



General Certificate of Secondary Education

GCSE Applied Business 3830/3

Paper 3 Business Finance

Mark Scheme

2007 examination - January series

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1

Total for this question: 28 marks

(a) Using the information in **Item A**, complete the **shaded** areas below by identifying which business document would be used in each of the following situations. The first document has been completed for you. (5 marks)

- Delivery note (1)
- Goods received note (1)
- Invoice (1)
- Statement of account (1)
- Cheque (1)

Accept DEACB

(b) Ross wants to buy some CDs to sell and has to complete the purchase order below. Fill in the missing figures in the **shaded** boxes. (4 marks)

Purchase Order					
					CeeDee Sounds, West Way, Midtown, M15 5PX
Purchase Order Number: 000001			Date: 12 January 2007		
To: Stella Records 43 - 45 Palatine Road Birmingham BM15 4TM					
Quantity	Description	Unit price		Total amount	
		£	p	£	p
20	DJ Chapman – ‘Fuzzy Feeling’ CD	6	00	120	00(1)
30	Various – ‘World Music CD Vol 1’	12	00	360	00(1)
15	Various – ‘Trip Hop Party’	4	50	67	50(1)
				Total	547 50(1)
Own figure applies to total					

(c) Ross incorrectly completed the purchase order in part (b) and ordered too many CDs. Identify and explain **one** problem that Ross might have if he orders too many CDs.
(5 marks)

Answers can include:

Problem – buys too much stock:

- money tied up, might have to borrow etc;
- not able to buy other stock – may lose customers;
- may not be able to sell that quantity;
- it will cost/take time to correct the error.

Level	Descriptor	Marks
3	Candidate fully explains problem.	4-5
2	Candidate partially explains problem.	2-3
1	Candidate identifies problem.	1

(d) *CeeDee Sounds* will allow customers to use credit cards when they buy CDs from its website.

(i) Explain **two** advantages for *CeeDee Sounds* of allowing this method of payment.
(4 marks)

Advantages can include:

- more secure than sending the goods to the customer and waiting for payment;
- Ross knows that he will be paid;
- good for the cash flow of *CeeDee Sounds*;
- convenient.

Level	Descriptor	Marks
2	Candidate explains advantage of a credit card to <i>CeeDee Sounds</i> .	2
1	Candidates states advantage of a credit card to <i>CeeDee Sounds</i> .	1

Apply twice.

(ii) Explain **two** advantages for the customers of *CeeDee Sounds* of using this method of payment. (4 marks)

Advantages can include:

- allows customer to buy now, pay later;
- insurance/protection from card issuer;
- quicker than using a cheque (waiting for it to clear);
- easier than paying by cash;
- record of payment.

Level	Descriptor	Marks
2	Candidate explains advantage of a credit card to customer.	2
1	Candidate states advantage of a credit card to customer.	1

Apply twice.

(e) Ross has been advised to buy some computer software to help him to keep the financial records of *CeeDee Sounds* because it's quick and easy to use.

Should Ross buy this computer software? Justify your answer. (6 marks)

Candidate can argue from the perspective of buying the software or not.
Context is for financial records.

Answers include:

Level 1 Candidates likely to either make general references to the advantages of using software or the cost.

Level 2 Candidates will explain the value (or drawbacks) of a software in relation to *CeeDee Sounds*. For example, small business saving money by not needing to employ a bookkeeper.

Level 3 Candidates will explain the value (or drawbacks) of a software in relation to *CeeDee Sounds*. For example, small business.

Level	Descriptor	Marks
3	Candidate makes supported judgement in context.	5-6
2	Candidate makes supported judgement.	3-4
1	Candidate makes partially supported judgement.	1-2

Explicit judgement not required.

2**Total for this question: 14 marks**

- (a) (i) Identify **one** start-up cost from the information in **Item B**. Give a reason for your answer. *(3 marks)*

Start up costs:

- paid for a website to be designed;
- bought fixtures and fittings for the shop.

Level	Descriptor	Marks
3	Candidate fully explains start-up cost.	3
2	Candidate partially explains start-up cost.	2
1	Candidate states start-up cost.	1

- (ii) Identify **one** running cost from the information in **Item B**. Give a reason for your answer. *(3 marks)*

Running Costs:

- paid to have the shop advertised in a local newspaper each week;
- employed staff to work in the shop.

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

(b) Some of *CeeDee Sounds'* costs are fixed and some are variable.

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

Costs	Fixed Costs	Variable Costs
Insurance for the shop	✓	
Buying CDs to sell in the shop		✓
Business rates	✓	
Rent of the shop	✓	

(c) Ross will need to pay for his broadband Internet connection for the shop but is not sure whether this cost is fixed or variable. State whether the Internet connection for the shop is a fixed or variable cost and explain your decision. (4 marks)

Fixed Cost

Reasons can include:

- has to pay regardless of how many CDs are sold;
- does not vary with sales.

Variable Costs

Reasons can include:

- the business sells more CD's the business will be online more.

Level	Descriptor	Marks
3	Candidate fully explains reasons for choice.	4
2	Candidate partially explains reasons for choice.	2-3
1	Candidate states reasons for choice.	1

3

Total for this question: 22 marks

(a) Ross expects to sell 300 CDs per week. What profit will he make if he sells 300 CDs per week? (1 mark)

£500

(b) How would an increase in variable costs to £6.00 per CD affect the break-even of *CeeDee Sounds*? Explain your answer. (3 marks)

Answers can include:

- break-even point would rise;
- would need to sell more CDs to break-even;
- context could include the new break-even point 250.

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

(c) Identify **one** action that *CeeDee Sounds* could take if variable costs increased to £6.00 per CD. Explain why your choice of action would be suitable. (5 marks)

Actions can include:

- reduce prices to try and sell more;
- increase prices and try to make more on each product;
- open longer hours;
- try and reduce fixed costs. Does he need an assistant if he is only selling 300 CDs per week;
- could decide to take no action. He is still making a profit. It might be better to wait until the business is more established before taking action.

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

(d) Ross is exploring the option of renting a stall to sell his CDs at a monthly music fair. Many customers interested in buying specialist and imported CDs regularly attend the fair.

- It will cost him £120 in fixed costs each month for the stall.
- He expects to be able to sell at an average of £9 per CD at the music fair.
- Variable costs remain at £5 per CD.

(i) Using the formula below, state how many CDs Ross will need to sell at each music fair to break-even. (3 marks)

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

$$30(1) = \frac{\text{£120}(1)}{\text{£9-£5 (1)}}$$

(ii) Advise Ross as to whether or not he should rent the stall. Explain your answer. (5 marks)

Answers can include:

- this opportunity is in addition to normal business;
- the fixed costs of existing business already covered, so only small additional fixed costs to be met;
- reach break-even more quickly than normal business;
- need to do some market research;
- break-even likely to be met;
- little investment needed.

Context can include further quantification of calculations such as contribution (in candidates own words) to normal activity.

As a new business, this extra work can help cash flow or buy time while normal activity gets established.

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

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| (e) How useful is break-even analysis for a business such as <i>CeeDee Sounds</i> ? Explain your answer. (5 marks) |
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Candidates can argue that it is useful or not.

Answers can include:

- identifies sales levels required to make a profit etc;
- 'what if' scenarios to establish break-even at different cost/sales structures;
- requires a single product therefore not useful in all situations.

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

4

Total for this question: 36 marks

- (a) (i) Complete the profit and loss account of *Zoom Records Ltd* for the **four months** ended 31 December 2006 by filling in the **shaded** boxes in the table below.
(3 marks)

Zoom Records Ltd		
Profit and Loss Account		
for the four months ended 31 December 2006		
		£
Sales revenue		187 000
Cost of sales		94 000
Gross Profit		93 000(1)
	£	
<i>Expenses</i>		
Wages	22 000	
Insurance	3 400	
Other costs	29 000	
Total Expenses		54 400(1)
Net Profit		£38 600(1) o/f

- (ii) What information contained in the profit and loss account would help the bank to decide whether or not to give a loan to *Zoom Records Ltd*? Explain your answer.
(5 marks)

Answers can include:

- a profit and loss account will show the profit the business is making and shows the overheads of the business.

The Bank will be able to see that the business will be able to pay back the loan and then be able to use this information as evidence to justify the loan. The business is making a profit of £38 600 (own figure), so a loan of £300 000 over 10 years at 5% would be feasible.

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

- (b) (i) Complete the Balance Sheet at 31 December 2006 for *Zoom Records Ltd* by filling in the **shaded** boxes in the table below. (3 marks)

Zoom Records Ltd		
Balance Sheet at 31 December 2006		
	£	£
Fixed Assets		
Premises		270 000
Equipment		40 000
Current Assets		310 000
Stock	27 500	
Bank	8 000	
Total Current Assets	35 500(1)	
Less Current Liabilities		
Creditors	25 000	
Net Current Assets		10 500(1) o/f
Net Total Assets		320 500(1) o/f
Financed by		
Shareholders' funds		320 500
		320 500

- (ii) Explain what is meant by the terms fixed asset and current asset. (4 marks)

A fixed asset is a possession (1) of a business that is owned for a period of over a year (1). A current asset is a possession (1) of a business that is owned for less than a year (1).

- (iii) What information contained in the Balance Sheet would help the bank to decide whether or not to give a loan to *Zoom Records Ltd*? Explain your answer.
(5 marks)

Answers can include:

- 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 the value of information to the bank.	4-5
2	Candidate partially explains the value of information to the bank.	2-3
1	Candidate states information from the balance sheet.	1

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

Zoom Records Ltd				
Cash-flow Forecast for the four months ended 30 April 2007				
	January	February	March	April
Cash In				
Sales	45 000	46 000	51 000	50 000
Total Inflow	45 000	46 000	51 000	50 000
Cash Out				
Payments for stock	23 000	24 000	24 000	22 000
Wages	5 400	5 400	5 400	5 400
Dividends				35 000
Purchase of new equipment			14 500	
Other Costs	6 000	6 500	4 500	6 000
Total Outflow	34 400	35 900	48 400	68 400
Net monthly Cash Flow	10 600	(1) 10 100	2 600	(18 400)
Opening Balance	8 000	18 600	28 700	31 300
Closing Balance	18 600	28 700	31 300	(1) 12 900

(ii) Explain how taking out a ten-year loan from the bank would affect the cash-flow position of *Zoom Records Ltd*. (5 marks)

Answers will have two aspects:

- cash injection used to buy equipment;
- 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) In order to finance the planned expansion, the directors of *Zoom Records Ltd* have identified venture capital as an alternative to the loan.

(i) Explain what is meant by venture capital. (3 marks)

Answers include:

- long term finance for unquoted companies;
- different from a loan in that the venture capitalist takes a share in the business, returns are dependant on growth/profits;
- a share in the business;
- source of external finance.

Level	Descriptor	Marks
2	Candidate offers explanation.	2-3
1	Candidate offers basic statement.	1

(ii) Which source of finance, a bank loan or venture capital, would you recommend to *Zoom Records Ltd*? Justify your answer. (6 marks)

Judgement is likely to be based on a comparison of advantages and disadvantages of each source of finance.

Bank Loan includes:

Advantages

- Flexible Duration.
- Rate could be fixed helps planning.
- Expansion can take place as soon as the loan is granted (cash inflow).

Disadvantages

- Will need to offer security for the loan.
- Interest rate may change.
- Long term cash outflows based on interest and repayments.
- Drain on profits, interest must be paid regardless of profit.

Venture Capital Includes:

Advantages

- Expansion can take place when venture capital agreed.
- Dividends will not need to be paid if losses made in the future.
- Not secured.

Disadvantages

- Some loss of ownership.
- Might be time limited.

Context includes reference to the information provided in the Profit and Loss Account, Balance Sheet, and Cash flow statement.

Level	Descriptor	Marks
3	Candidate makes supported judgement in context.	5-6
2	Candidate makes supported judgement.	3-4
1	Candidate makes partially supported judgement.	1-2