



General Certificate of Secondary Education

Applied Business 3831

3830/3 Business Finance

Mark Scheme

2007 examination - June series

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Set and published by the Assessment and Qualifications Alliance.

3830/3

1

Total for this question: 28 marks

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

The Skater Shack sends this document to a supplier when it wants to buy some materials.

Purchase order (1)



The supplier sends this document to *The Skater Shack* with the materials.

Delivery note (1)



The Skater Shack completes this document when the materials are provided by the supplier.

Goods received note (1)



The supplier sends this document to *The Skater Shack* to request payment for the materials.

Invoice (1)



The Skater Shack sends this document to the supplier with a cheque to pay for the materials.

Remittance advice (1)

Also accept the corresponding letters in the box's – D A B C E.

(b) Sally and Ikram have bought materials for *The Skater Shack* to use in the manufacture of skateboards. The materials cost £4500 and they need to write a cheque to pay for them. Complete the cheque below to *B2B Supplies* by filling in the **shaded** areas. (3 marks)

WESTERN BANK PLC		23-10-71
Eastgate Branch 12 Maine Road Eastgate EG4 9PQ		
		Date <u>17 May 2007</u>
Pay	B2B Supplies (1)	
The sum of	Four thousand five hundred pounds only (1)	£4 500.00 (1)
		Sally McQuade
Cheque Number 538216	Sort Code 23 10 71	Account Number 44372626
		The Skater Shack

(c) *The Skater Shack* has received a statement of account from its supplier. Explain the purpose of this document. (3 marks)

Answers could include:

- lists all transactions for the month;
- the amount that *The Skater Shack* owes to its supplier;
- balance of invoices less credit notes.

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

(d) *The Skater Shack* is a manufacturing business. Explain **two** reasons why it is important for Sally and Ikram to complete financial documents accurately. (6 marks)

Reasons could include:

- legal – businesses need to keep financial records to pay the correct amounts of tax and VAT. Consequences could include tax investigation fines etc;
- avoid misunderstandings and disputes surrounding amounts ordered/supplied/paid for. Could result in suppliers being unwilling to trade with *The Skater Shack* or terms of trade could be reduced;
- help to manage the business so that the correct supplies are available at the right time;
- impact on customers of incorrect invoices;
- effect on manufacturing process as a result of delays in supplies as a result of inaccurate documents;
- cost of holding incorrect stock.

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

Apply twice

(e) Sally would like to receive payment by direct debit only. Do you agree with Sally? Justify your answer. (6 marks)

Direct Debit

- less paperwork once set up;
- automatic – may help with cash flow;
- free for customer to use.

Level	Descriptor	Marks
3	Candidate fully explains answer.	5-6
2	Candidate partially explains answer.	3-4
1	Candidate states benefits/drawback of method.	1-2

(f) Sally and Ikram are considering using computer database software to store customer information. This includes details of shops and of those who buy through their website.

Explain **one** way in which the database software could help their business. (5 marks)

Possible answers include:

- *The Skater Shack* caters for a specialist market so it would be an effective marketing tool;
- easy to update customer records;
- can integrate with other software to send out payment reminders;
- saving space. Electronic retrieval could be a development;
- to keep records of customer accounts;
- to identify customers buying habits or any other relevant field.

Level	Descriptor	Marks
3	Candidate fully explains advantage of database.	4-5
2	Candidate partially explains advantage of database.	2-3
1	Candidate states advantage of database.	1

2

Total for this question: 19 marks

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

Start-up cost - purchase of cash tills/equipment (1).

(1) mark for stating a reason why it is a start-up cost and (1) mark for development.

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

Running cost – staff to work in the factory/advertising (1).

(1) mark for stating a reason why it is a running cost and (1) mark for development.

(b) If Sally and Ikram decide to expand their business, they will buy cash tills that allow them to use bar code technology. Explain how these cash tills might benefit their stock control. *(5 marks)*

Answers can include:

- they will know exactly how much and what type of stock they have;
- helpful for re-ordering – this could be automatic;
- accurate information on stock could help to keep levels as low as possible;
- helps to identify missing/stolen goods.

Level	Descriptor	Marks
3	Candidate fully explains benefit.	4-5
2	Candidate partially explains benefit.	2-3
1	Candidate states benefit.	1

(c) Some of *The Skater Shack's* costs are fixed and some are variable.

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

Costs	Fixed Costs	Variable Costs
Insurance for the shop	✓	
Buying materials to make skateboards		✓
Lease of shop	✓	
Wages of factory employees paid for each skateboard produced		✓

One mark for each correct response.

(d) Sally and Ikram pay for electricity for the factory but are not sure whether this cost is a fixed cost, a variable cost or has aspects of both fixed and variable costs.

State whether electricity for the factory is a fixed cost, a variable cost or has aspects of both fixed and variable costs. Explain your decision. (4 marks)

Answers can include:

- could reward aspects of both fixed and variable;
- most of the electricity is likely to be used on manufacturing the skateboard, therefore variable;
- the factory will use electricity whether the machinery is used or not;
- there is a standing charge for electricity.

Context relates to what happens in the factory, eg running machines. Need to heat and light the factory.

Level	Descriptor	Marks
3	Candidate explains choice in context.	3-4
2	Candidate explains choice.	2
1	Statement supporting choice.	1

3

Total for this question: 17 marks

(a) Using the formula below, state how many mountainboards *The Skater Shack* will need to sell each week to break-even. (3 marks)

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

$$10 (1) = \frac{1000 (1)}{200 - 100 (1)}$$

Or Break-even point = 10 mountainboards (3).

(b) How would an increase in fixed costs to £1200 per week affect the break-even point of the mountainboards? Explain your answer. (3 marks)

Possible answers could include:

- the break-even point would rise to 12 mountainboards per week L3;
- they would need more customers to break-even L2;
- it would rise L1.

Level	Descriptor	Marks
3	Candidate fully explains what might happen to break-even point.	3
2	Candidate partially explains what might happen to break-even point.	2
1	Candidate states what might happen to break-even point.	1

(c) Identify **one** action that Sally and Ikram could take if fixed costs increased to £1200 per week. Explain why your choice of action would be suitable. (5 marks)

Possible answers could include:

- raise prices this is a new product so people may be prepared to pay more for it;
- alternatively they want to enter the market at lower prices;
- reduce variable costs. As the main variable cost is likely to be materials by using cheaper materials the quality of the service might be reduced;
- candidate may illustrate using numerical examples.

Level	Descriptor	Marks
3	Candidate explains the effect of the action in context.	4-5
2	Candidate explains effect of the action.	2-3
1	Candidate states action.	1

(d) Sally has been conducting market research and has discovered a mountainboard manufacturer, *West Coast Boards*, that would sell completed mountainboards to *The Skater Shack* for £150 each.

Should Sally and Ikram make and sell their own mountainboards, or buy mountainboards from *West Coast Boards* to sell in their shop? Explain your answer. (6 marks)

Possible answers could include:

Buy

- there will be no manufacturing fixed costs therefore gross profit of £50 on each skateboard;
- no expensive investment in machinery or wages;
- less risk.

Make

- bigger gross profit per skateboard sold (£100);
- *West Coast Boards* could increase prices squeezing the profit margin;
- will *West Coast Boards* be reliable.

Level	Descriptor	Marks
3	Candidate explains reason for choice in context.	5-6
2	Candidate explains reason for choice.	3-4
1	Candidate states reason for choice.	1-2

4

Total for this question: 36 marks

- (a) (i) Complete *The Skater Shack's* Profit and Loss Account for the year ended 31 May 2007 by filling in the **shaded** boxes in the table below. (3 marks)

<i>The Skater Shack</i> Profit and Loss Account for the year ended 31 May 2007		
		£
Sales revenue		240 000
Cost of sales		110 000
Gross profit		(1) 130 000
	£	
<i>Expenses</i>		
Wages	20 000	
Insurance	10 000	
Other costs	30 000	
Total expenses		(1) 60 000
Net Profit		ofr (1) 70 000

One mark for each correct response.

(ii) How would the Profit and Loss Account in part (a) (i) help Sally and Ikram to decide whether they should expand the *The Skater Shack*? Explain your answer. (4 marks)

Answers include:

- profit and loss statement calculates the net profit of the business therefore they will know if the business is profitable enough to pay for expansion;
- a lender/investor will have an indication if the business is profitable enough to pay back the loan for the expansion;
- candidates can make use of the figures, eg currently makes a profit of £70 000.

Level	Descriptor	Marks
3	Candidate explains how a profit and loss account would help make the decision in context.	3-4
2	Candidate explains how a profit and loss account would help make the decision.	2
1	Candidate states how a profit and loss account would help make the decision.	1

(b) (i) Complete the Balance Sheet as at 31 May 2007 for the *The Skater Shack* by filling in the **shaded** boxes in the table below. (3 marks)

The Skater Shack		
Balance Sheet as at 31 May 2007		
	£	£
Fixed assets		
Factory premises		200 000
Machinery		50 000
Current assets		
Stock	4 000	
Bank	4 800	
Debtors	7 000	
Total current assets	(1) 15 800	
Less current liabilities		
Creditors	2 000	
Net current assets		ofr (1)13 800
Net total assets		(1) 263 800
Financed by		
Owners' funds		263 800

One mark for each correct response.

(ii) How would the Balance Sheet in part (b) (i) help Sally and Ikram to decide whether they should expand the *The Skater Shack*? Explain your answer. (5 marks)

Answers include:

- the balance sheet shows the financial position of the business, has the business assets to use as security for a loan towards expansion;
- a lender/investor will have an indication if the business has security for a loan;
- candidates can make use of the figures, eg owners funds £263 800. Net current assets £13 800.

Level	Descriptor	Marks
3	Candidate explains how a balance sheet would help make the decision in context.	4-5
2	Candidate explains how a balance sheet would help make the decision.	2-3
1	Candidate states how a balance sheet would help make the decision.	1

(c) (i) Complete *The Skater Shack* cash-flow forecast by inserting your answers in the shaded boxes below. (4 marks)

<i>The Skater Shack</i>				
Cash-flow forecast for the four months ending 30 September 2007				
	June	July	August	September
	£	£	£	£
Cash In				
Cash sales (Internet)	1 500	2 000	2 500	3 000
Credit sales (to other shops)	3 000	4 000	4 500	5 000
Total Inflow	4 500	6 000	7 000	(1) 8 000
Cash Out				
Payments for materials	2 000	2 100	2 200	2 100
Wages	1 800	1 800	1 800	1 800
Purchase of new delivery vehicle	10 000			
Other costs	800	800	800	800
Total Outflow	14 600	4 700	4 800	4 700
Net Monthly Cash Flow	(1) (10 100)	1 300	2 200	3 300
Opening Balance	4 800	(1) (5 300)	(4 000)	(1 800)
Closing Balance	(5 300)	(4 000)	(1) (1 800)	1 500

One mark for each correct response.

(ii) Identify and explain **two** suitable actions that could be taken by Sally and Ikram to improve the forecasted cash-flow position of *The Skater Shack*. (10 marks)

Answers include:

- lease instead of buy new delivery vehicle;
- bank loan;
- offering shorter credit period;
- negotiating longer period of credit with suppliers;
- increase cash sales;
- bank overdraft;
- cut costs.

Context to include suitability and quantification.

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

Apply twice

(d) Sally and Ikram have decided to buy the shop for £225 000. Using all of the information available to you, suggest how they should finance the purchase. Justify your answer. (7 marks)

Answers can include:

- advantages/disadvantages of each method (internal v external);
- consideration of the size of the loan, reference to current profit figures/cash flow/owners funds;
- combination of methods would be acceptable.

Level	Descriptor	Marks
3	Candidate offers judgement justified in context.	5-7
2	Candidate explains choice plus justification.	2-4
1	Candidate states method.	1