GCSE

Applied Business

Double Award
January 2010

Mark Scheme

NORTHERN IRELAND GENERAL CERTIFICATE OF SECONDARY EDUCATION (GCSE) AND NORTHERN IRELAND GENERAL CERTIFICATE OF EDUCATION (GCE)

MARK SCHEMES (2010)

Foreword

Introduction

Mark Schemes are published to assist teachers and students in their preparation for examinations. Through the mark schemes teachers and students will be able to see what examiners are looking for in response to questions and exactly where the marks have been awarded. The publishing of the mark schemes may help to show that examiners are not concerned about finding out what a student does not know but rather with rewarding students for what they do know.

The Purpose of Mark Schemes

Examination papers are set and revised by teams of examiners and revisers appointed by the Council. The teams of examiners and revisers include experienced teachers who are familiar with the level and standards expected of 16- and 18-year-old students in schools and colleges. The job of the examiners is to set the questions and the mark schemes; and the job of the revisers is to review the questions and mark schemes commenting on a large range of issues about which they must be satisfied before the question papers and mark schemes are finalised.

The questions and the mark schemes are developed in association with each other so that the issues of differentiation and positive achievement can be addressed right from the start. Mark schemes therefore are regarded as a part of an integral process which begins with the setting of questions and ends with the marking of the examination.

The main purpose of the mark scheme is to provide a uniform basis for the marking process so that all the markers are following exactly the same instructions and making the same judgements in so far as this is possible. Before marking begins a standardising meeting is held where all the markers are briefed using the mark scheme and samples of the students' work in the form of scripts. Consideration is also given at this stage to any comments on the operational papers received from teachers and their organisations. During this meeting, and up to and including the end of the marking, there is provision for amendments to be made to the mark scheme. What is published represents this final form of the mark scheme.

It is important to recognise that in some cases there may well be other correct responses which are equally acceptable to those published: the mark scheme can only cover those responses which emerged in the examination. There may also be instances where certain judgements may have to be left to the experience of the examiner, for example, where there is no absolute correct response – all teachers will be familiar with making such judgements.

The Council hopes that the mark schemes will be viewed and used in a constructive way as a further support to the teaching and learning processes.

CONTENTS

Page

General Certificate of Secondary Education
January 2010

Applied Business
Double Award

Unit 3: Business Finance

[GDB31]

WEDNESDAY 13 JANUARY, MORNING

MARK
SCHEME

Quality of candidate's responses

ln marking the examination papers, examiners will be looking for a quality of response reflecting the level of maturity which may reasonably be expected of a 16-year-old which is the age at which the majority of candidates sit their GCSE examinations.

Unanticipated responses

The mark schemes which accompany the specimen examination papers are not intended to be totally prescriptive. For many questions, there may be a number of equally legitimate responses and different methods by which candidates may achieve good marks. No mark scheme can cover all the answers which candidates may produce. In the event of unanticipated answers in operational examinations, examiners are expected to use their professional judgement to assess the validity of answers. If an answer is particularly problematic, then examiners would seek the guidance of the Supervising Examiner for the paper concerned.

Positive marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for valid responses rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected of a 16-year-old GCSE candidate. Conversely, marks should only be awarded for valid responses and not given for an attempt which is completely incorrect or inappropriate.

Marking calculations

In marking answers involving calculations, examiners should apply the "own figure rule" so that candidates are not penalised more than once for a computational error.

Levels of Response Marking Grid

	AO1 [3]	AO2 [3]	AO3 [3]
Mark Band 1	1. Candidates demonstrate a basic knowledge and understanding. They give a basic description. There will be little organisation.	1. Candidates are able to apply limited knowledge and understanding. They give simple explanations. There will be few vocational links.	1. Candidates' responses suggest simple, broadly relevant ideas. They reach straightforward conclusions. Responses may not be clearly presented.
Mark Band 2	2. Candidates demonstrate a sound knowledge and understanding. They give a sound description. Answers will be organised.	2. Candidates apply knowledge and understanding to a range of situations. They give sound explanations, with some detail. There will be some vocational links and occasional detail.	2. Candidates comment in depth suggesting relevant ideas for development. They reach reasoned conclusions. Responses will usually be clearly presented. They will use a good range of specialist terms where appropriate.
Mark Band 3	3. Candidates demonstrate a detailed knowledge and understanding. They give a detailed description. Answers will be well organised.	3. Candidates apply relevant knowledge and understanding. They give full, detailed explanations, vocational links and the inter-relationship between factors.	3. Candidates comment fully, suggesting detailed relevant ideas. They reach reasoned conclusions. Responses will consistently be clearly presented in a logical form. They will use a wide range of specialist terms where appropriate.

1 (a) Most suitable source of finance:
- hire purchase [1]
- loan [1]

(1 × [1]) [1]

(b) Advantage – hire purchase
- Suzanne would make regular payments to the finance company for a fixed period [1]
- Suzanne has the use of the car while paying for it [1]

(1 × [1])

or

Advantage – loan
- it can be easily arranged [1]
- a fixed amount can be borrowed for a fixed period [1]
- the money is paid back in regular fixed instalments [1]

(1 × [1]) [1]

(c) Disadvantage – hire purchase
- The finance company owns the car until the last instalment has been paid [1]
- The monthly repayments cover the cost of the car plus interest charged by the finance company [1]

(1 × [1])

or

Disadvantage – loan
- interest is charged on the amount borrowed [1]

(1 × [1]) [1]

(d) Suzanne is most likely to get the money from an overdraft [1]
grant [1]
or personal savings [1]
Accept loan [1]

(1 × [1]) [1]

(e) Advantage – overdraft
- Suzanne has immediate access to the money [1]
- She can use it as required [1]
- Interest is charged on a daily basis on the amount owed [1]
- Every time money is paid into the account the overdraft is reduced [1]

(1 × [1])

or

Advantage – grant
- The money does not have to be repaid [1]
- Money can be used to buy equipment [1]

(1 × [1])

or

Advantage – personal savings
- Immediate access to money [1]

(1 × [1])

or

Advantage – loan
- It can be easily arranged
- The £500 can be borrowed for a fixed period [1]
- The money is paid back in regular fixed instalments [1]

(1 × [1])   [1]

(f) Disadvantage – overdraft
- Interest is charged on the amount borrowed [1]

(1 × [1])

or

Disadvantage – grant
- Suzanne may have to wait some time for the money [1]

(1 × [1])

or

Disadvantage – personal savings
- Opportunity cost [1]

(1 × [1])

or

Disadvantage – loan
- Interest is charged on the amount borrowed [1]

(1 × [1])   [1]

(g) (i) Telephone bill

Method of payment
- Direct debit [1]
- Cheque [1]
- Debit card [1]

(1 × [1]) [1]

Advantage – Direct debit
- Once Suzanne has signed up for direct debit she can forget about it [1]
- It allows the telephone company to deduct the cost of the telephone from Suzanne's account [1]
- Payment is guaranteed for the provider [1]

(1 × [1])

Disadvantage
- The bank charge to set up a direct debit [1]

(1 × [1])

or

Advantage – cheque
- Cheques may be sent through the post [1]

(1 × [1])

Disadvantage
- Cheques with errors can be refused by the banks [1]
- A cheque takes three days to clear [1]

(1 × [1])

or

Advantage – debit card
- Suzanne can make payments over the phone or online [1]
- Payment is guaranteed [1]

(1 × [1])

Disadvantage
- It will take 3 days for the money to reach the telephone company [1]
- Danger of fraud – someone may get hold of the card number and make online/telephone transactions [1]

(1 × [1]) [2]

(ii) Vehicle insurance

Method of payment
- Cheque [1]
- Direct debit [1]
- Debit card [1]
- Credit card

(1 × [1])   [1]

Advantage – Cheque
- Safer for large amounts [1]
- May be sent through the post [1]

(1 × [1])

Disadvantage
- A cheque takes three days to clear [1]
- A cheque may 'bounce' [1]
- A bank may refuse cheques with errors [1]

(1 × [1])

or

Advantage – Direct debit
- Allows the insurance company to deduct the cost of the insurance from Suzanne's account on a regular basis [1]
- Once Suzanne has set up the direct debit she does not have to worry about her vehicle insurance being paid [1]

(1 × [1])

Disadvantage
- Banks charge a fee to set up a direct debit [1]

(1 × [1])

or

Advantage – Debit card
- Suzanne can make payments over the phone or online [1]
- Payment is guaranteed [1]

(1 × [1])

Disadvantage
- Danger of fraud – someone may get hold of the card number and make online and telephone transactions [1]
- It will take three days for the money to reach the insurance company [1]

(1 × [1])

or

Advantage – Credit card
- It allows Suzanne to borrow money to pay vehicle insurance [1]
- It can be used online [1]

(1 × [1])

Disadvantage
- Interest charged on the amount owing if it is not paid within agreed period [1]
- Fraud – the card may be stolen [1]

(1 × [1])   [2]

(iii) Motor expenses

Method of payment
- Cash [1]
- Cheque [1]
- Debit card [1]
- Credit card [1]   [1]

Cheque/Debit card
Advantage as in (ii) (1 × [1])

Disadvantage as in (ii) (1 × [1])
or

Advantage – Cash
- Payment is made straightaway [1]
- It is convenient for small amounts [1]
(1 × [1])

Disadvantage
- Cash may be stolen [1]
(1 × [1])
or

Advantage – Credit card
- It enables Suzanne to borrow if she does not have the money available [1]
- It can be used online [1]
(1 × [1])

Disadvantage
- Interest is charged if the amount owing is not paid within agreed period [1]
- It can be a very expensive way of borrowing [1]
- Fraud – if the card is stolen or mislaid [1]
(1 × [1])   [2]

N.B. Any chosen method of payment may only be used **once**.

(h) Suzanne will operate her business on a cash payment policy only for the following reasons:
- Immediate payment/payment guaranteed [1]
- Cash will be necessary for the payment of small bills, e.g. food [1]
- Suzanne's business is a small business and she will need access to ready cash [1]
- She cannot afford to allow customers to delay payment [1]
- It is important that Suzanne has adequate working capital to cover the day-to-day costs of running the business and cash payments by customers will ensure this [2]
(2 × [1]) or (1 × [2])   [2]   17

2 (a) Client Name
Suzanne Ryan

Cash-Flow Forecast for the period January – June 2010

	January £	February £	March £	April £	May £	June £
Sales	1 000	1 360	1 360	1 360	1 360	2 000
Total Receipts*	1 000	1 360	1 360	1 360	1 360	2 000
Payments						
National Insurance			26			26
Rates	70	70	70	70	70	70
Heat and light	70	70	70	70	70	70
Telephone	30	30	30	30	30	30
Insurance exc.vehicle						43
Vehicle Insurance	30	30	30	30	30	30
Motor Expenses	40	40	40	40	40	40
Advertising						60
Accountancy Fees					350	
Drawings	800	800	800	800	800	800
Total Payments	1 040 [1]	1 040	1 066 [1]	1 040	1 390	1 169 [1]
Opening Bank Balance	0 [1]	(40) [1]	280 [1]	574 [1]	894 [1]	864 [1]
Add Receipts	1 000	1 360	1 360	1 360	1 360	2 000
Less Payments	1 040	1 040	1 066	1 040	1 390	1 169
Closing Balance	(40)	280	574	894	864	1 695 [1]

*Total receipts = [2] if the line of figures is correct for Jan – June as above.
Marks allocated as indicated above. [12]

(b) Suzanne has a deficit of £40 at the end of January [1]. Her total payments
exceed her total receipts [1]. This means that she is in debt to the bank
by £40 [1]. It is a small deficit and it is only temporary [1].
(2 × [1]) [2]

(c) She could solve the problem by:
- Arranging overdraft facility with her bank [1]
- Delaying some of her planned expenses [1]
- Delaying payments until cash is available [1]

(2 × [1])												[2]

(d) The cash-flow forecast indicates a positive future for the business. [1]
- Overdraft only required for one month [1]
- Overdraft can be cleared in one month [1]
- Bank balances positive and increasing March–June [1]
- Total receipts are increasing which indicates more customers [1]

(4 × [1]) or (2 × [2])										[4]

3 **(a)** Benefits to Suzanne of making out a cash-flow forecast:
- It enables her to know in advance when there is a likelihood that she will need cash and she can arrange an overdraft with her bank [1]
- Suzanne may have to buy, e.g. a piece of equipment and she can use her cash-flow forecast to plan her spending for a time when the cash is available [1]
- It helps her with planning for the future as she can estimate times when she is going to have a surplus or shortage of cash [1]

(2 × [1])												[2]

(b) The advantages to Suzanne of using a computer spreadsheet to construct a cash-flow forecast are:
- She can change any figure she has input and the computer will recalculate all the figures according to the formulas input [1]
- She can change the estimated figures for receipts to see what happens if they are better/worse than expected [1] bank balances will automatically be recalculated
- She can change the estimated figures for payments to see what happens if they are better/worse than expected [1] bank balances will automatically be recalculated
- Suzanne can see the effect of changes in receipts/payments on her bank balance and plan/take action accordingly [1]

(2 × [1])												[2]

(c) Cash-flow is the money flowing into [1] and out of a business in a given period [1]

(2 × [1])												[2]

(d) Cash-flow is not the same as profit. Cash-flow shows money coming into and going out of the business. Profit is the difference between the cost of goods and the selling price [1]. If a business has to wait a long time to be paid for the goods/services it provides it may not have the cash to pay the bills [1]. The business is making a profit but is unsuccessful because it runs out of cash [1].

(2 × [1])												[2]

AVAILABLE MARKS

20

8

4 **(a)**

	Start-up Cost	**Running Cost**
Child car safety seats	✓	
Cot	✓	
Heat and Light		✓
Advertising		✓
Reading Materials	✓	

(5 × [1]) [5]

(b) A start-up cost is one that has to be paid when you start up a new business, e.g. buying furniture [1]

A running cost is a day-to-day expense that you have to pay to run the business, e.g. telephone [1]

(2 × [1]) [2]

(c) Projected Trading and Profit and Loss Account for Suzanne Ryan for the year ended 31 December 2010.

£

Sales/Receipts	17 000 [1]
Cost of Sales	0 [1]
Gross Profit	17 000 [2]

Expenses	£
N. I. Contribution	104
Rent and Rates	840
Heat and Light	840
Telephone	360
Insurance (excl. vehicle)	43
Vehicle Insurance	360
Motor Expenses	480
Advertising	60
Accountancy Fees	350
Depreciation	90
	3527

£

Total Expenses	3527 [1]
Net Profit	13 473 [2]

[7]

11

(d) Net profit is the profit after the deduction of overheads, e.g. wages. [1]
(1 × [1])   [1]

(e) Drawings are the reward Suzanne gets for taking the risk to set up
the business [1]
Net profit taken out in the form of payments [1]
(1 × [1])   [1]

(f) It will enable her to see the estimated expenses and estimated
revenue for the year [1] and give her an idea of the net profit she can
expect to receive at the end of the year [1]
(2 × [1])   [2]

(g) The net profit figure is the money Suzanne expects to have earned during the
year [1]. This is a good figure for her first year [1]. She will take out drawings
for herself every month from this. She will have what is left as savings or to
buy things for the business [1]. It is good practice to leave some of it in the
business to help it expand [1]. Suzanne may want to take on more children
next year and will require additional materials, etc [1] – she will need access
to money to finance this [1].
(4 × [1]) or (2 × [2])   [4]   22

5 (a) A sales budget is an estimate of the sales revenue a business will receive [1]
(1 × [1])   [1]

(b)

October			November			December		
Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
£1360	£1000	**£360** [1]	**£1360** [1]	£1360	£0	£1360	**£1700** [1]	−£340

(3× [1])   [3]

(c) Sales revenue is below target [1]
Suzanne needs to take on extra children after Christmas [1]
(1 × [2])   [2]

(d) Benefit 1
It encourages forecasting and forward planning and setting of targets
to work towards [1]

It encourages good money management [1]
(1 × [1])   [1]

Benefit 2
It helps to identify months where problems may arise and it enables
Suzanne to take corrective action in advance [1]

It is a way of measuring her performance [1]
(1 × [1])   [1]

(e) Break-even is the point when sales revenue is equal to **total costs** [1]. To the
left of that point means the business is making **a loss** [1] and to the right of that
point means the business is making **a profit** [1]. Total costs consist of **fixed**
costs [1] and variable costs. An increase in the hourly rate for child care will
mean a **decrease** [1] in the break-even point. The break-even point may be
calculated by using the following formula:

$$\text{Break-even} = \frac{\text{fixed costs}}{\textbf{Selling price } [1] \text{ minus variable cost}}$$

(6 × [1])   [6]   14

13

6   As Suzanne's business advisor, you have been asked to give her some financial advice under the following headings:
   •   the importance of keeping accounts and
   •   the value to her of final accounts.

Every business must keep a record of all money coming into and going out of the business. These records are the accounts of the business. Suzanne must keep a record of all child minding hours for the children in her care and of all the costs incurred by her to care for them. The reason Suzanne went into business in the first place was to make a profit and the keeping of accounts enables her to calculate the level of her profit. The information from these accounts will be used to make up the Trading Profit and Loss Account and the Balance Sheet.

The Trading Profit and Loss Account shows the amount of revenue received and the expenses incurred. It shows the gross profit and the net profit. Gross profit is sales minus the cost of sales and net profit equals gross profit minus expenses. It is this net profit figure that tells Suzanne how profitable the business is.
The Balance Sheet is a financial snapshot of the business at a given date. It shows how much the business owns and owes and the total value of the business at that date. It shows her where the money came from to finance the business and she can assess her ability to repay any debts that she may have.

The final accounts are of value to Suzanne as they will tell her how her business is performing and whether or not her targets are being met. She can compare one year's figures with another and take action accordingly. They are an invaluable decision-making tool and provide her with information that will assist her when planning for the future.

The final accounts are also useful to her if she needs a bank overdraft/extend overdraft or a bank loan. The bank will ask to see her accounts to see if the business is in a position to repay them. In the future Suzanne may want to expand/to take on a partner and the final accounts will provide the information that will inform their decision.

Band 1 ([1]–[3])
Candidates in this band will explain the importance to Suzanne of keeping accounts (the financial record of all her transactions throughout the year) and the use of these in the compilation of the final accounts. They will identify the final accounts in question, i.e. The Trading Profit and Loss Account and the Balance Sheet. They will mention that these give details of the profit or loss made over the year and the worth of the business.

Band 2 ([4]–[6])
Answers will go beyond Band 1 and refer to the information to be obtained from the final accounts and the usefulness of this to Suzanne.

Band 3 ([7]–[9])
Candidates in this band will give comprehensive answers outlining most of the above with reference to the value of the final accounts in the obtaining of a bank loan and in the decision-making process and in planning for the future. [9]

	9
Total	**90**