



General Certificate of Secondary Education

Applied Business 3831

3830/3 Unit 3

Mark Scheme

2005 examination – June series

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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)

Benny sends this document when he wants to buy some supplies.

Purchase Order



The Crossroads Catering Company sends this document with the supplies.

Delivery note



Benny will complete this document when the supplies are delivered.

Goods received note



The Crossroads Catering Company sends this document to request payment for the supplies.

Invoice



The Crossroads Catering Company sends this document at the end of the month to inform Benny of how much he owes.

Statement of account



Benny sends this document with a cheque to pay for the supplies.

Remittance advice

- (b) Benny has bought some burgers costing £120 and he needs to write a cheque to pay for them. Complete the cheque below to *The Crossroads Catering Company* by filling in the **shaded** areas. (3 marks)

EASTERN BANK PLC		16-62-71
Westgate Branch 1 High Street Westgate WG2 7HR		
		Date <u>17 June 2005</u>
Pay	The Crossroads Catering Company (1)	
The sum of	One hundred and twenty pounds only (1)	£120.00 (1)
		Benny Harris
		Benny's Burger Bar
649327	866322	34342515

- (c) Explain **two** reasons why it is important for Benny to keep accurate business documents. (6 marks)

Reasons can include:

- legal – businesses need to keep financial records to pay the correct amounts of tax and VAT. Companies need to comply with Company Acts;
- avoid misunderstandings and disputes surrounding amounts ordered/supplied/paid for. Could result in suppliers being unwilling to trade with *Benny's Burger Bar* or terms of trade could be reduced;
- help to manage the business so that the correct supplies are available at the right time;
- to avoid cash problems.

Level	Descriptor	Marks
3	Candidate fully explains importance.	3
2	Candidate partially explains importance.	2
1	Candidate states importance.	1

Apply twice.

(d) (i) Benny is not sure whether to pay for supplies using cheques.

Explain **one** possible advantage and **one** possible disadvantage for Benny of using cheques to pay for supplies. (6 marks)

Advantages can include:

- more secure than cash (account payee, signatures, cheque guarantee cards, safer to post etc);
- record of payment (bank statement and counterfoil);
- short period of credit whilst cheque clears;
- convenience.

Disadvantages can include:

- comparisons with credit cards eg no interest free period;
- comparisons with direct debit eg automatic;
- bank charges;
- effects of a bounced cheque;
- mistakes time-consuming to rectify.

Level	Descriptor	Marks
3	Candidate explains advantage/disadvantage of cheques.	3
2	Candidate describes advantages/disadvantage of cheques.	2
1	Candidate states advantage/disadvantage of cheques.	1

Apply twice.

(ii) Identify and describe **two** other methods of payment which Benny could use to pay for supplies. (6 marks)

Methods can include:

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

Do not accept sources of finance or swipe cards.

Level	Descriptor	Marks
2	Candidate describes method.	2-3
1	Candidate states method.	1

Apply twice.

2

Total for this question is: 14 marks

(a) Benny wants to calculate the start-up costs and running costs of his business. He has paid for market research and has bought supplies of gas to cook the burgers that he will sell.

(i) Which of the following costs, market research or supplies of gas, is a start-up cost? Explain your answer. (3 marks)

Start-up cost - market research (1)

Explanation - market research is a cost that must be paid before a business can start operating (1); a further mark for development of start-up cost or further examples.

(ii) Which of the following costs, market research or supplies of gas, is a running cost? Explain your answer. (3 marks)

Running cost - supplies of gas (1).

Explanation - running costs are ongoing/regular expenses that have to be paid by a business (1); a further mark for development of running cost or further examples.

(b) Some of *Benny's Burger Bar's* costs are fixed and some are variable.

Complete the table below to identify for Benny 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 burgers to sell		✓
Annual licence to sell burgers	✓	
Insurance for the burger bar	✓	
Fuel used for cooking		✓

(c) Benny will pay his assistant a wage of £100 each week but is not sure whether this cost is fixed or variable. State whether the wages are a fixed cost or a variable cost and explain your decision. (4 marks)

Type of cost: **Fixed** (1)

Explanation can include:

- has to pay the cost regardless of how many burgers are sold;
- does not vary with output;
- will not change.

Level	Descriptor	Marks
3	Candidate fully explains reason.	3
2	Candidate partially explains reason.	2
1	Candidate states reason.	1

3

Total for this question is: 25 marks

(a) State two reasons why Benny has produced the break-even chart opposite. (2 marks)

Possible reasons include:

- to decide whether to start the business;
- to support a loan application;
- to see the effects of changing prices;
- to work out how many he will need to sell to make a profit;
- to identify how much profit might be made at different levels of output.

(b) Using the break-even chart opposite, state the following amounts:

(i) Break-even output (1 mark)

200 burgers.

(ii) Total revenue for 250 burgers per week (1 mark)

£500

(iii) Profit or loss at sales of 100 burgers per week (1 mark)

Loss £125

(iv) Profit or loss at sales of 300 burgers per week (1 mark)
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Profit £125

(c) Benny is currently selling 150 burgers per week. State and explain two actions that he could take to improve the break even position of his business. (6 marks)

Actions can include:

- reduce prices and try and sell more;
- increase prices and make more on each product;
- open longer hours;
- reduce costs – does he need his assistant if he is only selling 150 burgers?

Context can include:

- an attempt to quantify the action by a calculation;
- Benny as a new business eg will raising prices drive away customers?

Level	Descriptor	Marks
3	Candidate explains action in context.	3
2	Candidate explains action.	2
1	Candidate states action.	1

Apply twice.

(d) (i) Using the formula below, state how many burgers Benny will need to sell each Saturday to break even. (3 marks)

$$80 (1) = \frac{\pounds 180(1)}{\pounds 3 - \pounds 0.75 (1)}$$

(ii) Advise Benny on whether or not he should accept the offer. Explain your answer. (5 marks)

Answers can include:

- this opportunity is in addition to normal business;
- fixed costs are already covered;
- reach break- even point more quickly than normal business;
- will need to know how many potential customers will pass by, might need to do some market research.

Context can include:

- further quantification of the calculations such as contribution (in their own words) to normal activity;
- as a new business this extra work can help cash flow or buy time while normal activity gets established.

Own figure rule applies.

Level	Descriptor	Marks
3	Candidate explains advice in context.	4-5
2	Candidate explains advice.	2-3
1	Candidate states reason for advice.	1

(e) Benny is wondering whether to buy a computer for the business. State **one** benefit for Benny's business of using a computer. Explain your answer. (5 marks)

Benefits can include:

- it will be quicker to keep the business records on a computer which will mean that Benny will not need to employ a bookkeeper for many hours;
- less storage space will be needed to keep records;
- use of email for ordering supplies so goods can be delivered more quickly and therefore less money tied up in stock.

Guidance on context

- how feasible is the action for a new business in terms of costs;
- candidates attempt to quantify action, such as it will increase his fixed costs;
- will Benny need training?

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

4

Total for this question is: 35 marks

(a) (i) State **one** reason why Josh's bank has asked for the information in **Item D**. (1 mark)

Answers can include:

- to see if the business will have the cash/money to make repayments;
- to see if the business is making enough profit to pay back the loan;
- to see if the business has enough assets to secure the loan.

(ii) Complete *Get Connected Ltd's* profit and loss statement for the four months ended 30 April 2005 by filling in the **shaded** boxes below. (3 marks)

<i>Get Connected Ltd</i>		
Profit and Loss Statement for the four months ended 30 April 2005		
Sales revenue		£124 000
Cost of sales		£ 62 500
Gross profit		£ 61 500
Expenses		
Wages and salaries	£14 400	
Advertising	£ 2 200	
Other costs	£19 000	
Total expenses		£ 35 600
NET PROFIT		£ 25 900 (OFR)

(iii) Explain how Josh could use the profit and loss statement, that you have completed in question (a)(ii) opposite, to support a request for a bank loan. (5 marks)

Answers include:

- A profit and loss statement will show the profit that a business is making and shows the overheads of the business.
- Josh will be able to see if he will be able to pay back the loan and then be able to use this information as evidence to justify the loan. He is making a profit of £25 900, so it would seem that he would be able to pay the loan of £200 000 over a long period.

Level	Descriptor	Marks
3	Candidate fully explains value of information from profit and loss statement/justifies the loan.	4-5
2	Candidate partially explains information from profit and loss statement/justifies the loan	2-3
1	Candidate states the information from profit and loss statement.	1

- (b) (i) Complete the balance sheet as at 30 April 2005 for *Get Connected Ltd* by filling in the shaded boxes below. (3 marks)

<i>Get Connected Ltd</i>		
Balance Sheet as at 30 April 2005		
	£	£
Fixed assets		
Premises		180 000
Equipment		28 400
Current assets		
Stock	18 000	
Bank	5 500	
Total current assets	23 500	
Less current liabilities		
Creditors	15 000	
Net current assets		8 500
Net total assets		216 900 (OFR)

- (ii) Explain why stock is described as a current asset. (2 marks)

- 1 mark for owned or possession
1 mark for correct time reference (less than a year)

(iii) What information contained in the balance sheet in question (b)(i) opposite might be useful to the bank in deciding whether or not to give a loan to *Get Connected Ltd*? Explain your answer. (5 marks)

Answers include:

- a balance sheet will show the value of a business;
- a balance sheet will show the business's ability to make repayments;
- 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;
- net total assets are more than the amount of the loan.

Level	Descriptor	Marks
3	Candidate fully explains value of information to the bank.	4-5
2	Candidate partially explains value of information to bank.	2-3
1	Candidate states information	1

(iv) Identify and explain **one** item of information that Josh would want from the bank before he decides whether or not he should take a loan from the bank. (3 marks)

Answers can include:

- rate of interest, which will allow Josh to work out how much he will need to pay or if he can afford the loan. Might allow him to compare with other sources of finance;
- terms of the loan, what will happen if he cannot pay.

Level	Descriptor	Marks
3	Candidate fully explains information.	3
2	Candidate partially explains information.	2
1	Candidate states information.	1

- (c) (i) Complete *Get Connected Ltd's* cash-flow forecast by inserting your answers in the **shaded** boxes below. (2 marks)

<i>Get Connected Ltd</i>				
Cash-flow Forecast for the four months ended 31 August 2005				
	May	June	July	August
	£	£	£	£
CASH IN				
Sales	30 000	32 000	33 000	31 000
Total inflow	30 000	32 000	33 000	31 000
CASH OUT				
Payments for stock	15 000	16 000	16 000	15 500
Wages	3 600	3 600	3 600	3 600
Purchase of new equipment		3 000		2 500
Advertising	1 000		1 200	
Other costs	4 000	4 500	4 500	5 000
Total outflow	23 600	27 100	25 300	26 600
Net monthly cash flow	6 400	4 900	7 700	4 400
Opening balance	6 000	12 400	17 300	25 000
Closing balance	12 400	17 300	25 000	29 400

(ii) State **one** possible reason why the bank has asked for this cash-flow forecast. (1 mark)

Answers will include a reference to cash position or solvency. No mark for “profit”.

(iii) Explain how taking out a ten-year loan from the bank might affect the cash-flow position of *Get Connected Ltd.* (5 marks)

Affect will have two aspects:

- cash injection used to buy shop;
- increased out flows to pay for loan and interest.

Level	Descriptor	Marks
3	Candidate fully explains effect(s).	4-5
2	Candidate partially explains effect(s).	2-3
1	Candidate states effect(s).	1

(d) (i) Identify and describe an internal source of finance that Josh could use to finance the purchase of a new shop. (2 marks)

Sources of finance can include:

- retained profits;
- owners’ funds;
- sale of assets.

Description can include features of source of finance:

- paying interest;
- dividends to shareholders;
- assets secured against the loan;
- etc.

Level	Descriptor	Marks
2	Candidate describes internal source of funds.	2
1	Candidate states an internal source of funds.	1

(ii) Recommend whether Josh should use a bank loan or an internal source of finance. Justify your answer. (3 marks)

Level	Descriptor	Marks
3	Candidate justifies choice.	3
2	Candidate explains choice.	2
1	Candidate outlines choice.	1

Evaluation/Judgement		
Level 4	Examines the problem and draws conclusions which are supported with evidence. Judgements and recommendations have been made, using economic knowledge from the course. There is good evaluation of evidence with some reasoned judgements.	15-20 marks
Level 3	Begins to examine critically and draw conclusions supported by some evidence with judgements and recommendations based on economic knowledge from the course. There is some relevant evaluation of evidence.	9-14 marks
Level 2	A limited attempt to draw conclusions and make reasoned judgements in an elementary way. There is some attempt to evaluate the evidence.	1-8 marks
Level 1	No attempt made to draw conclusions.	0 marks

Note: Max 18 marks for evaluation and judgement unless candidates evaluate and criticise the information provided.

Quality of Written Communication		
Level 4	Information is clearly and logically presented using an appropriate form. The text is legible. Candidates spell, punctuate and use the rules of grammar accurately, enabling the meaning to be clearly understood.	4 marks
Level 3	Information is presented in an appropriate form. The text is legible. Candidates generally spell, punctuate and use the rules of grammar accurately, although there may be some errors. The meaning is clear.	2-3 marks
Level 2	Some of the information presented is in an appropriate form. Generally the text is legible. Although there are errors in spelling, punctuation and grammar, candidates' meaning can be understood.	1 mark
Level 1	Candidates have failed to reach the standard required for the award of a mark.	0 marks

Examples of expected responses

1. Outline the Government's main macroeconomic policy objectives

- achieve a high rate of economic growth;
- keep inflation below 2.5%;
- keep unemployment down;
- achieve a satisfactory balance of payments position;
- reduce budget deficit.

2. Select which policy objective you think was likely to give the Government the greatest concern in 2004-05. Explain your answer.

- Expected rise in rate of inflation and the effects of higher inflation on the economy.

Or

- Unemployment rising by 1 million and the effects of that on the economy.

Or

- Higher economic growth – good for the economy in terms of increased standard of living – but bad harmful effects in terms of the environment and maybe inflationary.

3. Describe the Government's budget position for 2003-04.

- Government income is £423 billion but it spends £460 billion leaving a deficit of £37 billion. The Government is spending more than it is receiving from taxation and therefore has to borrow to finance the deficit. This borrowing is likely to rise in the future.

4. Explain the problems the Government faces with regard to the budget.

- Government receipts lower than expected due to slow down in economic growth and higher spending than expected due to wars in Afghanistan and Iraq and extra money to local authorities to curb council tax bills.
- Growth in the budget deficit from 2003 £27 billion to £37 billion in 2004-05.
- This means government spending is greater than government income and must be financed by borrowing.
- Government unwilling to raise taxes – after 60 rises in the past (Item E) and voters don't like them. The data suggests strongly that future tax rises are very likely.
- Government unwilling to cut expenditure – plans laid out for future years, much of it on NHS, education is highly desirable and why? (merit goods, public goods etc.)
- Problems with increasing taxes.
- Problems with cutting the deficit.

5. Discuss the effects of extra government expenditure on education and less expenditure on defence.

The data shows:

- Increased government expenditure education (+ 4 billion) but less on defence (-4 billion).

Arguments for extra expenditure on education:

- Education a merit good.
- Education benefits society as well as the individual.
- Economic benefits of a better educated work force.
- Positive externality.
- What if education provision is left to market forces?

Arguments for less expenditure on defence:

- Peace not war.
- Defence expenditure a waste of money.

But on the other hand:

- Iraq war and its aftermath.
- Growing international terrorism.
- Defence industry a vital provider for jobs.

Perhaps the cuts should be made elsewhere and why:

- Concept of opportunity cost.

6. Recommend and discuss the possible ways in which the budget deficit could be reduced.

Examples of expected responses

Raise taxes:

- already been a lot of taxes rises;
- this option maybe necessary later;
- not good news for voters;
- disincentive effects of higher taxes;
- which taxes to increase and why.

Cut spending;

- difficult as it is planned and announced years ahead;
- the public want higher/better standards of health, education, not less;
- increasing cost of healthcare due to new drugs, people living longer.

Candidates can suggest **any** possible solution to the budget deficit problem. Another possible strategy might be ‘let’s continue to borrow’ – but this might lead to higher interest rates and the effects of that. Also perhaps less money for the private sector to borrow. Again candidates must come up with a solution which is justified.