

# Examiners' Report January 2013

## GCSE Applied Business 5AB02 01

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## Introduction

This was the sixth paper for the Applied Business qualification (single award), which has been available in January and June each year. This was the last January paper. The scenario for this paper was based on Gem Gallery Jewellers (GGJ), a small business. As in all previous papers, candidates were asked to apply their knowledge to this scenario. On this occasion it involved helping 'Isabel' to complete a range of documents and to offer her help and advice. 60 marks were available.

The scenario proved accessible to candidates. It contained text and an image. The purpose of the scenario is to help candidates to appreciate the context within which they are applying their answers. Future papers will continue to give brief text-based information and to 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 encourage candidates to revisit the scenario several times during the examination to refamiliarise themselves with it.

To date, the papers have covered a variety of businesses: a drum store, a cake factory, a cinema, a theme park, a hotel and, this series, a jeweller. Centres are encouraged to look at a variety of businesses and ownership types with candidates and to practise answering questions in context.

The paper contained questions from all specification areas, and this practice will continue.

There were seven 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 (QWC) was assessed in Q7 and this was indicated by an asterisk (\*7).

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, eg 'explain' means that the answer should be developed. Many candidates submitted a bullet list of points without further development, which cannot gain full marks.

Centres are also advised that forthcoming papers will use current financial terminology and candidates should be prepared to see Profit and Loss (P&L) Accounts, Income Statements, Balance Sheets and Statements of Financial Position.

### **Question 1(a)(i)**

Most candidates correctly identified that debts are liabilities.

### **Question 1(a)(ii)**

Most candidates correctly identified that stock is a current asset.

### **Question 1(a)(iii)**

Most candidates correctly identified that cash is a current asset.

### **Question 1(a)(iv)**

Most candidates correctly identified that repair equipment is a fixed asset.

### **Question 1(a)(v)**

Most candidates correctly identified that a bank loan is a liability.

### **Question 1(b)**

This question required candidates to outline why computers are fixed assets. Many candidates made vague comments about computers; few were precise enough to gain two marks.

(b) Outline why computers are classified as fixed assets.

(2)

Computers are classified as fixed assets because they need it to store the ~~rec~~ records. It could either be computerized or writing.



**ResultsPlus**  
examiner comment

Some candidates were confused and wrote of how the business would use the computers rather than of why they were classified as fixed assets. Responses such as this were not awarded any marks.

## Question 1(c)

The majority of candidates could not state the financial term calculated using the formula 'current assets – current liabilities' and answered this question incorrectly. Typical incorrect responses were 'gross profit', 'current ratio' and 'fixed assets'.

## Question 2(a)(i)

On the whole this question was answered well with candidates showing their knowledge of costs incurred before trading begins.

Candidates could not be awarded marks where they repeated the question and showed no further understanding, eg 'Start up costs are costs you have at start up'.

(a) (i) What is meant by the term **start-up cost**?

(1)

*something the business has to buy before it starts trading.*



**ResultsPlus**  
examiner comment

This is a concise answer that shows understanding of the term and was awarded the mark.

(a) (i) What is meant by the term **start-up cost**?

(1)

*Start up cost are things the business needs to help set up the business, usually bought before business starts trading.*



**ResultsPlus**  
examiner comment

This is another answer that shows that these costs are incurred before trading begins. It was awarded the mark.

## Question 2(a)(ii)

Most candidates gave a correct example.

## Question 2(b)(i)

The answer to this question required more interpretation. The terms 'regular' and 'continuous' were frequently used and needed to be considered in relation to the rest of the answer.

(b) (i) What is meant by the term **running cost**?

(1)

When the company has to pay for something more than once



**ResultsPlus**  
examiner comment

Running costs are the costs for the day-to-day running of the business. This answer cannot be awarded a mark as many items are paid for more than once by a business but are not considered to be running costs.



**ResultsPlus**  
examiner tip

Be specific in your answer. Running costs include staff payment, electricity costs and resources, etc.

## Question 2(b)(ii)

Most candidates gave a correct example.

### Question 3(a)(i)

Many candidates gained full marks for Q3(a) as they completed all aspects of the document correctly. Where marks were lost, it was commonly due to candidates not completing the address in full.

To: Gold 'n' Stuff  
Wholesale Jewellery supplies  
units  
Navigation Business Park  
St Annes SX23 9NW (1)



**ResultsPlus**  
examiner comment

A full address gains this answer a mark.

To: GGJ's suppliers (1)



**ResultsPlus**  
examiner comment

This is not an address, only the name of the company, so the mark was not awarded.



**ResultsPlus**  
examiner tip

Be sure to complete an address in full. This example could not be delivered and so cannot be awarded marks.

### Question 3(a)(ii)

Marks were also lost due to candidates putting the last order number rather than the current one.

Order number: 2735					
(1)					
Qty	Item description	Order	Case	Unit price	Total price



**ResultsPlus**  
examiner comment

This is a correct answer, which was awarded the mark.



**ResultsPlus**  
examiner tip

Be sure to move on one from the last order number – in this case from 2734 to 2735.



### Question 3(a)(iii)–(vi)

The following are examples of responses to these questions.

Qty	Item description	Order code	Case quantity	Unit price excluding VAT		Total price excluding VAT		
				£	p	£	p	
3	30 inch 13 mm luxury 24k gold plated curb chain	30GPC	5	45	00	135	00	(1)
2	20 inch 13 mm luxury 24k gold plated curb chain	20GPC	2	93	20	186	40	(1)
4	36 inch 6 mm 24k gold plated wheat necklace	36GPW	5	35	00	175	00	(2)
<b>Total</b>						<b>496</b>	<b>40</b>	(1)



**ResultsPlus**  
examiner comment

This answer was only awarded two marks.



**ResultsPlus**  
examiner tip

Check your answer thoroughly. This answer has three errors.

Qty	Item description	Order code	Case quantity	Unit price excluding VAT		Total price excluding VAT		
				£	p	£	P	
3	30 inch 13 mm luxury 24k gold plated curb chain	30GPC	5	45	00	135	00	(1)
2	20 inch 13 mm luxury 24k gold plated curb chain	20GPC	10	93	20	186	40	(1)
4	36 inch 6 mm 24k gold plated wheat necklace	36GPW	5	35	00	140	00	(2)
<b>Total</b>						<b>461</b>	<b>40</b>	(1)



**ResultsPlus**  
examiner comment

In this answer all aspects have been completed correctly. Full marks were awarded.



**ResultsPlus**  
examiner tip

Be clear and accurate in your figures and addition.

### Question 3(a)(vii)

Most candidates answered this part of the question correctly. Some lost a mark as they asked for the order to be delivered 'asap' or 'within 10 days', which was not the requirement in the question.

Delivery terms: delivered immediately. (1)



**ResultsPlus**  
examiner comment

The candidate correctly asked for the order to be delivered immediately and so was awarded the mark.

Delivery terms: AS soon as possible (1)



**ResultsPlus**  
examiner comment

The stem of the question asks for the order to be delivered 'immediately' and so this answer cannot gain a mark.



**ResultsPlus**  
examiner tip

Read the question carefully and do what is asked.

### Question 3(b)

An interesting variety of answers were given by candidates. Many showed understanding of credit notes. Some candidates suggested that 'a credit note could only be used at the supplier's business' but did not state the purpose of a credit note, thus missing out on marks.

(b) Outline the purpose of a Credit Note for a business such as GGJ.

(2)

To give GGJ a refund <sup>amount</sup> for any damaged goods to p later purchase goods of the same value rather than being given the money back. GGJ will be able to use this to purchase goods for the Jewellery.



**ResultsPlus**  
examiner comment

This is an example of a good answer that gains both available marks.

(b) Outline the purpose of a Credit Note for a business such as GGJ.

(2)

It's so that the business can feedback to the company whether the goods they have received or damaged and if they can have them renewed, so that they do not sell faulty jewellery to their customer and seek for customer satisfaction.



**ResultsPlus**  
examiner comment

This candidate does not show any understanding of the purpose of a credit note and was not awarded any marks.

(b) Outline the purpose of a Credit Note for a business such as GGI.

(2)

a credit note's purpose for  
a business is to show them ~~what~~  
~~how~~ how much money they owe the  
~~the~~ supplier



**ResultsPlus**  
examiner comment

This candidate has confused a credit note with a statement of account;  
no marks were awarded.

### Question 3(c)

This was generally well answered. However, on occasions although the error in VAT was identified, an incorrect total was given. Some candidates incorrectly stated that the 'VAT is 20% where it should be 17.5%'. Candidates should be advised that the correct amount of VAT will always be shown on the paper.

The Credit Note GGJ received from BetterBox contains an error.

(c) Identify the error on the Credit Note.

(1)

taken away the VAT when they should  
have added it.



**ResultsPlus**  
examiner comment

This is a correct answer, which was awarded one mark.

The Credit Note GGJ received from BetterBox contains an error.

(c) Identify the error on the Credit Note.

62

(1)

instead of adding on the ~~vat~~ VAT the  
person took away should be £62.40 for total.



**ResultsPlus**  
examiner comment

This was well answered and the mark was awarded.

The Credit Note GGJ received from *BetterBox* contains an error.

(c) Identify the error on the Credit Note.

(1)

the 10 boxes that were damaged had  
already been returned.



**ResultsPlus**  
examiner comment

This candidate has not spotted the error in the VAT calculation and so does not gain a mark.

The Credit Note GGJ received from *BetterBox* contains an error.

(c) Identify the error on the Credit Note.

(1)

they put the wrong calculation in



**ResultsPlus**  
examiner comment

This candidate has identified a calculation error but does not state what it is and so does not gain a mark.



**ResultsPlus**  
examiner tip

Be precise – state which calculation is incorrect to gain the mark.

### Question 3(d)

The majority of candidates were able to explain the error that had occurred. However, there were some candidates who could not clearly explain the error due to their lack of knowledge of the use of a credit note in a business scenario. Common misconceptions were that 'She/GGJ would have to pay more as a consequence of the error' rather than the business being refunded less than their entitlement following the delivery mistakes. On occasion candidates became confused between BetterBox, Isabel and GGJ, and did not recognise that Isabel works for the latter.

Candidates must be able to show understanding of who the sender and receiver of each financial document are and the purpose of the document in order to formulate accurate answers in this financial area. Many candidates struggled to develop fully written answers to gain full marks on the question, particularly when looking at the holistic repercussions of the mistake on GGJ's business and their financial position. Many responses reflected that 'they would go bankrupt' with such an error or that 'Isabel would lose her job', which would not be the case.

Candidates are advised to develop their answers fully to access maximum marks.

(d) Explain the effect on GGJ if Isabel does not spot this error.

(4)

GGJ will be refunded an incorrect amount which is less than they are due. This ~~could~~ means that they <sup>will</sup> have less money than they are supposed to if Isabel doesn't spot the error. This could lead to incorrect financial records and possibly decrease in profits. GGJ may decide to find a different supplier.



**ResultsPlus**  
examiner comment

This is an excellent answer that scores full marks.



**ResultsPlus**  
examiner tip

Be sure to develop the answer to gain all the available marks.



(d) Explain the effect on GGJ if Isabel does not spot this error.

(4)

If she doesn't spot any errors it is possible that she will lose money and will not receive what she asked for.



**ResultsPlus**  
examiner comment

This answer starts well but the candidate then confuses the purpose of a credit note with a purchase order. This answer was awarded one mark.

(d) Explain the effect on GGJ if Isabel does not spot this error.

(4)

GGJ could lose money



**ResultsPlus**  
examiner comment

This is a very brief answer that was awarded only one mark.



**ResultsPlus**  
examiner tip

If you only write one brief statement, you cannot gain the four available marks. Develop your answer.

## Question 4(a)

This question on completing an invoice was not always well answered and many candidates gained marks through the use of Own Figure Rule (OFR).

Many candidates added the discount of 5% to the goods total rather than subtracting it. Some candidates subtracted VAT rather than adding it.

Many candidates used too many places after the decimal rather than pounds and pence, and so lost marks.

Isabel has asked for your help in completing the following sales invoice.

4 (a) Complete the invoice by filling in the blank boxes.

Code	Description	Quantity	Unit price (£)	£	p	
EW354	Ladies evening watch (gold plate)	1	115.83	115	83	
LOB56	Ladies 4 mm oval bangle (9k gold)	1	184.95	184	95	
<b>Goods total</b>				300	78	(1)
<b>Discount @ 5%</b>				15	04	(1)
<b>Sub total</b>				285	74	(1)
<b>VAT @ 20%</b>				57	14	(1)
<b>Total to pay</b>				342	88	(1)



**ResultsPlus**  
examiner comment

This is a perfect answer, which was awarded full marks.

Isabel has asked for your help in completing the following sales invoice.

4 (a) Complete the invoice by filling in the blank boxes.

<b>Gem Gallery Jewellers</b>			Invoice date: 3/01/2013		
Unit 3 The Pallisades Smethick BM1 2WS VAT Reg No. 3562789			Invoice number: 6273		
Code	Description	Quantity	Unit price (£)	£	p
EW354	Ladies evening watch (gold plate)	1	115.83	115	83
LOB56	Ladies 4 mm oval bangle (9k gold)	1	184.95	184	95
<b>Goods total</b>				300	78 (1)
<b>Discount @ 5%</b>				15	03 (1)
<b>Sub total</b>				285	75 (1)
<b>VAT @ 20%</b>				57	15 (1)
<b>Total to pay</b>				228	60. (1)



**ResultsPlus**  
examiner comment

This candidate has subtracted the VAT instead of adding it and so loses the final mark. The answer was awarded four marks.

Isabel has asked for your help in completing the following sales invoice.

4 (a) Complete the invoice by filling in the blank boxes.

<b>Gem Gallery Jewellers</b>			Invoice date: 3/01/2013		
Unit 3 The Pallisades Smethick BM1 2WS VAT Reg No. 3562789			Invoice number: 6273		
Code	Description	Quantity	Unit price (£)	£	p
EW354	Ladies evening watch (gold plate)	1	115.83	115	83
LOB56	Ladies 4 mm oval bangle (9k gold)	1	184.95	184	95
<b>Goods total</b>				300	78 (1)
<b>Discount @ 5%</b>				15	04 (1)
<b>Sub total</b>				285	74 (1)
<b>VAT @ 20%</b>				57	15 (1)
<b>Total to pay</b>				336	89 (1)



**ResultsPlus**  
examiner comment

This candidate has incorrectly added £285.74 and £57.15. The answer was awarded four marks.



**ResultsPlus**  
examiner tip

Always double check your figures!

## Question 4(b)

This question was, in the main, well answered. Some candidates however did not read the question correctly and their answer reflected the advantage to the customer of using a credit card rather than GGJ. Others gave two advantages rather than developing one as required by the question.

Many of GGJ's customers pay by credit card.

(b) Outline **one** advantage to GGJ of allowing customers to pay by credit card.

(2)

payment is immediate and safer than cash.



**ResultsPlus**  
examiner comment

The candidate has made two points rather than developing one and so can only score one mark. Also, although payment is indeed safer, as it goes directly to the business account, it is not an immediate payment.

Many of GGJ's customers pay by credit card.

(b) Outline **one** advantage to GGJ of allowing customers to pay by credit card.

(2)

The customers will make more impulsive purchases. Also, the money is available to GGJ immediately after purchase.



**ResultsPlus**  
examiner comment

Again the candidate has given two advantages rather than developing one, so only one mark was awarded.



**ResultsPlus**  
examiner tip

Read the question. It clearly asks for only one advantage to be outlined.

Many of GGJ's customers pay by credit card.

(b) Outline **one** advantage to GGJ of allowing customers to pay by credit card.

(2)

if you don't have any money you can use a credit card to pay for goods and pay it back later to the bank



**ResultsPlus**  
examiner comment

This answer is looking at the advantage to the customer and not to the business, and so cannot gain any marks.



**ResultsPlus**  
examiner tip

Make sure you are referring to the correct party – in this case the business and not the customer.

### Question 4(c)

This question was, in the main, well answered. Some candidates, however, did not read the question correctly (as for Q4(b)) and their answers reflected the disadvantage to the customer of using a credit card rather than GGJ. Others gave two disadvantages rather than developing one as required by the question.

(c) Outline **one** disadvantage to GGJ of allowing customers to pay by credit card.

(2)

expensive machinery, takes time



**ResultsPlus**  
examiner comment

The candidate has briefly stated two disadvantages rather than outlining one as required, and so can gain a maximum of one mark.

(c) Outline **one** disadvantage to GGJ of allowing customers to pay by credit card.

(2)

It will cost a lot of money to buy the system for the credit card use and to get it fitted in



**ResultsPlus**  
examiner comment

This question gives one disadvantage but does not develop the answer for the second mark.



**ResultsPlus**  
examiner tip

Be sure to develop the answer to gain the second mark.

(c) Outline **one** disadvantage to GGJ of allowing customers to pay by credit card.

(2)

When you have to payback the bank money, you have to pay with interest.



**ResultsPlus**  
examiner comment

This answer is referring to a disadvantage to the customer and not to the business, and so cannot be awarded any marks.



**ResultsPlus**  
examiner tip

Make sure you are referring to the correct party in your answer.

## Question 5(a)

The question was answered well by candidates although some did not relate their answer to the scenario. Most clearly understood the benefits that the new computerised system would have for the business and could develop answers to access full marks. Better responses were related to efficiency and accuracy, and many were well written.

Some candidates gave multiple advantages rather than developing a specific advantage and so lost marks.

A common misconception was that a computerised accounting system is the same as using a spreadsheet to calculate accounts. Many candidates mentioned formulas, automatic changes, etc, thus referring to spreadsheets rather than specifically referring to computerised accounting.

Sam is considering installing a computerised accounting system rather than keeping the manual accounting system she has at present.

5 (a) Explain **one** advantage to GGJ of introducing a computerised accounting system. (3)

Computers will not take up as much space as various storage cupboards and paper will. This means the space can be used more efficiently, and paper and cupboards will not need to be bought, resulting in a higher overall profit.



**ResultsPlus**  
examiner comment

This is a well-developed answer that gains all three available marks.

Sam is considering installing a computerised accounting system rather than keeping the manual accounting system she has at present.

5 (a) Explain **one** advantage to GGJ of introducing a computerised accounting system. (3)

If there's any errors it can be easily changed



**ResultsPlus**  
examiner comment

This is a very brief answer without any development and so was awarded only one mark.



Sam is considering installing a computerised accounting system rather than keeping the manual accounting system she has at present.

5 (a) Explain **one** advantage to *GGJ* of introducing a computerised accounting system. (3)

*Its easy and its more Its more organised*



**ResultsPlus**  
examiner comment

This answer is far too brief to be awarded a mark. How/why is it more organised? Is the candidate assuming that paper-based is less organised? Why?

## Question 5(b)

The question was answered well by candidates; most clearly understood the drawbacks that the new system would have on the business and could develop answers to access the higher marks.

The disadvantages were better explained than the advantages. Better responses showed a good level of knowledge and understanding, and often referred to viruses, human error, training, being hacked or security issues.

Some candidates gave multiple disadvantages rather than developing a specific disadvantage and so lost marks.

(b) Explain **one** disadvantage to GGJ of introducing a computerised accounting system.

(3)

one disadvantage of having a computerised system is that the staff will need to be trained which will waste time and money. Some staff might not want to use a computerised system so they might refuse training. And the computers may crash meaning all the transactions will be stopped and possibly important information might get lost.

(Total for Question 5 = 6 marks)



**ResultsPlus**  
examiner comment

This is a well-developed answer that gains all three available marks.

## **Question 6**

This question was answered accurately by candidates and many were awarded full marks. Others who made small errors benefited from the Own Figure Rule. The knowledge of business terminology used in the P&L Account was very good, as well as the ability to calculate each aspect accurately.

The Cost of Sales was generally correct and most candidates labelled it correctly but some added Cost of Sales to the Sales Revenue. Candidates lost marks when they were unable to classify and calculate Sales Revenue and Cost of Sales figures. The main discrepancy was putting 'repairs to customers' watches' into the Expenses section and so Total Sales incorrectly became £61500. This in turn gave an incorrect Total Expenses figure.

Sometimes there was a lack of proofreading by candidates who had quite obviously made basic mathematical miscalculations.

For some candidates, there was a problem with decimal places; all the workings were correct, but they showed the net profit as 10.1 rather than 10150.

Isabel has received a note from Sam containing information about GGJ's monthly sales and costs for the year ending December 2012. This information is used to calculate the profit or loss.

Sale of jewellery	35 000
Sale of watches	26 500
Repairs to customers' watches	5 750
Cost of these sales	35 200
Wages and salaries	10 000
Rent, rates and insurance	8 000
Light, heat and power	3 000
Telephone and broadband	900

6 Use the information above to construct the Profit and Loss Account for GGJ.

(8)

<b>Gem Gallery Jewellers</b>		
<b>Profit and Loss Account for the year ended</b>		
<b>31st December 2012</b>		
	£	£
<b>Total sales</b>		67,250
<b>Cost of sales</b>		35,200
<b>Gross profit</b>		32,050
<b>Expenses</b>		
Wages and salaries	10,000	
Rent, rates and insurance	8,000	
Light, heat and power	3,000	
Telephone and broadband	900	
<b>Total expenses</b>		21,900
<b>Net profit</b>		10,150



**ResultsPlus**  
examiner comment

This is a correct answer that gains all the available marks.

Sale of jewellery	35 000
Sale of watches	26 500
Repairs to customers' watches	5 750
Cost of these sales	35 200
Wages and salaries	10 000
Rent, rates and insurance	8 000
Light, heat and power	3 000
Telephone and broadband	900

6 Use the information above to construct the Profit and Loss Account for GGJ.

(8)

<b>Gem Gallery Jewellers</b>		
<b>Profit and Loss Account for the year ended</b>		
<b>31st December 2012</b>		
	£	£
<b>Total sales</b>		61500
Cost of sales		35200
<b>Gross profit</b>		26300
<b>Expenses</b>		
wages and salaries	10000	
Rent rates and insurance	8000	
light, heat and power	3000	
Telephone and Broadband	900	
<b>Total expenses</b>		21900
<b>Net profit</b>		48200



**ResultsPlus**  
examiner comment

This candidate has incorrectly calculated the Total Sales as £61500 rather than £67250, having omitted the watch repairs (a common error). They have correctly identified the Cost of Sales for one mark and subtracted this from the Total Sales, thus gaining an OFR mark. The expenses are correct for four marks and so this answer gains six marks in total.

## Question 7

This question allowed candidates to show their evaluative and communication skills in the extended question format and assessed QWC.

QWC was varied with candidates accessing every level. All candidates should be encouraged to write in full paragraphs using accurate spelling, grammar and business terminology, and to avoid the use of bullet points. Some candidates wrote at great length, continuing their response on the blank page or adding additional sheets. Candidates should practise writing concisely without repeating the question or repeating themselves at the end of their answer and calling this a conclusion.

The question caused some confusion in the difference between the two documents: the P&L Account and Balance Sheet. Some candidates were unsure which document showed liability and which profitability. Some candidates did not read the question correctly and worked out financial ratios without a mention of the required documents. These candidates answered a question about the benefits of expanding the business, which was not the desired outcome.

Where candidates read the question thoroughly and realised that it was related to borrowing money from the bank, their answers were more fluid and they showed better evaluative skills.

Candidates who accessed Level 1 often gave basic descriptions of what these financial documents would show the bank, eg 'the profit and loss account will show the bank if they make enough profit to have the loan' and further development was absent. The most popular answer stated that 'the business will be able to pay back the loan'. Weaker responses gave simplistic comments such as 'the profit and loss account will show the bank the profit and loss'. Some candidates failed to look at the question from the bank's perspective and answered the question based on GGJ and Sam's point of view, which limited marks.

Many candidates accessed Level 2 marks through developing the use of P&L Accounts in the decision-making process. Some candidates developed the use of the Balance Sheet in the decision-making process but this was far less frequent and could be considered as an area of development for many candidates for future examination series.

Candidates who successfully attained Level 3 could evaluate the usefulness of the financial documents in the bank's decision-making process. They did this by looking at each document in detail with well-developed points, emphasising the key elements that exist within each document, the bank's interest in these elements, the level of decisions they would consider from the information, and that data would be required over a period of time to examine financial trends within the business that could support a bank loan application or not.

\*7 Sam is planning to expand her business and is considering taking out a bank loan.

Evaluate the importance of her annual Profit and Loss Account and Balance Sheet to the bank when she applies for a loan.

(10)

The importance of her annual profit and loss account and balance sheet is & if she applies for the loan the bank would want to look at the annual income of the business to decide if they would be able to pay the loan back and they would also look at the ~~prof.~~ how much profit and loss they make.



**ResultsPlus**  
examiner comment

This is an example of a basic answer at Level 1, scoring two marks.

\*7 Sam is planning to expand her business and is considering taking out a bank loan.

Evaluate the importance of her annual Profit and Loss Account and Balance Sheet to the bank when she applies for a loan.

(10)

When Sam applies for a loan, the Profit and Loss Account will be able to show the bank how suitable a customer is. If Sam was not making enough profit, then she would not be able to pay for the repayments on the loan. The bank would not want to lend money to somebody who will not be able to pay them back. However, if the Profit and Loss account demonstrates enough of a profit to appeal towards the bank, then the bank would gladly let Sam to borrow money. This document will reflect on G-G-J's ability to run as an effective business.



**ResultsPlus**  
examiner comment

This answer is in Level 2, gaining five marks.



\*7 Sam is planning to expand her business and is considering taking out a bank loan.

Evaluate the importance of her annual Profit and Loss Account and Balance Sheet to the bank when she applies for a loan.

(10)

The Bank will be interested in GGJ's profit and loss account because they want to see if GGJ is generating enough profit to afford a loan and that their cashflow and liquidity is secure enough to be able to pay off the loan. They can also use the profit and loss account to ~~see~~ make an estimate of how long it will take GGJ to pay off their loan. The bank will also be interested in their balance sheet to check liabilities. The bank needs to check if GGJ are already in debt, otherwise they're not secure enough to afford a loan. The bank will also want to see the assets of GGJ because they will be interested to see how quickly they can be turned into cash, if necessary. The bank will also use the balance sheet to work out GGJ's gross profit and net profit margins <sup>and profit and loss account</sup>. This will give the bank an idea of whether or not the business is sufficiently keeping afloat. They will also calculate the profitability ratio, the liquidity ratio and the acid test ratio. They will look at the acid test ratio in particular as it is a more conservative way of judging the liquidity of the business as it does not include stock, (which can go out of fashion, etc). This will see how easily the business can pay off its debts for every pound, ideally the ratio should be between 1.5:1 and 2:1. The bank will also want to see documents from previous years to see if the business is improving or not. (Total for Question 7 = 10 marks)



**ResultsPlus**  
examiner comment

This is a well-developed, concise answer in Level 3 showing good levels of QWC and understanding. It was awarded nine marks.

## Summary

Based on their performance on this paper, candidates should:

- ensure that they always read the scenario carefully before answering the questions
- practise calculating to two decimal places, as accounts must be shown in pounds and pence, and this is an area where candidates are losing marks.

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