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Examiners' Report January 2011

GCSE Applied Business 5AB02 01

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Paper Introduction

General issues

This was the third paper to be sat for the new Applied Business qualification (single award) which is available January and June each year. The paper was based on a cake factory - *Simply Bake plc*. The scenario proved accessible to candidates. It contained text and an image. The purpose of the scenario is to help candidates appreciate the context within which they are applying their answers. Subsequent papers will continue to give brief text-based information and use diagrams and other images in order to help 'paint a picture' for candidates.

Centres realise that candidates are not expected to memorise scenario information, because of its introductory purpose -key information will be provided in question stems. However, the advice remains to ensure that candidates re-visit this scenario several times during the examination, to re-familiarise themselves with it.

The paper contained questions from all specification areas and there were six questions in total. The paper was designed to assess candidates across the full GCSE ability range. Quality of Written information was assessed in question 6 and this was indicated by an asterisk (*6).

The allocated 60 minutes proved to be sufficient for candidates to complete the paper. Gaps appeared to be due more to lack of knowledge than lack of time. The paper differentiated well, and all questions were answered as expected with no major misinterpretations. Most centres seem to be aware of online marking and related issues, and have taken full account of advice given to ensure as far as possible that candidates answer question parts in the space allocated. Where this was not so - for example, due to deleting a wrong answer in the answer line section -most candidates indicated the location of the corrected answer on the paper (e.g. 'see next page' or 'my answer is on the last blank page'). This practice is once again strongly encouraged. There were a few occurrences of candidates writing in heavy felt pens that transferred onto the reverse of the paper or in pencil that was difficult to read. Centres should clearly instruct candidates to read the rubric at the front of the paper which advises them to use black ink or ball-point pen.

Centres are also advised to look at the command words at the beginning of each question. Many candidates are losing marks through their lack of understanding of these words. For example 'explain' in question 5b is awarded 2 x 3 marks and to get these marks one advantage and one disadvantage need to be identified, followed by two clearly identifiable linked statements which are in context. These may contain connective words such as 'because', 'this leads to', 'resulting in' etc. Many candidates are submitting a bullet list of points without further development which cannot gain full marks.

Another noted area of weakness was in candidates' poor answers to questions that required specific application -for example, question 5(b) on this paper asked for the benefits of a barcode reader to this company. Although the scenario states that Simply Bake plc is busy bakery and the context is that of a factory many candidates answered with references to shortening the queuing time for customers at tills. Basing questions on the given situation still seems to present difficulty for candidates. This specific application will remain a key theme of this paper, and centres are therefore once again encouraged to work closely with their candidates to ensure they cope with this particular challenge.

Question 1 (c)

All parts of the question 1 were well answered in general, causing few difficulties for candidates. In part (a) and (b) they showed their understanding of different financial documents.

Some candidates lost marks in part (c). The most common errors were the ordering of the cheque and invoice but the majority of responses had purchase order in the right order.

Only a few candidates forgot the arrows completely, those who put arrows in generally got them in the correct direction. The most common error was for the middle arrow as candidates thought that the invoice went from Simply Bake plc to the Supplier.

Most candidates scored full marks.

This question checks understanding of financial documents and their flow between the business and the supplier.

You have started to draw the chart below to help Kerry Ann understand the flow of financial documents.

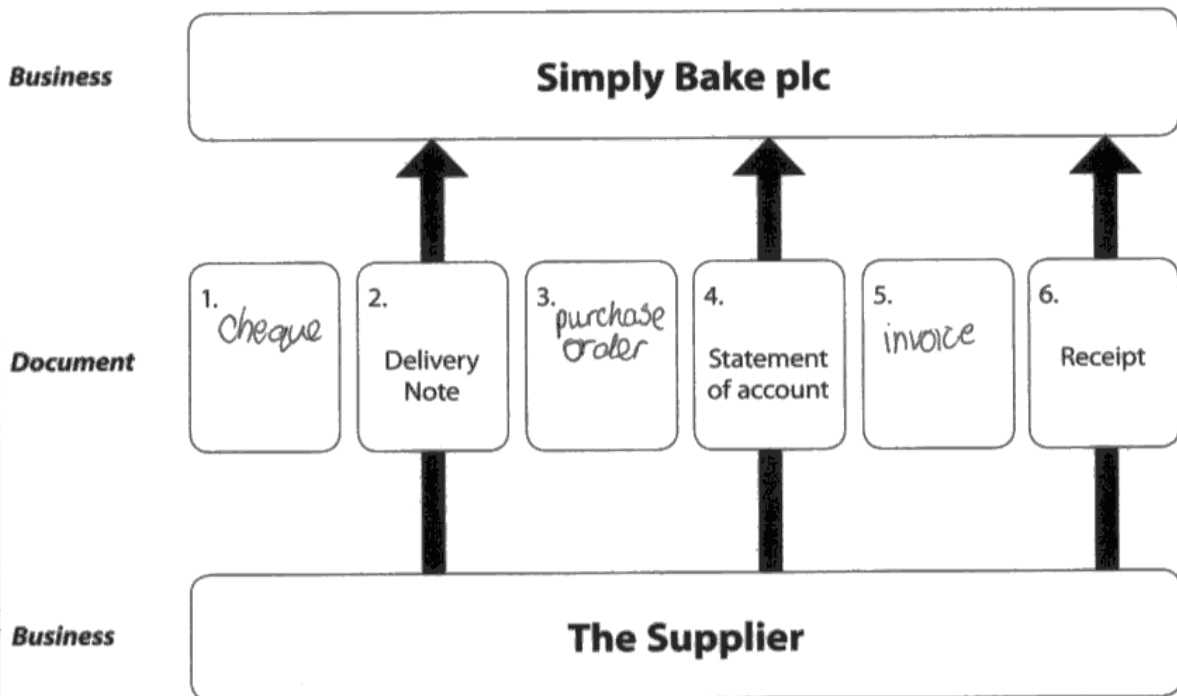
Your chart shows the order in which documents are sent when *Simply Bake plc* buys from a supplier. Each arrow points in the direction that the document takes.

(c) Complete the chart below.

- (i) In each of the three blank boxes 1, 3 and 5, write the name of **one** of the documents listed below in the correct order, from left to right. (3)

- Cheque
- Invoice
- Purchase order.

- (ii) Draw an arrow from boxes 1, 3 and 5 to show who sends the document and who receives it in light of your answer to (c) (i) above. (3)



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Examiner Comments

The candidate has not understood the purpose of each document. They have also failed to draw in the arrows to show the document flow.



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Examiner Tip

Read the question thoroughly and ensure you have carried out all instructions.

Question 1 (d) (ii)

Part (d) was well answered with candidates identifying the most appropriate payment methods in the context of *Simply Bake plc*.

Question 2 (a) (1)

Question 2a posed few difficulties for candidates with most showing an understanding of start-up and running costs and gaining full marks.

Question (2) (b)

The credit note completion in part (b) proved quite easy for many candidates. It was generally well answered with candidates gaining the 4 marks.

It was rare to see a blank response but there were many omissions as candidates failed to complete all the boxes required. Some candidates put only the name and address, others left the reason for return blank. Another common error was failing to use the correct format for money -the 0 was missing at the end of the price. Many put Tyson Ltd without an address and on occasions the credit note was addressed to Simply Bake. The responses for 'reason for return' tended to be brief but most referred to an incorrect number ordered. Some candidates lost marks as they returned all 20 cakes rather than the 10 that were not ordered. This would be an unlikely scenario. A number of answers gave the reason for return as if the Credit Note was from Tyson e.g. we did not order 20.

The candidate is instructed to complete the credit note using the given information.

(b) Please complete the credit note below.

Simply Bake plc
Credit Note


To: c Henderson
Tyson Ltd
105 Worcester road
Birmingham B30 4DL (1)

Your Returns Ref	Customer Account Number	Date	Invoice Number	Credit Note Number
805	2515	05/01/2011	677	524

Item Code	Quantity	Description	Unit Price	REFUNDED CHARGE
CC131	10	Chocolate caterpillar cakes	£3.95	£39.5

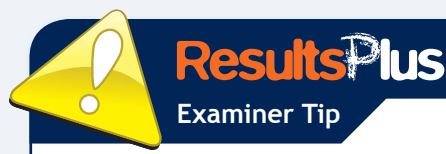
(2)

Reason for Return: 20 cakes sent out rather than the ten ordered



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Examiner Comments

The candidate has correctly filled in the credit note with the exception of the refunded charge. Here they have omitted to use the correct format for money - it should read £39.50.



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Examiner Tip

Money is in pounds and pence. Always ensure you have two figures in the pence column or after the decimal point.

Question 2 (c)

On the whole most candidates realised that the credit note was for a refund for the money owed by Simply Bake; only on occasions did they get it the wrong way round and say it was for Tyson Ltd.

Some candidates lost marks in as they did not answer the question 'What is the purpose of **this** Credit Note?' but instead gave general answers about the purpose of a credit note. Some confused a credit note with other financial documents.

Candidates were asked to give the purpose of **this** credit note.

(c) What is the purpose of this credit note?	(1)
to make sure a delivery is correct and that if if you have to send any back they can correct it	

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Examiner Comments

Many candidates gave a theoretical explanation of credit notes rather than applying their to **this** credit note response as directed.

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Examiner Tip

Basing questions on the given situation still seems to present difficulty for candidates. Always read the question and look out for emboldened words.

Question 2 (d)

On the whole 2(d) was well answered with many candidates picking up 3 marks but some candidates lost marks through simple errors. These included the supplier as 'Shirley's Tuck Shop', many putting in the wrong item reference, many giving the quantity as '12' and on occasions giving the wrong order number. These were also, on occasion, missing.

Some candidates failed to fill in the top half of the GRN but then put in the correct condition of goods. This part of the document also had errors, some put 25 in the Good Condition box, and although asked to indicate the number in the box many wrote to the side of the box rather than in it and only filled in one of the boxes.

Candidates were asked to complete the goods received note using the given information from the delivery note.

Shirley's Tuck Shop is a regular customer of *Simply Bake plc*. When Shirley's Tuck Shop receives an order of cakes it completes a Goods Received Note (GRN) to record the details of the goods received.

(d) On 7th December 2010, 25 boxes of chocolate mini rolls were delivered to Shirley's Tuck Shop but 2 boxes were damaged. Using the information on the delivery note complete the Goods Received Note.

DELIVERY NOTE
for order number 556

Simply Bake plc
Stable Lane
Newtown
NT14 3DS

Ref:	Item	Quantity	Price £	Total
32908	12 x chocolate mini rolls	25	1.05	£ 26.25
Goods Total				£ 26.25

Goods Received Note			
Shirley's Tuck Shop 106 Glyn Terrace Thomastown			
Supplier: <i>Simplybake plc</i> <i>Stable lane</i> <i>newtown</i> <i>NT14 3DS</i>			
GRN No. 2451		Date: 8th December 2010	
Quantity	Description	Item Ref	Order Number
<i>25</i>	<i>mini rolls</i>		<i>556</i>
Consignment No. 314589		Carrier: 2U Deliveries	
Received by: G Smith		Checked by: W Giles	
Condition of goods: please indicate number in each box	Good condition <input type="checkbox"/>		
	Damaged <input style="width: 30px; height: 20px; text-align: center; border: 1px solid black;" type="text" value="2"/>		

(1)

(1)

(1)

(Total for Question 2 = 13 marks)



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Examiner Comments

Some candidates failed to fill in all the required information. This response is missing the Item Ref and the number of cakes in Good Condition.



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Examiner Tip

Ensure you have completed all the required blanks to gain full marks.

Question 3 (a) (1)

Many candidates scored full marks for Q3. This question was well answered with most candidates able to correctly identify current assets, fixed assets and liabilities. The most common error was confusing fixed and current assets.

Question 3 (b)

In 3b some candidates did not cope with concept of delivery vehicles being fixed assets. Many referred to buildings as being a fixed asset; others said delivery vehicles 'weren't current because you can keep reusing them'. The most popular answer was that 'they would last over a year' and 'that they were long term' to gain one mark.

This question carries on looking at assets and liabilities.

Delivery vehicles are a fixed asset of *Simply Bake plc*.

(b) Outline why delivery vehicles would be classed as fixed assets.

(2)

Because delivery vehicles are needed for the business, otherwise the items that the customer order, they will not receive it without a delivery vehicle.



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Examiner Comments

This is a vague answer that does not show that the candidate understands what a fixed asset is. The business would need ingredients to make cakes and need staff to make them but this doesn't make them fixed assets.



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Examiner Tip

What is the characteristic of a fixed asset and how does this relate to a delivery vehicle?

Question 4 (a)

This question was generally well answered and candidates seemed well prepared for this question. Most candidates clearly outlined the nature and or content of the P and L account, many also clearly outlined the investors interest in the P and L account to gain full marks. Candidates lost a mark when they were unable to expand their answers by clearly outlining the investor interest in P and L accounts and a lack of stakeholder understanding was shown.

This question asks about the interest of a potential investor in the profit and loss account of Simply Bake plc.

- 4 *Simply Bake plc* is currently successful. It is considering purchasing new machinery to enable it to increase production.

To do this it needs to raise additional finance. The profit and loss account (income statement) and the balance sheet will be important documents for potential investors into the business.

- (a) Outline **one** reason why investors might be interested in *Simply Bake plc*'s profit and loss account.

(2)

To see wether or not there worth investing in. They want to see if ~~the~~ they're making a good amount of profit first otherwise the investors may lose money.



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Examiner Comments

A clear answer that shows the candidate's understanding.



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Examiner Tip

Be sure to answer precisely and remember to develop your answer to gain full marks.

- 4 *Simply Bake plc* is currently successful. It is considering purchasing new machinery to enable it to increase production.

To do this it needs to raise additional finance. The profit and loss account (income statement) and the balance sheet will be important documents for potential investors into the business.

- (a) Outline **one** reason why investors might be interested in *Simply Bake plc*'s profit and loss account.

because an investor wants to know ⁽²⁾
every single detail about the business



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Examiner Comments

This a vague answer that does not gain any marks. No understanding is shown and the answer has no development.



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Examiner Tip

Answer the question set - WHY will investors want to see the profit and loss account specifically? What does it show? Why will they be interested?

Question 4 (b)

This question was not answered well. Many candidates could not demonstrate a clear understanding of both the purpose and content of a Forecast Balance Sheet and subsequently the investors' interest in it in terms of investment decision making. A common misconception was that the balance sheet tells the potential investor about the profit levels of the business. Candidates frequently talked about 'profits', 'costs', or 'sales'. In addition, candidates often referred to the Balance Sheet in terms of showing calculations over the length of the financial year, rather than it being a predicted 'snapshot' of the company: assets, liabilities and overall worth in the future. Many candidates based their comments upon a balance sheet that has been constructed at the end of the financial year rather than referring to a forecast balance sheet

However, more able candidates could clearly demonstrate why a Balance Sheet would help with investment decision making.

This question is about forecast balance sheets and NOT profit and loss accounts. The Forecast Balance Sheet does not show calculations over the length of the financial year, it is a predicted 'snapshot' of the company: assets, liabilities and overall worth in the future.

(b) Suggest **four** reasons why a forecast balance sheet for *Simply Bake plc* could help a potential investor decide whether to invest in the business.

(4)

it will tell you what the buisness have made profit on and what the buisness have lost over so many months. If they have made any profits then they might want to invest in the buisness. The balance sheet will show everything on what the investor must know.



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Examiner Comments

This candidate does not understand what is shown in a balance sheet - it does not show profits or losses, it is not over a period of months and it will not show **everything** the investor will need to know!



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Examiner Tip

A balance sheet **DOES NOT** tells the potential investor about the profit levels of the business. Don't talk about 'profits', 'costs', or 'sales'.

Question 4 (c)

The question was answered well by many candidates who clearly demonstrated their knowledge and understanding of a suppliers' interest in the Profit or Loss of Simply Bake, especially in terms of deciding whether to continue or discontinue supplying goods to the business and the ability of Simply Bake to repay goods purchased on trade credit.

However, often many other candidates could not demonstrate their understanding of the suppliers' interest in the P and L account, which showed a lack of understanding in the role of this stakeholder in Simply Bake.

Occasionally the question was misinterpreted or misread, evidenced by candidates referring once again to the decision to 'invest' or to 'investors' and candidates were writing similar answers to why the investors would be interested in the profit and loss account and not referring to the suppliers.

This question looks at the interest of the stakeholder in financial records.

(c) Why might suppliers be interested in the **profit and loss account** (income statement) of *Simply Bake plc* and what this account shows?

(3)

Suppliers like to know they are deffinatley going to get paid and the profit + loss account would show them what money the business has, what it owes and what it has coming in. This will help make a decision as to whether they want to supply the company.

(Total for Question 4 = 9 marks)



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Examiner Comments

This answer clearly shows that the candidate understands the role of the supplier and why they would have interest in the profit and loss statement.



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Examiner Tip

Make sure you show that you understand why a stakeholder would want to see the document. Avoid vague answers such as 'to see if they are doing well' and 'to see if the business is healthy'.

Question 5 (a)

The question was generally answered less well by candidates, essentially many candidates had not clearly identified in the scenario the sector and nature of Business to which Simply Bake plc belong. Answers frequently referred to 'the shop' or to 'reducing queues at the tills' rather than 'a busy bakery' with 'machinery' involved in 'cake production'. Many candidates frequently attempted answers based solely on their knowledge of Bar Code Readers as consumers in a store.

Candidates would be advised to understand the usage of ICT (such as Bar Code Readers) in differing business sectors and industries. There was some confusion as to what a bar code reader actually does - a number of candidates were saying that they would be able to stop people from stealing from the business as the bar code reader would activate alarms.

Some candidates showed good understanding of the use of Bar Code Readers in stock control. Others explained how Bar Code Readers could identify product information and how they would increase the efficiency of the business, thus cutting labour costs.

This question is awarded 2 x 3 marks and to get these marks one advantage and one disadvantage need to be identified and these should be followed by two clearly identifiable linked statements which are in context. These may contain connective words such as 'because', 'this leads to', resulting in' etc.

5 *Simply Bake plc* uses many forms of Information and Communications Technology (ICT). One of these is a Bar Code Reader.

(a) Explain **two** benefits of Bar Code Readers to *Simply Bake plc*.

(6)

One benefit to *Simply Bake plc* is for having a Bar Code Reader is that it save time and ~~more~~ resources. Rather than pricing and labelling each product, *Simply Bake* are able to use the Bar Code to price items, once ~~the~~ ^{an} items ~~is~~ scanned they price will automatically come up, along with ~~the~~ name and description of the product so staffs will know it is correct.

Another Benefit ~~to~~ of *Simply Bake plc* using Bar Code Readers is that they automatically update records. Once something is scanned through the Bar Code Reader the system will automatically reduce the number of stock for that item. ~~T~~ As a result this Bar Code Reader saves time and ~~also~~ reduces the risk of mistakes occurring if they were to use ~~normal~~ ^{manual} pricing and inventory tests.



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Examiner Comments

The candidate has clearly identified that the bar code reader will save time and resources, and can automatically update records. Each part of the answer is linked.



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Examiner Tip

Read the question - this question asks for TWO benefits. Listing as many benefits as you can think of cannot gain you more marks as each benefit must be expanded upon and developed.

5 *Simply Bake plc* uses many forms of Information and Communications Technology (ICT). One of these is a Bar Code Reader.

(a) Explain **two** benefits of Bar Code Readers to *Simply Bake plc*.

(6)

~~The~~ Bar code readers are good for simply because then they can quickly scan the item of goods and the computer ~~has~~ has all of the information so they get through more customers than calculating the money up on a machine and if ~~they~~ a customer wants to see the information of an item ~~the~~ the worker just scans the item and the information comes up on ~~the~~ the computer screen.



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Examiner Comments

The candidate understands the concept of bar code readers scanning and storing item information and therefore they can 'get through more customers' for which they gain marks, but they then continue along the vein of a retail environment.



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Examiner Tip

Remember the context of the scenario - a busy bakery producing cakes for customers such as Tyson's Ltd. It is unlikely to have customers visiting and asking staff to find prices.

Question 5 (b)

The question was generally well answered by candidates who could explain one advantage and one disadvantage of computerised accounting systems. Unfortunately there were a large number of candidates that were referring to the use of a spreadsheet rather than a computerised accounting system. There were many answers that were geared around the use of formulas and automatic calculations

The stronger answers clearly explained and developed the advantages and disadvantages of the new computerised accounting system, explaining what the advantage or disadvantage is; why it would be better or worse than the manual system and going on to clearly explain the effects on the business in terms of efficiency, time, costs, accuracy, customer relations etc. The better answers were those that were related to training and extra costs as they showed good knowledge and understanding.

Frequently, however, candidates failed to fully develop their answers to be awarded the full 3 marks for each of the advantage and disadvantage stated. Some candidates choose to offer a range of advantages and disadvantages, with little development of each which also limited their marks.

5b is awarded 2 x 3 marks and to get these marks one advantage and one disadvantage need to be identified and these should be followed by two clearly identifiable linked statements which are in context. These may contain connective words such as 'because', 'this leads to', 'resulting in' etc.

You are showing Kerry Ann how the accounts are produced at *Simply Bake plc*. The company has recently purchased a computerised accounting system to prepare financial documents and update accounting records.

(b) Explain **one** advantage **and** one disadvantage to *Simply Bake plc* of this new computerised accounting system over the previous manual system.

(6)

An advantage of using a computerised accounting system over manual system is that error is less likely. This is because manual systems are done by people which always increases the chance of human error and the error could be costly as it may take time and money to fix the problem. A computerised accounting system is automatic, so figures are made more accurate and can be easily changed if needed. A disadvantage is that time is needed to train staff how to use them. This is a problem because the time needed to train them will cost money and the time wasted could have been used to make more profit for the company business. A manual system is simple to learn and less time is needed to train people, meaning more money saved.

(Total for Question 5 = 12 marks)



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Examiner Comments

The candidate has clearly identified one advantage and one disadvantage and developed each part of the answer - each is linked. This scores the full 6 marks.



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Examiner Tip

Look at the command word, in this case 'explain'. A bulleted list however long could only be awarded 1 mark for an advantage and 1 for a disadvantage as there would be no further development.

Question 6

This was the 'extended answer' element of the paper to include Quality of Written Communication. Although there are still a number of candidates who are not even attempting the last question the question was answered on the whole far better than in the previous exam series. Most answers were written in extended prose rather than as bullet points, which is encouraging, and there were some good attempts.

Many candidates were able to calculate the ratios but made no comments about what they had calculated nor attempted any analysis. Some made only simple statements. This limited them to 3 marks.

Many candidates accurately calculated the ratios. Most candidates looked at both liquidity and profitability in their answer as requested, however, frequently candidates did not fully read the question and use the given information to formulate their answer, and instead they focussed exclusively on either liquidity or profitability.

Most candidates understood the meaning of liquidity and its importance in the 'payment of debts'. Other candidates, however, did not understand the meaning of liquidity often relating the given data within their answer to profit and or loss completely out of context. In addition many candidates were unable to discuss or relate their calculated ratios to the business' ability to pay its debts or whether the business had enough surplus current assets to utilise in other areas.

Many candidates however did clearly understand these concepts and some students were able to provide a fully reasoned and justified answer and conclude their discussion based on the liquidity and profitability position.

Weaker candidates formulated an answer based on minimal assessment, had poor data accuracy and only a basic understanding of the business concepts involved. Many of these candidates gave generic answers about the importance of and relevance of ratios and simple statements that referred to the business 'doing well'.

The calculations were sometimes incorrect, often the decimal point was either omitted or in the wrong place. Often the NPM and GPM were shown as £s rather than in the form of a percentage, as a ratio (:1), or as a number, all of which are incorrect. These candidates failed to draw any conclusion that the shareholders may have wished to hear.

The better candidates made some excellent attempts. Answers were made in an ordered manner with correct financial terminology and written with the Board of Directors in mind. Accurate calculations were given plus a full analysis of the findings. These candidates were able to use the data in a way that concluded as to whether the liquidity and profitability position did appear suitable to the shareholders of Simply Bake plc.

The final question is evaluative and also is marked for QWC.

*6 *Simply Bake plc* has an upcoming meeting with its shareholders and wants to tell them about the **profitability** and **liquidity** of the company. The accounting department has sent you the following information taken from *Simply Bake plc* financial statements (final accounts) for 2008 and 2009.

	2009	2008
	£	£
Sales	2 175 000	1 800 000
Gross profit	653 000	540 000
Net Profit	108 750	36 000
Capital Employed	1 000 000	1 000 000

They have calculated some ratios to show the company's performance over two years.

	2009	2008
Current Ratio	1.6 to 1	1.3 to 1
Acid Test Ratio	1.5 to 1	1.2 to 1

They realise that you may need to calculate more ratios to be able to assess the financial performance of the company. They have supplied you with the following table which contains the formulas, which might be of use to you.

Ratio	Calculation
Return on Capital Employed	$\frac{\text{Net Profit}}{\text{Capital Employed}} \times 100\%$
Net Profit Margin	$\frac{\text{Net Profit}}{\text{Sales}} \times 100\%$
Gross Profit Margin	$\frac{\text{Gross Profit}}{\text{Sales}} \times 100\%$

Using the above information, calculate any relevant ratios and assess the **liquidity** and **profitability** of *Simply Bake plc* compared with the previous year.

(10)

Return on Capital employed 2008 - 3.6%
 2009 - 10.87%
 Net profit margin 2008 - 2%
 2009 - 5%
 Gross profit margin 2008 - 30%
 2009 - 30%

The acid test ratio and the Current ratio show that the business is being ran efficiently because the number for both of them is between 1 and 2. The business is efficient for both years. This means that the business would have enough money to pay off debts, however they would still have some money left over from it. The liquidity and profitability was alot better in 2009 than it was in 2008. This is shown when you look at the Return on capital employed, Net profit margin and Gross profit margin. However ~~for~~ the gross profit margin for ~~the~~ 2008 and 2009 hasn't changed, it stayed at 30%. this shows that the gross profit was an equivalent ratio to the sales for both years. ~~§~~ But the Return on capital employed and Net profit margin increased in 2009.



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Examiner Comments

The answer is clearly written and the candidate has correctly calculated the ratios. There is mention of both liquidity and profitability but the answer is mostly statements with little development and it lacks a conclusion. It scored 6 marks out of 10.



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Examiner Tip

To gain the higher marks you need to show evaluation e.g. what could have caused the the figures to rise or fall? What will be the consequences of this? What would be your conclusion to the Board of Directors?

The final question is evaluative and also is marked for QWC.

Using the above information, calculate any relevant ratios and assess the **liquidity** and **profitability** of *Simply Bake plc* compared with the previous year.

(10)

2009 Return on Capital Employed = £ 10.88

2009 Net profit margin = £ 5.00

2009 Gross profit margin = £ 30.02

2008 Return on Capital Employed = £ 3.60

2008 Net profit margin = £ 2.00

2008 Gross profit margin = £ 30.00



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Examiner Comments

The candidate has attempted to calculate the ratios but has shown them with a £ sign rather than a %. This is incorrect and cannot score any marks. The candidate has not attempted to make any further comment on their findings.

If the ratios had been correct the candidate could have scored 2 marks but nothing more without evaluation.



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Examiner Tip

Don't spend too much time on calculation when you are already given a great deal of information which you could evaluate to gain marks.

Overall candidates coped well with the paper but some failed to apply their answers to the given scenario. Specific application will remain a key theme of this paper, and centres are therefore once again encouraged to work closely with their candidates to ensure they cope with this particular challenge.

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