

Mark Scheme (Results)

Summer 2012

GCSE Applied Business (5AB04)
Paper 01

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Q	Answer	Mark	AO
1a	C: trade credit	(1)	AO1 x 1
1b	D: pay debts	(1)	AO1 x 1
1c	B: cash outflows	(1)	AO1 x 1
1d	B : formulas can be used to calculate the results	(1)	AO1 x 1
2a	<p>1 mark for an appropriate definition.</p> <p>A budget is an estimate of income and/or expenditure for a set period of time/a financial plan (1)</p>	(1)	AO1 x 1
2b	<p>1 mark for an appropriate benefit of using a cash budget and 2 marks for development.</p> <p>Candidates may mention planning, monitoring, control or forecasting as part of their answer.</p> <p>A cash budget will help control the cash inflows and outflows for Just Gorgeous (1) for a specific period of time (1) allowing the business to have better control of its finances (1)</p> <p>A cash budget will enable Lucy to plan the amount she will spend against the amount coming in (1) and therefore she can identify times when there will be cash shortages (1) and can decide if she needs a loan (1)</p> <p>Accept any other appropriate answer.</p>	(3)	AO2 x 2 AO3 x 1
2c	<p>1 mark for an appropriate reason for monitoring all budgets frequently and 2 marks for development.</p> <p>Answers must refer to the frequency of monitoring (may be implied) and not the setting of budgets.</p> <p>They are only a prediction/estimate (1) so Lucy needs to check performance regularly (1) to see if they are on target/check for any variance (1)</p> <p>Analysing variances helps identify potential problems (1) and enables Lucy to seek potential remedies (1). This makes the running of the business more effective (1)</p> <p>Accept any other appropriate answer.</p> <p>Do not accept vague answers such as 'to see how the business is doing' ; 'to see how much is going in and out' or 'to make sure she doesn't go over'</p>	(3)	AO2 x 2 AO3 x 1

<p>2d</p>	<p>1 mark for each correct reason why the actual and forecast budgets may differ, up to a maximum of 4.</p> <p>Possible answers may include:</p> <ul style="list-style-type: none"> • Forecast budgets are a prediction • Less was sold than expected • More was sold than expected • More money made on each sale than expected • Less money made on each sale than expected • Increase in expenditure • Decrease in expenditure • Unrealistic budgeting • Trend for wallpaper may change • New competitors in the market • Budget figures may be out of date • Unexpected price increases • Human error • Faulty arithmetic in the budget/actual figures • A change in the external environment <p>Accept any appropriate reason</p>	<p>(4)</p>	<p>AO2 x 4</p>																								
<p>3a</p>	<p>1 mark for each correct entry.</p> <table border="1" data-bbox="188 1115 1241 1505"> <thead> <tr> <th>2013</th> <th>January (£)</th> <th>February (£)</th> <th>March (£)</th> </tr> </thead> <tbody> <tr> <td>Total Receipts</td> <td>3 600</td> <td>4 000</td> <td>5 200 (1)</td> </tr> <tr> <td>Total Payments</td> <td>4 000</td> <td>3 750</td> <td>4 600</td> </tr> <tr> <td>Net Inflow/outflow</td> <td>-400</td> <td>250 (1)</td> <td>600</td> </tr> <tr> <td>Opening Balance</td> <td>1 000</td> <td>600</td> <td>850</td> </tr> <tr> <td>Closing Balance</td> <td>600 (1)</td> <td>850</td> <td>1 450 (1)</td> </tr> </tbody> </table>	2013	January (£)	February (£)	March (£)	Total Receipts	3 600	4 000	5 200 (1)	Total Payments	4 000	3 750	4 600	Net Inflow/outflow	-400	250 (1)	600	Opening Balance	1 000	600	850	Closing Balance	600 (1)	850	1 450 (1)	<p>(4)</p>	<p>AO1 x 4</p>
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<p>3b</p>	<p>1 mark for an appropriate effect of negative cashflow and 2 marks for development.</p> <p>Negative cash flow will mean that Lucy has no cash for investment (1) which may affect her plans for a personal design service (1) and so restricting expansion of the business (1)</p> <p>Negative cash flow will make it difficult to pay suppliers (1) which means they may have to borrow (1) resulting in additional interest costs (1)</p> <p>Accept any other appropriate answer.</p>	<p>(3)</p>	<p>AO2 x 3</p>																								

<p>3c</p>	<p>1 mark for one appropriate way of managing a negative cash flow and 1 mark for some development.</p> <p>Lucy could find a way to cut costs (1) and so reduce payments/outgoings (1)</p> <p>Lucy could introduce special offers (1) to increase sales/revenue (1)</p> <p>Accept any other appropriate way of managing a negative cash flow.</p>	<p>(2)</p>	<p>AO2 x 2</p>
<p>3d</p>	<p>1 mark for an appropriate reason why a lender might want to see the cash-flow forecast and 1 mark for some development.</p> <p>The lender would want to see if Lucy has planned her business properly (1) To be able to judge the risk of making the loan (1) The lender would want to judge whether Lucy can meet the repayments (1) by looking at her projected income and expenditure (1)</p> <p>Accept any other appropriate answer</p>	<p>(2)</p>	<p>AO2 x 2</p>
<p>4a</p>	<p>1 mark for each correct months closing balance. Accept minus sign or brackets to indicate minus figure.</p> <p>Closing Balance February = -100 (1) no OFR</p> <p>Closing Balance March = 500 (1) OB + Net I/O = CB OFR applies to OB carried forward</p>	<p>(2)</p>	<p>AO2 x 2</p>
<p>4b</p>	<p>1 mark for an appropriate effect of the changed closing balances on <i>Just Gorgeous</i> and 1 mark for some development.</p> <p>The cashflow shows Lucy has less money (1) which may mean that she has problems in paying her bills in future months (1)</p> <p>Marks should be awarded for statements related to the answer given in 4a. If only one closing balance discussed a maximum of one mark can be awarded.</p>	<p>2</p>	<p>AO2 x 2</p>

5a	<p>1 mark for an appropriate benefit of calculating BE and 2 marks for development.</p> <p>This will benefit Lucy because breakeven shows the number of customers necessary before she will break-even/cover her costs (1) and can calculate the margin of safety (1) and she would be able to determine if it would be profitable to offer her proposed new service (1).</p> <p>Break-even depends on how quickly sales can be generated (1) therefore the analysis will tell Lucy what sales level is necessary (1) and so will she will know if the service will be worthwhile (1).</p> <p>Accept any other appropriate answer.</p>			(3)	AO2 x 3															
5b	<table border="1"> <thead> <tr> <th data-bbox="185 824 734 860">Expected Cost</th> <th data-bbox="740 824 983 860">Fixed Cost</th> <th data-bbox="989 824 1244 860">Variable Cost</th> </tr> </thead> <tbody> <tr> <td data-bbox="185 860 734 936">Rent of shop</td> <td data-bbox="740 860 983 936">x</td> <td data-bbox="989 860 1244 936"></td> </tr> <tr> <td data-bbox="185 936 734 972">Purchase of software</td> <td data-bbox="740 936 983 972">x</td> <td data-bbox="989 936 1244 972"></td> </tr> <tr> <td data-bbox="185 972 734 1008">Business rates</td> <td data-bbox="740 972 983 1008">x</td> <td data-bbox="989 972 1244 1008"></td> </tr> <tr> <td data-bbox="185 1008 734 1048">Purchase of printer paper and ink</td> <td data-bbox="740 1008 983 1048"></td> <td data-bbox="989 1008 1244 1048">x</td> </tr> </tbody> </table>	Expected Cost	Fixed Cost	Variable Cost	Rent of shop	x		Purchase of software	x		Business rates	x		Purchase of printer paper and ink		x			(4)	AO1 x 4
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5c	<p>1 mark for each correct label</p> <p>A: Costs and Revenues B: Break-even C: Sales revenue/Total revenue D: Total costs E: Fixed costs</p>			(5)	AO1 x 5															
5d	<p>1 mark for each effect on the chart up to a maximum of 4 marks. The description may cover up to four separate points or provide a narrative of the effect of the rise in business rates.</p> <ul style="list-style-type: none"> Fixed costs/fixed costs line will rise/as business rates are a fixed cost this line will rise Total costs will increase/total costs line will shift upwards Sales revenue/total revenue will stay the same Break even point will increase/ she will need to sell more to BE Break even will move to the right <p>A rise in business rates will increase Lucy's fixed costs (1). This would cause total costs to rise as well (1) meaning she would now need to sell more to break-even (1). Also it would take longer for her to make a profit (1).</p> <p>Accept any other appropriate answer.</p>			(4)	AO2 x 4															

6a	<p>This is a 2 x 2 mark question.</p> <p>Award 1 mark for an advantage of using ICT to create BE charts and 1 mark for development in the context of her design service x 2.</p> <p>ICT allows formulas to be used and manipulated (automatic calculations) (1) and Lucy can make "what if" scenarios which can be explored easily (1)</p> <p>ICT allows results to be cut and pasted into other documents (1). This allows Lucy to prepare other reports which may be required by her bank etc.(1)</p> <p>Accept any other appropriate answer.</p>	(4)	AO1 x 2 AO2 x 2
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6b*	<p>The aim here is for candidates to assess how appropriate these sources of finance would be for <i>Just Gorgeous</i>. There is no right answer and the candidate can argue either way.</p> <p>To reach a high level it is essential that the candidate applies the sources of finance to <i>Just Gorgeous</i>.</p> <p>Candidates might consider the following possible ideas as part of their answer:</p> <p>Own savings Advantages</p> <ul style="list-style-type: none"> • Savings are definitely available - <i>Just Gorgeous</i> is a small business who may find difficulty is raising finance from a bank • No cost of borrowing for savings • The money is immediately available • No paperwork to complete <p>Disadvantages</p> <ul style="list-style-type: none"> • Lucy will lose interest on her savings • There may not be enough/more may be needed • Lucy loses her savings/cannot use for herself/cannot use for anything else • If this is used there may be no more money available/she might be struggling for money • Cost of borrowing if there is an additional amount needed <p>Loan Advantages</p> <ul style="list-style-type: none"> • £20,000 is a relatively small sum so the bank may be prepared to lend • If <i>Just Gorgeous</i> has been successful so far, she may be viewed as a lower risk 	AO1 x 1 AO2 x 2 AO3 x 7
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- Can benefit from bank guidance/support/business expertise
- Guaranteed the money for the duration of the loan
- Known commitment/amount/can budget
- *Just Gorgeous* is an established business so the bank may be more willing to provide the money as she has already established a relationship

Disadvantages

- *Just Gorgeous* is a small business and so a loan may be difficult to arrange/Loans have become more difficult to obtain in recent years
- The bank may ask for security – if Lucy doesn't own many assets the bank may not give her a loan
- The cash flow forecast is not strong which may not support her application
- Keeping up with repayments may be difficult if money isn't coming into the business quickly enough/problems if cannot pay
- Long term commitment to pay interest/repay capital
- May be a charge for early repayment
- Many banks charge an arrangement fee
- Bank may have some say in decisions

10 marks - see levels overleaf

Level	Mark	Descriptor
No mark	0	Non-rewardable material. No mark is to be awarded if the candidate simply states for example 'Both sources are appropriate' with no further explanation.
Level 1	1 - 4	<p>At the bottom of the level little or no reference is made to the situation at Just Gorgeous.</p> <p>At the top of the level the candidate gives one or two advantages of the chosen source of finance and/or disadvantages of the other source. Alternatively the candidate could give one or two advantages and disadvantages of the chosen source. There will be some application to Just Gorgeous.</p> <p>The quality of written communication will be poor with frequent spelling, punctuation and grammar errors and the style of writing will not be appropriate to the subject matter.</p>
Level 2	5 - 7	<p>The answer will be applied to the context of Just Gorgeous.</p> <p>At the bottom of the level the candidate the answer is likely to be unbalanced or one sided.</p> <p>At the top of the level the candidate gives three or more advantages of the chosen source of finance and disadvantages of the other source. Alternatively the candidate could give three or more advantages and disadvantages of the chosen source.</p> <p>There will be a good level of quality of written communication with few mistakes in spelling, punctuation and grammar. The quality of the language used will be appropriate for the subject matter; however its use will not be as confidently used as in Level Three.</p>
Level 3	8-10	<p>The answer will be applied to the context of Just Gorgeous and a conclusion is reached.</p> <p>At the bottom of this level there will be a balance of the advantages and disadvantages of the chosen source of finance. Alternatively the candidate may give a balanced answer using the advantages of the chosen source and the disadvantages of the other.</p> <p>At the top end of the level the justification will be fully applied to the context of Just Gorgeous and a supported conclusion is reached.</p> <p>The quality of written communication will be of a high standard with few, if any, errors in spelling, punctuation and grammar. The style of writing and the structure of the response will be appropriate and of a high standard.</p>

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