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Examiners' Report

June 2011

GCSE Applied Business 5AB04 01

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## Introduction

This was the second paper to be sat for the Applied Business qualification (double award) which is available in June each year. The paper was based on Bryn Farm. 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. The next paper in June 2012 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 this practice will continue. There were six questions in total. The paper was designed to assess candidates across the full GCSE ability range, and achieved this, proving to be accessible to all. Quality of Written communication was assessed in question 6 and this was indicated by an asterisk (\*6).

The 60 minutes seemed sufficient. 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 on-line 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.

### Question 1 (c)

Most candidates correctly calculated the closing balance for January.

### Question 2 (a) (i)

Most students showed knowledge of the cash flow forecast procedure and the majority of candidates identified August as the problem month.

August (1)



**ResultsPlus**  
Examiner Comments

A perfect answer - there is no need to write any more than the month.

### Question 2 (a) (ii)

Generally this question was answered well but some candidates failed to give a cause for the cashflow problem.

(ii) State **one** possible cause of this problem. (1)  
Bethans payments were greater than her receipts



**ResultsPlus**  
Examiner Comments

A concise correct answer.

## Question 2 (a) (iii)

Some candidates failed to take notice of the given scenario. Although Bethan would only have one month where she would have a shortfall many candidates suggested that Bethan should take out a loan. This would not be a likely choice.

(iii) Suggest **two** possible actions Bethan could take to help resolve her cash-flow problem.

(2)

Bethan can take a short term loan such as overdraft to ~~pay the~~ help with the problem or reduce the ~~expense~~ payment to make the net inflow/outflow be positive.



**ResultsPlus**  
Examiner Comments

This scores two marks for two realistic actions.

(iii) Suggest **two** possible actions Bethan could take to help resolve her cash-flow problem.

(2)

An overdraft. or she could just carry on until next month



**ResultsPlus**  
Examiner Comments

This scores one mark for 'overdraft' but the second action is too vague to be awarded a mark.

(iii) Suggest **two** possible actions Bethan could take to help resolve her cash-flow problem.

(2)

Borrow money from friends or family, or use an overdraft. As these are relatively short term solutions.



**ResultsPlus**  
Examiner Comments

This is a good answer firmly in the context of the scenario.

## Question 2 (b)

This question was generally answered well with many candidates gaining full marks. Some candidates failed to think realistically about Bethan using a computer as hacking of her accounts would be unlikely on the farm.

Bethan uses an electronic spreadsheet to help prepare her cash-flow forecast.

(b) State **three** advantages and **three** disadvantages to Bethan of using electronic spreadsheets to prepare her cash-flow forecast.

(6)

Advantage 1 The electronic spreadsheets sum up all the sums automatically, so you don't need to work them out

Advantage 2 If you change one thing then everything else automatically changes.

Advantage 3 The spreadsheets can be saved, printed, edited and can then be printed and saved again

Disadvantage 1 A dis-advantage of using a spreadsheet is that one mistake will automatically change everything and the spreadsheet may be ruined.

Disadvantage 2 If the computer crashes or if there is an electronic problem, then the spreadsheet might be lost.

Disadvantage 3 Although it does the sums automatically, you still have to input the formula's.



**ResultsPlus**

**Examiner Comments**

A good answer in context that is awarded 6 marks.

Bethan uses an electronic spreadsheet to help prepare her cash-flow forecast.

(b) State **three** advantages and **three** disadvantages to Bethan of using electronic spreadsheets to prepare her cash-flow forecast.

(6)

Advantage 1 *Computers does the calculations.*

Advantage 2 *saved where you know you can find it.*

Advantage 3

Disadvantage 1 *Can be lost easily.*

Disadvantage 2 *Computer could calculate wrongly*

Disadvantage 3



**ResultsPlus**

**Examiner Comments**

The candidate has written very brief answers that do not fully explain and only gains one mark.  
Most of these could also equally apply to paper documents.



**ResultsPlus**

**Examiner Tip**

Be sure that the advantages and disadvantages could not also apply to other methods of preparing a cash flow.

### Question 3 (a)

Many candidates showed understanding of the concepts of budgetary planning and controlling Bethan's spending but some repeated this, therefore losing marks.

Many candidates thought that rather than a budget being used to control spending it would 'stop overspending' which is incorrect.

- 3 Bethan wants to improve one of the barns to enable her to carry out her plans of organising children's birthday parties. Her plans involve building work on the barns, purchase and installation of equipment and the possibility of employing more staff. She knows that this will involve additional costs.

Bethan has been advised that she should prepare a cash budget.

- (a) Outline **one** way a **cash budget** helps Bethan plan for the proposed changes to her business.

(2)

a cash budget means she would set herself a certain amount to spend. This would help because otherwise she may over spend and go bust.



**ResultsPlus**

**Examiner Comments**

The candidate understands the concept of budgetary control and who that might help to prevent overspending.

A cash budget gives her a target to aim for and it also stops Bethan from over spending ~~her money~~



**ResultsPlus**

**Examiner Comments**

The candidate again has the concept of control but a budget will not STOP Bethan from overspending.



### Question 3 (b)

Few candidates managed to gain more than 2 marks for this 4 mark question. Most of the candidates who did manage to gain marks recognised that the capital expenditure would help to plan which was a benefit. Most candidates struggled to develop this appropriately for more marks.

Many candidates confused a capital expenditure budget with a cash budget. Many did not use the information given in the scenario and in the rubric about Bethan's plans but used generic terms such as 'purchase of large items' thus failing to actually apply their knowledge.

Many candidates who gained two marks repeated what they had already said e.g. 'The budget will allow her to plan her spending on the new part of the farm. The farm will have some extra costs which need to be planned'.

producing a capital expenditure budget will to plan how much money she will need to ~~spend on~~ spend on machinery or building extensions separately to her smaller ~~budget~~ cash budget.  
It will help her plan the work more efficiently as she will have to stick to her price budget when hiring equipment to do major development work on the barns.



#### ResultsPlus Examiner Comments

This answer gains only 2 marks of 4 as the candidate has talked about planning twice.



#### ResultsPlus Examiner Tip

If asked to outline your answer must give a benefit and a development.  
Be sure that each benefit is different and you do not repeat yourself and so lose marks.

it will give her a outline of what and when she needs to spend her money on, also the business will be okay if planned the money spent on the right things



#### ResultsPlus Examiner Comments

This answer gains one mark for the concept of planning.

### Question 3 (c)

Most candidates correctly calculated the production budget but not all showed their workings as required by the question.

**Costs to Bryn Farm**

Cost of making each lunch £2.50

(c) Using the information above calculate the total production budget for July to September. Show your workings. (2)

**Space for your workings**

$$\begin{array}{r} 360 \times 2.50 = 900 \\ 380 \times 2.50 = 950 \\ 240 \times 2.50 = \underline{600} \\ \hline \pounds 2,450 \end{array}$$


#### ResultsPlus Examiner Comments

A perfect answer gaining 2 marks that shows the workings and the answer.



#### ResultsPlus Examiner Tip

If asked to show your workings be sure to do so!

**Space for your workings**

$$\begin{array}{r} \text{July} = 2.50 \times 360 = 900 \\ \text{August} = 2.50 \times 380 = 950 \\ \text{September} = 2.50 \times 240 = \underline{600} \\ \text{Total} = \qquad \qquad \qquad \underline{2,450} \end{array}$$


#### ResultsPlus Examiner Comments

Another perfect answer showing workings and answer.

Bethan has calculated the following production figures for July to September in the cafe.

Month	Number of lunches to make
July	360
August	380
September	240

**Costs to Bryn Farm**

Cost of making each lunch £2.50

(c) Using the information above calculate the total production budget for July to September. Show your workings.

(2)

**Space for your workings**

$$360 + 380 + 240 = 980$$

$$\frac{980}{2.50} = 392$$

$$£392.$$



**ResultsPlus**

**Examiner Comments**

The candidate has correctly started the calculation with 980 lunches but has then divided this by the cost of making each lunch instead of multiplying. They therefore lose both marks.

### Question 3 (d)

Most candidates gave an answer that was both realistic and in context. Some candidates wrote evaluative answers about what Bethan should do rather than addressing the questions she needs to ask before budget preparation.

(d) State **three** factors Bethan might need to consider when preparing the new budgets.

(3)

1. She needs to look at the cafe's history of expenditure and income.
2. The cost of produce, and whether this can be found anywhere else cheaper.
3. Investigate into whether she can save any money in a department.



**ResultsPlus**  
Examiner Comments

This answer gives three factors in context and is awarded the full 3 marks.

(d) State **three** factors Bethan might need to consider when preparing the new budgets.

(3)

She must consider previous budgets to whether they were accurate or adjustments need to be made. She must consider unexpected costs that may come up as money may need to be spare. She must also consider new changes to costs that will effect the budget or an increase in lunches that need to be made.



**ResultsPlus**  
Examiner Comments

Another answer in context with 3 appropriate factors.

(d) State **three** factors Bethan might need to consider when preparing the new budgets.

(3)

less prices

more advertising

more budget



**ResultsPlus**  
Examiner Comments

This answer gives three points but it is hard to see what the candidate means and how they would apply to preparing new budgets.

## Question 4 (a)

The table was on the whole clearly written and most candidates showed their understanding of what was required to be correctly calculating the May variance. Some confused the '+' and '-' signs but correctly identified whether the variance was adverse or favourable.

4 Bethan has sent you an email with the figures from *Bryn Farm's* shop from May.

These are our figures from May. I don't think we did as well as I expected.

Unfortunately we had some unexpected repair work which cost us £450, and we had a wage bill to pay out which came to £500. Our sales figures were okay I think – it showed that we sold £2 000 of food products and £1 000 in gifts.

Could you take a look at how we did against our budget for May and let me know?

**Bethan**

(a) Using the information in Bethan's email, complete the table below.

- (i) Show the **Actual** and the **Variance** for the month of May.
- (ii) State if the variances are **adverse** or **favourable**.

The first one has been completed for you.

(4)

	May Budget	May Actual	May Variance (£)	Adverse/ Favourable?
Other Costs	£200	£450	-£250	Adverse
Revenue	£4000	£3000	-£1000	Adverse
Wages	£600	£500	£100	Favourable



**ResultsPlus**  
Examiner Comments

A perfect answer that scores the full 4 marks.

	May Budget	May Actual	May Variance (£)	Adverse/ Favourable?
Other Costs	£200	£450	-£250	Adverse
Revenue	£4000	£3000	£1000	Favourable
Wages	£600	£500	£100	Favourable



**ResultsPlus**  
Examiner Comments

This candidate has the correct figures but incorrectly has both variances as favourable and so loses 1 mark.

## Question 4 (b)

Overall this question was answered well and in context with most candidates achieving 3 marks. Fewer candidates gained the fourth mark for a well developed consequence. However a number of candidates lost marks as they did not provide any specific comments regarding details of the budget variances. A large number failed to recognise that the revenue variance was adverse. Many general comments were regarding performance – e.g. they did okay in May; May was a good month. Some candidates incorrectly made references to profit.

4 Bethan has sent you an email with the figures from *Bryn Farm's* shop from May.

These are our figures from May. I don't think we did as well as I expected.

Unfortunately we had some unexpected repair work which cost us £450, and we had a wage bill to pay out which came to £500. Our sales figures were okay I think – it showed that we sold £2 000 of food products and £1 000 in gifts.

Could you take a look at how we did against our budget for May and let me know?

**Bethan**

(a) Using the information in Bethan's email, complete the table below.

- Show the **Actual** and the **Variance** for the month of May.
- State if the variances are **adverse** or **favourable**.

The first one has been completed for you.

(4)

	May Budget	May Actual	May Variance (£)	Adverse/ Favourable?
Other Costs	£200	£450	-£250	Adverse
Revenue	£4 000	£3 000	£1 000	Favourable
Wages	£600	£500	£100	Favourable

(b) Using the information and figures from the table above, comment on your findings for May.

(4)

Only 'other costs' were adverse as they unexpectedly had to pay £250 then they thought they would. This is unfavourable as both revenue and wages were favourable.



**ResultsPlus**  
Examiner Comments

This brief answer scores only 2 out of 4 marks.



## Question 4 (c)

Many candidates lost marks as they were unable to identify that the revenue line would stay the same. Also few candidates were able to describe that the total cost line becomes steeper - many candidates used simplistic terms e.g. 'the line moves up' or 'it goes higher' which cannot be awarded marks. A significant number were able to answer the break even section correctly.

There were quite a number of candidates who simply explained the meaning of the terms or each line rather than answering the question e.g. 'Fixed cost is a horizontal line across the page'.

Bethan has drawn up a break-even chart for her tea room. However, her food suppliers are planning to increase their prices. This will affect Bethan's break-even chart.

(c) Given this information, state what happens to the following and why.

- Total revenue line
- Total costs line
- Break-even point.

### Total revenue line

(2)

This line will not change at all as Bethan still generates the same amount of revenue from each sale as she did before the cost increase.

### Total costs line

(2)

This line will become steeper as the cost for each sale has increased so variable costs have increased.

### Break-even point

(2)

The Break-even will require a larger number of sales due to the total costs line being steeper due to the increase in total costs without the revenue generated changing.

(Total for Question 4 = 14 marks)



**ResultsPlus**  
Examiner Comments

A perfect answer that is awarded all 6 marks.



**Total revenue line**

(2)

The line will be ~~steeper~~ ~~becaus~~ become less steep than it was before because they're not making as much cash as they're paying more for supplying food.

**Total costs line**

(2)

This line will become steeper because they're paying more towards their food suppliers.

**Break-even point**

(2)

This point will move further right along the x axis as they will have to make an uncreased amount of ~~£~~ money to cover the costs of supplying.

(Total for Question 4 = 14 marks)



**ResultsPlus**

**Examiner Comments**

This candidate loses 2 marks as they have incorrectly stated the TR line will move.

## Question 5 (a)

Candidates showed an understanding of the term break even, break even analysis and break even point with most arriving at the correct answer of 5 parties. Some candidates indicated the break even level from the given numerical information in terms of cost, or months e.g 4.2; £5; 4 months although the question clearly stated break even number of parties.

- 5 Bethan has estimated that the fixed costs for the birthday parties will be £1 000 per month. She is planning to charge a price of £250 for each party and has worked out that the variable cost of each party is £50.

(a) Calculate the break-even number of parties that Bethan must organise each month in order to break even. State the formula and show your workings.

(3)

**Space for your workings**

$$\frac{1000}{250 - 50} = \frac{\text{fixed costs}}{\text{the contribution}}$$
$$= 5$$



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Examiner Comments

This answer shows how the candidate has arrived at the correct answer of 5.

**Space for your workings**

$$\begin{array}{r} 3 \times 250 = 750 \\ 3 \times 50 = 150 \\ \hline 900 \end{array}$$

3 parties



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Examiner Comments

The candidate has incorrectly calculated breakeven.

## Question 5 (b)

A large number of candidates failed to gain any marks for this question as they were unable to describe margin of safety correctly. Some candidates picked up a mark for identifying that it allows for a sudden fall in revenue or sales. Few made any reference to the fact that it allows for security - some candidates used the term "safety net" or made a weak attempt e.g. "The margin of safety keeps the business safe".

Bethan would like to organise more parties per month than the break-even number.  
This would give her a margin of safety.

(b) Outline why a margin of safety would be important to Bethan's business.

(2)

It allows her more security in the business as the margin of safety shows how much the sales would have to decrease by to make a loss. She can see by this what sales she has to make to ensure she isn't making a loss and breaking even.



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Examiner Comments

This candidate gives a correct and developed answer and gains 2 marks.

Bethan would like to organise more parties per month than the break-even number.  
This would give her a margin of safety.

(b) Outline why a margin of safety would be important to Bethan's business.

(2)

The margin of ~~safety~~ safety would be important to Bethan's business because she could work out how many parties she needs to make a break even.



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Examiner Comments

This candidate is describing breakeven rather than margin of safety and so cannot gain any marks.

## Question 5 (c)

Many candidates did not gain marks for describing what a forecast profit and loss without repeating the question. However the majority of candidates could describe what a forecast cash flow showed although fewer gained the second mark for this part of the question.

Many candidates failed to be awarded marks for the Profit and Loss question as they simply repeated the question e.g. 'A profit and loss account shows you the predicted profit and loss' and most failed to realistically apply the document to the situation at the farm.

Cash flow was handled much better however some candidates gave a simplistic answer e.g. 'It shows the flow of money'

Bethan plans to create a play area for the children attending the parties. She is planning to buy a range of play equipment. She knows that she will need to make some forecasts before finalising her plans. Bethan is planning to produce a forecast profit and loss account and a cash-flow forecast.

(c) What are these two documents and how will they help Bethan with her plans?

(i) Forecast profit and loss account

(2)

This will plan the businesses ~~the~~ profit and losses over a set time period.

(ii) Cash-flow forecast

(2)

this is a document which will show the money which she wants to come into and out of the business over a set period of time.



**ResultsPlus**  
Examiner Comments

The first part of the answer repeats the question and so is not awarded any marks. The second part is correct and gains 1 mark as it lacks development.

### Question 5 (d)

Most candidates scored three marks for this question as they correctly identified the three factors.

Bethan knows that the cash-flow forecast may differ from the cash-flow statement.

(d) State **three** factors that could affect the outcome of her cash-flow forecast.

(3)

If the products price rises then it will cause a great outcome, as well as if the company needs to buy more equipment than first estimated, and if the cost to renovate one of the bars is higher than first thought.

(Total For Question 5 = 12 marks)



**ResultsPlus**  
Examiner Comments

This answer scores all 3 marks.

## Question 6

This question asked candidates to make a judgement as to which source of finance would be best for Bethan in her situation at the farm. Some candidates were unsure of the term 'leasing' and spoke more generally about renting.

A significant number of candidates were able to gain marks within the higher end of level 2 recognising and discussing benefits and drawbacks of their chosen option and balancing their decision effectively. There were quite a number of very good answers within level 3 but marks were lost when conclusions drawn repeated what had been said in the body of the answer. Weaker answers were lacking in balance.

Unfortunately a number of candidates lost marks for poor quality of written communication. As this is an extended answer bullet points are not appropriate for this question.

Bethan is researching different types of finance for the play equipment. This includes a wooden tree house and climbing frame. She has researched prices on the internet and discovered that suitable equipment for large groups of children are priced between £3 500 to over £10 000.

Bethan is considering two options to raise the finance for this equipment.

**Option 1** – Retained profits. *— own equipment. to buy may be easier. no penalties. # paying not using. no obligation to pay monthly fees.*

**Option 2** – Leasing from *Play Success*, a specialist supplier. *— cheap. better stuff may become available.*

\*6 Suggest which of these sources of finance would be the best for Bethan to choose. Justify your answer.

Source chosen (tick one box only):

Retained profits

Leasing from *Play Success*, a specialist supplier (8)

I think retained profits would be the best source of finance to use.

Bethan would own the equipment herself and would do what she wanted with it. She would incur no fines or penalties from the supplier if the equipment was damaged.

She would also be under no obligation to pay monthly fees to supplier as she would have bought it outright with her own money. Also, although leasing may appear cheaper in the short-term, over a longer period of time, it may prove more expensive than buying the equipment.

On the other hand, if Bethan wanted an upgrade on the equipment, it would be harder to do this with retained profits. Also, ~~using~~ <sup>with</sup> retained profits, <sup>it</sup> would take longer to generate the ~~money~~ funds to buy the equipment.



compared to leasing.

Overall however, I feel using retained profits to buy the equipment would be the best source of finance as Bethan would own the equipment outright and it would be more cost-effective in the long-term, which is better as she is probably planning on keeping the equipment for a long time.



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Examiner Comments

This is a well developed answer that gains 7 marks and is in level 3.

Because she knows the money is there, she doesn't have to pay a fixed amount back and she wouldn't be in debt with the supplier/company.

Also by using profits she hasn't lost money, just invested her own money into a profitable idea.

Having this play equipment could mean she can put the price of the parties up, making a profit in the long run.



**ResultsPlus**  
Examiner Comments

This is a brief level 2 answer that gains 3 marks. It lacks application and reasons/causes/consequences to gain higher marks.

## Summary

Candidates often repeated the stem of the question before giving their answer – this wastes time and takes up space allocated for the candidate response. Some examples of this are question where candidates have started their answer with the stem e.g. Q3(a) 'One way in which a cash budget would help Bethan plan for the proposed changes to her business would be...'

A noted area of weakness was in candidates' answers to questions that required specific application - for example, question 2(a) on this paper referred to the situation of a cash shortfall for the month of August at Bryn Farm and question 2(b) asked the candidates about the use of spreadsheets in the context of Bryn Farm. Basing some questions on the given situation often presents 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.

Another area of weakness was the candidates' unfamiliarity with the command words used e.g. outline, explain, examine, assess. These should be reinforced in practice sessions to ensure the candidates understand how to gain maximum marks.



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