



General Certificate of Secondary Education

Applied Business 3831

3830/3 Business Finance

Mark Scheme

2008 examination - June series

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3830/3

1

Total for this question: 25 marks

1 (a) Using **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)

Retailers send this document to *Cool Collections Ltd* when they want to buy some clothes.

Purchase order



Cool Collections Ltd sends this document to its retailers with the clothes.

Delivery note (1)



The retailers complete this document when the clothes are provided by *Cool Collections Ltd*.

Goods received note (1)



Cool Collections Ltd sends this document to its retailers to request payment for the clothes.

Invoice (1)



Cool Collections Ltd sends this document to the retailers at the end of the month to inform them of how much they owe.

Statement of account (1)



Retailers send this document to *Cool Collections Ltd* with a cheque to pay for the clothes.

Remittance advice (1)

1 (b) (i) *Cool Collections Ltd* has sent the following invoice to a retail customer, *The Fashion Shack*.

INVOICE					
Invoice Number: 4593J			Date: 10 February 2008		
To: The Fashion Shack 243 The High Street Lincoln LI33 4PT			From: Cool Collections Ltd Unit 23 Europa Business Park Plymouth, Devon PL14 4JX		
Quantity	Description	Unit price		Total amount	
		£	p	£	p
300	Summer blouses 'Mistral' style	10	00	3 000	00
20	Designer dresses 'Venus' style	35	00	700	00
Total				3 700	00
Less 10% trade discount				370	00
Sub total				3 330	00
Add VAT @17.5%				582	75
Total Due				3 912	75

The Fashion Shack returned the invoice to *Cool Collections Ltd* as the quantity of summer blouses had been incorrectly stated as 300 rather than 30.

Prepare a corrected version of the invoice by completing the figures in the **shaded** boxes.
(6 marks)

INVOICE					
Invoice Number: 4593J			Date: 10 February 2008		
To: The Fashion Shack 243 The High Street Lincoln LI33 4PT			From: Cool Collections Ltd Unit 23 Europa Business Park Plymouth, Devon PL14 4JX		
Quantity	Description	Unit price		Total amount	
		£	P	£	p
30	Summer blouses 'Mistral' style	10	00	300	00 (1)
20	Designer dresses 'Venus' style	35	00	700	00
Total				1 000	00 (1) OFR
Less 10% trade discount				100	00 (1) OFR
Sub total				900	00 (1) OFR
Add VAT @17.5%				157	50 (1) OFR
Total Due				1057	50 (1) OFR

1 (b) (ii) Explain **one** possible consequence to *Cool Collections Ltd* of sending out an incorrect invoice to a retail customer such as *The Fashion Shack*. (6 marks)

Answers can include:

Problem:

- will delay payment from the customer;
- invoice returned more administration costs as it will cost/take time to correct the error;
- not professional, customer unhappy.

Level	Descriptor	Marks
3	Candidate fully explains consequence.	4-6
2	Candidate partially explains consequence.	2-3
1	Candidate identifies consequence.	1

1 (c) *Cool Collections Ltd* currently receives payments from retailers by cheque. Nicola is also considering allowing payments to be made by direct debit.

1 (c) (i) Describe what is meant by 'direct debit'. (2 marks)

Answers can include:

- automatic payment;
- requires a mandate to be completed;
- convenient.

One mark for basic description, one mark for development.

OR

Two basic descriptions two marks.

1 (c) (ii) Do you think that *Cool Collections Ltd* should accept payment by direct debit?
Justify your answer. (6 marks)

Answers include:

Advantages:

- the payments to CCL will be automatic;
- they will not need to wait for payment;
- possible benefits to cash flow.

Disadvantages:

- customer required to complete paperwork;
- customer may not wish to pay by this method.

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

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

2 (a) The costs for *Cool Collections Ltd* listed in the table below are either fixed or variable costs.

Complete the table below to identify 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 of the factory	✓	
Buying material to make clothes		✓
Business rates	✓	
Fees for leasing a machine	✓	

2 (b) *Cool Collections Ltd* expects to sell 600 T-shirts per week. What profit will they make from selling 600 T-shirts per week? (1 mark)

Profit £3 000 (1)

2 (c) How would an increase in variable costs to £7.50 per T-shirt affect the break-even of *Cool Collections Ltd*? Explain your answer. (3 marks)

Answers can include:

- break-even point would rise;
- would need to sell more clothes to break-even;
- full explanation could include the new break-even point 480.

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

2 (d) Identify **one** action that *Cool Collections Ltd* could take if variable costs rose to £7.50 per T-shirt. Explain why your choice of action would be suitable. (6 marks)

Actions can include:

- reduce prices to try and sell more;
- increase prices and try to make more on each product;
- try and reduce fixed costs;
- could decide to take no action. It is still making a profit and it might be better to wait until the business is more established before taking action.

Level	Descriptor	Marks
3	Candidate fully explains action.	4-6
2	Candidate partially explains action.	2-3
1	Candidate identifies action.	1

2 (e) (i) Using the formula below, calculate the break-even point on this order. (3 marks)

$$250 (1) = \frac{\pounds 500 (1)}{\pounds 10 - \pounds 8 (1)}$$

2 (e) (ii) Advise *Cool Collections Ltd* on whether or not it should accept this order.
Justify your answer. (6 marks)

Answers can include:

- this opportunity may be in addition to normal business;
- the fixed costs of existing business already covered, so only small additional fixed costs to be met;
- break-even likely to be met;
- little investment needed;
- does not bring in massive profit;
- might be a loss leader etc;
- may be difficult to sell if returned because of band logo.

Level	Descriptor	Marks
3	Candidate fully explains decision.	5-6
2	Candidate partially explains decision.	3-4
1	Candidate makes supported decision.	1-2

3

Total for this question: 22 marks

3 (a) Complete the cash-flow forecast for *Cool Collections Ltd* by inserting your answers in the shaded boxes below. (3 marks)

Cool Collections Ltd
Cash-flow forecast for the four months ended 31 September 2008

	June	July	August	September
	£	£	£	£
Cash In				
Receipts from sales	120 000	120 000	120 000	120 000
Total inflow	120 000	120 000	120 000	120 000
Cash Out				
Purchase of stock	60 000	60 000	60 000	60 000
Wages	20 000	20 000	20 000	20 000
Equipment	120 000			
Other costs	12 000	12 000	12 000	12 000
Total outflow	212 000	(1) 92 000	92 000	92 000
Net monthly cash flow	(92 000)	28 000	(1) 28 000	28 000
Opening balance	35 000	(57 000)	(29 000)	(1 000)
Closing balance	(1) (57 000)	(29 000)	(1 000)	27 000

3 (b) Using **Item C**, and your completed cash-flow forecast, explain why it was important for *Cool Collections Ltd* to prepare a cash-flow forecast. (5 marks)

Importance includes:

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

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

3 (c) *Cool Collections Ltd* is forecast to have a cash-flow problem in the first four months of its plan to produce a range of men's clothing.

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

Actions include:

- delay in purchase of new equipment;
- leasing equipment;
- overdraft;
- bank loan;
- offering less credit/shortening debtors collection period;
- negotiating creditors payment period.

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.

3 (d) Explain why it might be useful for *Cool Collections Ltd* to use a computer spreadsheet to produce a cash-flow forecast. (4 marks)

Possible answers can include:

- once the spreadsheet has been set up, calculations are completed automatically;
- Nicola would be able to easily see the effects of changes, for example, delay suppliers. Use of modelling or what if scenarios.

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

4

Total for this question: 30 marks

4 (a) (i) Complete the Profit and Loss Account for the year ended 31 May 2008 for *Cool Collections Ltd* by filling in the shaded boxes in the table below. (3 marks)

Cool Collections Ltd Profit and Loss Account for the year ended 31 May 2008		
	£	£
Sales revenue		1 200 000
Cost of sales		720 000
Gross profit		(1) 480 000
<i>Expenses</i>		
Wages	240 000	
Insurance	12 000	
Other costs	120 000	
Total expenses		(1) 372 000
Net profit		(1) 108 000 OFR

4 (a) (ii) What information from the profit and loss account in 4(a)(i) might be useful to the bank in deciding whether or not to give the loan to *Cool Collections Ltd*? Explain your answer. (5 marks)

Answers include:

- the loan is for £800 000 and the business is making £108 000 so could meet the repayments of £105 000 but little profit left over/margin of safety;
- if the new factory makes as much as the existing factory the loan could be paid off much more quickly;
- little or no dividend for share holders.

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

4 (b) (i) Complete the Balance Sheet as at 31 May 2008 for *Cool Collections Ltd* by filling in the shaded boxes in the table below. (3 marks)

Cool Collections Ltd		
Balance Sheet as at 31 May 2008		
	£	£
Fixed assets		
Buildings		222 000
Equipment		150 000
		372 000
Current assets		
Stock	20 000	
Debtors	180 000	
Bank	27 000	
Total current assets	(1) 227 000	
Less current liabilities		
Creditors	50 000	
Net current assets		(1) 177 000
Net total assets		(1) 549 000
Financed by		
Shareholders' funds		549 000
		549 000

OFR

4 (b) (ii) Explain why equipment is a fixed asset. (2 marks)

Answers include:

- equipment is a possession of the business therefore an asset;
- it will be used in the business over a period of time.

Possession or owned or use 1 mark.
Appropriate reference to time 1 mark.

4 (b) (iii) Explain why creditors are a current liability. (2 marks)

Answers include:

- creditors are owed by the business a liability;
- it will be owed for a short period of time (less than a year).

Owed by the business 1 mark plus 1 for appropriate reference to time.

4 (b) (iv) What information from the Balance Sheet in 4(b)(i) might be useful to the bank in deciding whether or not to give the loan to *Cool Collections Ltd*? Explain your answer. (5 marks)

Answers can include:

- explanation of the information;
- the balance sheet shows the financial position of the business at that date;
- the balance sheet shows the assets and liabilities of the business;
- the business has few liabilities and lots of assets;
- net worth (with new factory) will be higher than the loan amount.

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

4 (c) (i) *Cool Collections Ltd* will also need to buy additional equipment to aid its expansion that will cost £100 000. It is investigating alternatives to taking out a further bank loan, including the possibility of leasing the equipment.

Explain the advantages and disadvantages for *Cool Collections Ltd* of leasing the equipment. (6 marks)

Answers include:

- will be able to spread the cost of the equipment over the lifetime of the lease which will help with cash-flow, important as *Cool Collections Ltd* will already have a lot of new out goings due to buying the factory;
- will not be responsible for maintenance or repairs to the equipment, which will help with cash flow, expenses and maintenance will not need to be budgeted for;
- will not own the equipment at the end of the lease, but this might not be a problem as the equipment could be obsolete at the end of the period;
- cost likely to be more than loan repayments.

Level	Descriptor	Marks
3	Candidate offers explanation in context.	5-6
2	Candidate provides explanation of advantage(s)/disadvantage(s).	3-4
1	Candidate states advantage(s)/disadvantage(s).	1-2

4 (c) (ii) How should *Cool Collections Ltd* finance the purchase of the additional equipment? Justify your answer. (4 marks)

Level	Descriptor	Marks
L2	Candidate offers judgement plus full justification.	3-4
L1	Candidate offers judgement plus limited justification.	1-2