's* cash-flow forecast by inserting your answers in the shaded boxes below. (4 marks)

<i>Justin's Jacuzzi's</i>				
Cash-flow forecast for the four months ended 30 April 2005				
	January	February	March	April
	£	£	£	£
<b>CASH IN</b>				
Cash sales	8 000	9 000	10 000	11 000
Credit sales		16 000	18 000	20 000
Total inflow	8 000	25 000	28 000	31 000
<b>CASH OUT</b>				
Purchases of Jacuzzi's	14 400	16 200	18 000	18 600
Wages	1 500	1 500	1 500	1 500
Drawings	3 000	3 000	3 000	3 000
Start-up costs	5 000			
Rent	750	750	750	750
Other costs	1 225	300	500	475
Total outflow	25 875	21 750	23 750	24 325
Net monthly cash-flow	(17 875)	3 250	4 250	6 675
Opening balance	10 000	(7 875)	(4 625)	(375)
Closing balance	(7875)	(4 625)	(375)	6300

- (ii) *Justin's Jacuzzi's* is forecast to have a cash-flow problem in the first four months.

Use the cash-flow forecast to identify and explain **two** appropriate actions that could be taken to solve the problem. (10 marks)

Actions include:

- reduce drawings – if Justin did not take money out of the business in the early months the net monthly cash flow would be (14 875), 6250 and 7250;
- arrange trade credit for purchases, if one month's credit arranged he would only have a negative cash flow in first month;
- short term financing such as an overdraft or a loan for the early months, the candidate could include some sums (incorporating interest) here.

Level	Descriptor	Marks
3	Candidate fully explains action in context	4-5
2	Candidate partially explains action	2-3
1	Candidate identifies action	1

Apply twice.

- (b) Identify a computer software application that could be used to produce a cash-flow forecast.
- Explain how this computer software application could benefit *Justin's Jacuzzis'* cash-flow forecasting. (5 marks)

For example, a spreadsheet (accept excel). Once the spreadsheet has been set up, calculations are completed automatically. Justin would be able to easily see the effects of changes, for example delay paying suppliers.

Level	Descriptor	Marks
3	Candidate explains benefit of application in context	4-5
2	Candidate explains benefit of application	2-3
1	Candidate states application	1

4

Total for this question is: 21 marks

- (a) Use the information in **Item D** to complete the Profit and Loss Statement for the year ended 31 December 2004 by filling in the **shaded** boxes in the table below. (6 marks)

<i>Justin's Jacuzzis</i> Profit and Loss Statement for the year ended 31 December 2004		
Sales revenue		£400 000
Cost of sales		£308 200
Gross profit		£ 91 800 (OFR)
Expenses		
Wages	£18 000	
Delivery to customers	£ 3 000	
Rent	£ 9 000	
Other expenses	£ 1 800	
Total expenses	£	£ 31 800 (OFR)
NET PROFIT	£	£ 60 000 (OFR)

- (b) *Justin's Jacuzzis* needs to prepare 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. (5 marks)

Item	Fixed Assets	Current Assets	Liabilities
Creditors			✓
Stock of Jacuzzis		✓	
Debtors		✓	
Office equipment	✓		
Cash		✓	

(c) Explain the difference between assets and liabilities. (2 marks)

Assets are owned by the business (1).  
Liabilities are owed by the business (1).

(d) What information from the financial statements below might be useful to a bank in helping it to decide whether or not to give a loan to *Justin's Jacuzzis*? Explain your answers.

(i) Profit and Loss Statement (4 marks)

For example, a profit and loss statement will show the profit that a business is making and shows the overheads of the business. The statement will tell the bank if Justin can repay a loan. Justin is making a profit of £60 000, so it would seem that he would be able to pay the loan of £100 000 fairly easily.

Knowledge		Mark
Level 3	Candidate fully explains value of information to the bank	3-4
Level 2	Candidate partially explains information	2
Level 1	Candidate states information	1

(ii) Balance Sheet (4 marks)

For example, a balance sheet will show the value of a business or how solvent it is. It lists what the business owes and owns. A bank would be able to see if there are any assets to secure their loan against. There is no indication that Justin has any significant assets from the scenario (apart from stock).

Knowledge		Mark
Level 3	Candidate fully explains value of information to the bank	3-4
Level 2	Candidate partially explains information	2
Level 1	Candidate states information	1