

Examiners' Report
June 2013

GCSE Applied Business 5AB04 01

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Introduction

This was the fourth paper to be sat for the Applied Business qualification (double award) which is available in June each year. The paper was based on Top Pin Bowling Ltd. (TPB Ltd.), an independent tenpin bowling centre with 24 lanes, a licensed bar and a café. 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 2014 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.

To date the papers have covered a variety of businesses - a cafe bar, a farm, a retailer and this series a bowling alley. Centres are encouraged to look at a variety of businesses and ownership types with their candidates and to practice answering questions in context.

The paper contained questions from all specification areas. 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 information was assessed in question 6 and this was indicated by an asterix (*6).

Candidates are 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 where the command word 'explain' is used and awarded 3 marks the candidates answer should be developed. Many candidates are submitting a list of bullet points without further development which cannot gain full marks.

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 have taken full account of advice given to ensure as far as possible that candidates answer question parts in the space allocated. Some candidates wasted time and space on the paper as they repeated the question stem.

Where, for example, a candidate had deleted a wrong answer in the answer line section, most candidates indicated the location of the corrected answer on the paper (eg 'see next page' or 'my answer is on the last blank page'). This practice is 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. Candidates are advised to read the rubric at the front of the paper which instructs them to use black ink or ball-point pen.

The most common problem throughout the paper was, as in previous papers, the constant inappropriate mention of 'profit'.

Question 1

All parts of the multiple choice question 1(a)-1(e) were well answered in general, causing few difficulties for candidates.

1(f) caused a few problems as a number of candidates did not know the purpose of this specific labour budget, and a minority of candidates answered this question generically, talking about budgets in general.

(f) Explain how preparing a labour budget would help *TPB Ltd.*

(3)

TPB Ltd. are looking to employ more staff after for the expansion. A labour budget will help TPB to monitor and control the spending on employees so that they don't encounter financial problems.



ResultsPlus
Examiner Comments

This scores full marks as the candidate clearly knows that a labour budget is concerned with wages and it will be used to plan/monitor and control their finances.

Preparing a labour budget would help TPB Ltd. to forecast their profit and loss for the future.



ResultsPlus
Examiner Comments

This candidate shows no understanding of a labour budget and links budgets and profit.



ResultsPlus
Examiner Tip

Make sure that you can name and explain the purpose of all the major budgets listed in the specification.

Question 2

Question 2(a) elicited mixed answers with many candidates gaining the full six marks but equally many gained only two marks as they incorrectly calculated the variances as 'favourable'. This had a knock on effect to question 2(b).

You have received the following information about TPB Ltd's sales.

Sales budget figures for March for Top Pin Bowling Ltd

Adult games: 2 800 at £4.75 each

Junior games: 248 at £3.75 each

2 (a) Using the information given complete the table below.

(6)

Top Pin Bowling Ltd Sales Budget for March

	Actual (£)	Budget (£)	Variance (£)	Favourable/Adverse
Adult games	11 000	13 300	2 300	Favourable Adverse
Junior games	900	930	30	Favourable Adverse

(b) Using the above information show whether March was a successful month for TPB Ltd.

(2)

March was not a successful month for TPB because they budgeted to make £13,300 on Adult games but only made £11,000 also they budgeted to make £930 on junior games but made £900

(Total for Question 2 = 8 marks)



ResultsPlus
Examiner Comments

A perfect answer scoring full marks

You have received the following information about TPB Ltd's sales.

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2 (a) Using the information given complete the table below.

(6)

**Top Pin Bowling Ltd
Sales Budget for March**

	Actual (£)	Budget (£)	Variance (£)	Favourable/Adverse
Adult games	11 000	13'300	2300	Favourable
Junior games	900	930	30	Favourable

(b) Using the above information show whether March was a successful month for TPB Ltd.

(2)

The table shows that March was a successful year because they didn't go over budget so they achieved their objective also it didn't lose any money so the spare money could be used to invest in the business.

(Total for Question 2 = 8 marks)



ResultsPlus
Examiner Comments

This candidate has incorrectly calculated the variances as favourable rather than adverse. One mark has been awarded for the second part of the question as Own Figure Rule (OFR) is applied.

Question 3 (a)

Most candidates successfully stated that August was the month that would have a problem. The most common error was for candidates to incorrectly state both August and September.

To help plan for the karaoke studio *TPB Ltd* has created a cash-flow forecast for the three months July to September 2013.

Top Pin Bowling Ltd
Cash-Flow Forecast for the Karaoke Studio

	July (£)	August (£)	September (£)
Total Receipts	18 436	19 298	18 576
Total Payments	17 500	20 950	16 820
Net Inflow/Outflow	936	-1 652	1 756
Opening Balance	528	1 464	-188
Closing Balance	1 464	-188	1 568

3 (a) In which month(s) will *TPB Ltd* expect to experience cash-flow problems?

(1)

August and September



ResultsPlus
Examiner Comments

A common error - both August and September have been listed. Although September starts with a negative opening balance it closes on a positive figure.



ResultsPlus
Examiner Tip

Look at both the opening and closing figures in each month of the cashflow. Remember that a cashflow can never show profit.

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Closing Balance	1 464	-188	1 568

3 (a) In which month(s) will *TPB Ltd* expect to experience cash-flow problems?

(1)

August.



ResultsPlus
Examiner Tip

A perfect response.

Question 3 (b)

This question was well answered, with most candidates successfully stating that outflows were greater than inflows.

(b) State **one** possible cause of these problems.

(1)

The payments are higher than the receipts causing them to have a negative closing balance.



ResultsPlus
Examiner Comments

A perfect answer.

(b) State **one** possible cause of these problems.

(1)

~~For spending more~~ due to having a higher expenditure than income in August.



ResultsPlus
Examiner Comments

Another perfect answer.

Question 3 (c)

Most candidates stated two valid actions eg

- Arranging an overdraft
- Arranging a bank loan for the improvement costs
- Spreading the payments for improvements across more months
- Reducing outgoings/cut costs
- Managing credit/negotiating payment dates with suppliers eg pay later/pay in instalments

but many incorrectly stated that that the business could 'sack staff'.

Another misconception was that raising prices would help increase revenue. This would be very unlikely in this scenario.

Although the deficit was very small at only -£188 some candidates suggested selling assets. This would not be appropriate.

(c) Suggest **two** possible actions *TPB Ltd* could take to help resolve the cash-flow problems. (2)

Action 1
Reduce the amount of money they're paying for things.

Action 2
Increase prices on games.



ResultsPlus
Examiner Comments

A common error was to state that a price increase would bring in more revenue.

Question 4 (a)

This forecasted sales budget question was not answered well by many. Only a few candidates scored full marks.

Many lost marks as they incorrectly referred to the budget showing a profit.

Some suggested the venture was a good idea as the figures were positive, others suggested it was a bad idea as sales dipped, but the common error was to omit any consideration to the costs of the venture.

- 4 (a) Using this information, advise *TPB Ltd* whether the weekend late night bowling sessions would be a good idea for the business.

(5)

It would be a good idea because for long term they will make profit to cover what they spent in hiring extra staff



ResultsPlus
Examiner Comments

A common answer showing that a budget shows the profit that can be made - this is incorrect.

- 4 (a) Using this information, advise *TPB Ltd* whether the weekend late night bowling sessions would be a good idea for the business.

(5)

I don't believe it is a good idea, because although in July, August and September there is a ~~of~~ estimated sales of '10,600' this is only a prediction 'TPB' may not receive that many customers after '10pm', plus extra members of staff will be needed to be hired which I believe will deduct the monthly estimations by quite a high amount. This is also keeping the Bowling open for longer means higher electricity bills, water bills ETC.



ResultsPlus
Examiner Comments

A well set out answer showing understanding of a forecast sales budget.

Question 4 (b) (i)

This question was generally answered well although some did not consider the "forecast" aspect of the question and a minority did not show understanding of P and L accounts.

TPB Ltd should have a number of financial planning documents in place before starting to equip the new karaoke studio.

- (b) (i) Outline why the company should prepare a forecast Profit and Loss Account before starting on this new venture.

(2)
Profit and loss account is a legal requirement for every business. Also the government ask the business to monitor on the profit.



ResultsPlus
Examiner Comments

A very vague answer that shows little understanding of the reason for a business producing a forecast P and L account as part of their planning.

Question 4 (b) (ii)

The majority of candidates could explain why investors would be interested in this Profit and Loss account. Some candidates missed out on the forecast aspect of the question.

(ii) Explain why potential investors would want to see this forecast Profit and Loss Account.

Investors will be interested because (3)
it will allow them to see if TPB will
be able to pay back their investment
as well as interest.



ResultsPlus
Examiner Comments

This answer needs further development if it is to be awarded more marks.



ResultsPlus
Examiner Tip

Look at the mark allocation and ensure that you develop your answer to gain all the marks available.

Question (4) (c)

As in 1(f), many candidates struggled to answer this question as they did not know what "capital expenditure" was. They spoke about budgets in general and so did not answer in context.

(c) Outline why preparing a capital expenditure budget might be helpful to TPB Ltd if it wants to equip the karaoke studio.

(2)

so that they won't have to take out a loan, and to avoid making a loss
part

(Total for Question 4 = 12 marks)



ResultsPlus
Examiner Comments

A very vague answer that cannot be awarded marks.

(c) Outline why preparing a capital expenditure budget might be helpful to TPB Ltd if it wants to equip the karaoke studio.

(2)

Capital expenditure budget is the budget used for large machinery and equipment. This could help the business plan and control the cost they want to spend on the studio

(Total for Question 4 = 12 marks)



ResultsPlus
Examiner Comments

A well written answer that shows understanding of a capital expenditure budget.

Question 5 (a)

Most candidates successfully calculated the break even point, showing it at 49. The most common error was for candidates to state the BE point as pounds (£49) rather than in number of people.

TPB Ltd wants to see how profitable it could be if it opens the karaoke studio. It has calculated the following expected costs and revenues:

- Fixed Costs £147 a week
- Variable Costs £1
- Entry price of £4 per person.

You have been given the following formula to calculate the break-even point:

$$\text{Break-even Point} = \frac{\text{Fixed Costs}}{\text{Selling Price per Unit} - \text{Variable Cost per Unit}}$$

- 5 (a) Calculate the number of people who must use the karaoke studio each week in order for *TPB Ltd* to break even. **Show your workings.**

(2)

Space for your workings

$$\frac{147}{4 - 1} = 35.75$$

Break-even point = 5



ResultsPlus
Examiner Comments

Although the candidate has correctly written out the formula they have not given the correct break even figure and so they can only be awarded 1 mark.

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$$\text{Break-even Point} = \frac{\text{Fixed Costs}}{\text{Selling Price per Unit} - \text{Variable Cost per Unit}}$$

- 5 (a) Calculate the number of people who must use the karaoke studio each week in order for TPB Ltd to break even. **Show your workings.**

(2)

Space for your workings

$$\frac{147}{(4 - 1)} = 49$$

Break-even point = 49



ResultsPlus
Examiner Comments

A perfect answer.

Question 5 (b)

As in 5(a) most candidates successfully calculated the new break even point, showing it at 42 and stated that this was a decrease. Again, the most common error was for candidates to state the BE point as pounds (£42) rather than in number of people.

After carrying out some research, TPB Ltd decides to increase the entry price to £4.50 per person.

(b) State what effect this price increase would have on the break-even number of people per week.

(2)

Space for your workings

$$\frac{147}{4.50 - 1}$$

$$\frac{147}{3.50} = 42$$

if they increased the entry price they would only need 42 rather than 69 people to use the karaoke studio each week in order for them to reach a breakeven point.



ResultsPlus
Examiner Comments

This answer shows the correct BE point and recognises that this figure is a decrease.

After carrying out some research, TPB Ltd decides to increase the entry price to £4.50 per person.

(b) State what effect this price increase would have on the break-even number of people per week.

(2)

Space for your workings

$$\begin{aligned} \text{B-E point} &= \frac{147}{4.50 - 1} \\ 4.50 - 1 &= 3.50 \\ 147 \div 3.50 &= \pounds 42 \end{aligned}$$

The entry price going up could effect the break-even point by the decreasing of £7 which means customers would lower a little but the profit would be the most.



ResultsPlus
Examiner Comments

The candidate loses a mark as they state the BE point in pounds, but gains one mark for recognising this is a decrease.



ResultsPlus
Examiner Tip

BE is never expressed in money - it is always in units/ people/number of sales etc.

Question 5 (c)

Candidates were asked to fully label a break-even chart. This question was answered well in general, with many candidates gaining full marks. The most common reason for loss of marks was failing to correctly label both axes. A frequent error was to label the costs/revenue axis as 'Sales'. Candidates also lost marks for a lack of labelling of the lines on the chart. Some candidates plotted the variable cost line onto the graph - this is not required.

Some candidates lost marks as they plotted against 65 and not 60 and therefore lost marks for the Sales and Total Costs lines, although these candidates were awarded a mark for the BEP due to the Own Figure Rule.

TPP Ltd is also thinking about offering a Family Deal. This would include a game of bowling plus a choice of snack for a family of four. You have been asked to check the break-even point before a final decision is made. You have been given the following information:

- Fixed Costs £180 per week
- Variable Costs £6 per family
- Family Deal £15 per family.

TPP Ltd believes that it could sell up to 60 Family Deals a week.

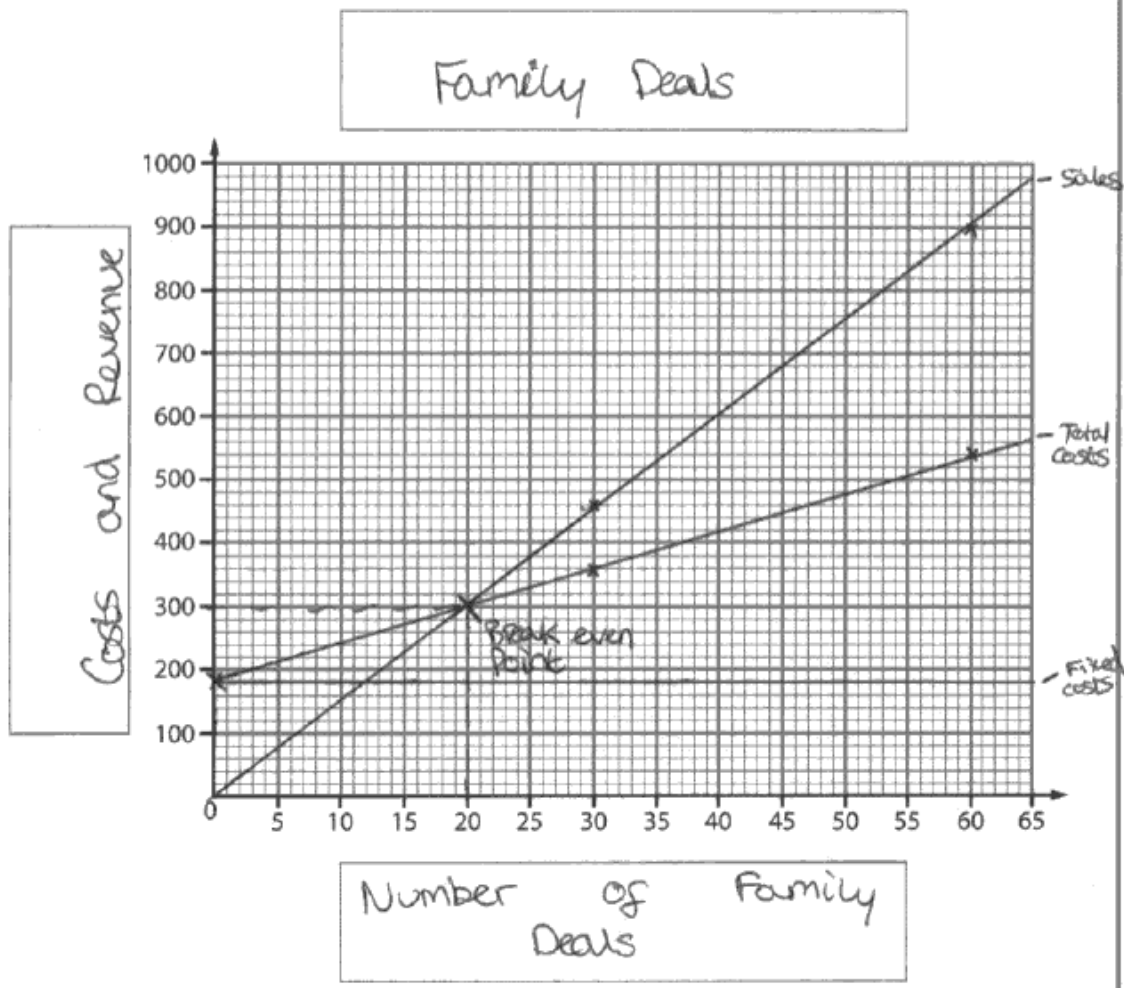
(c) Using the above data, draw a fully labelled break-even chart on the graph supplied.

You may find it helpful to complete the activity table below before you complete the chart.

(6)

Activity Table

Family Deals	0	30	60
Sales	0	450	900
Variable Costs	0	180	360
Fixed Costs	180	180	180
Total Costs	180	360	540



ResultsPlus
Examiner Comments

A correctly drawn and labelled chart that receives full marks.

TPB Ltd is also thinking about offering a Family Deal. This would include a game of bowling plus a choice of snack for a family of four. You have been asked to check the break-even point before a final decision is made. You have been given the following information:

- Fixed Costs £180 per week
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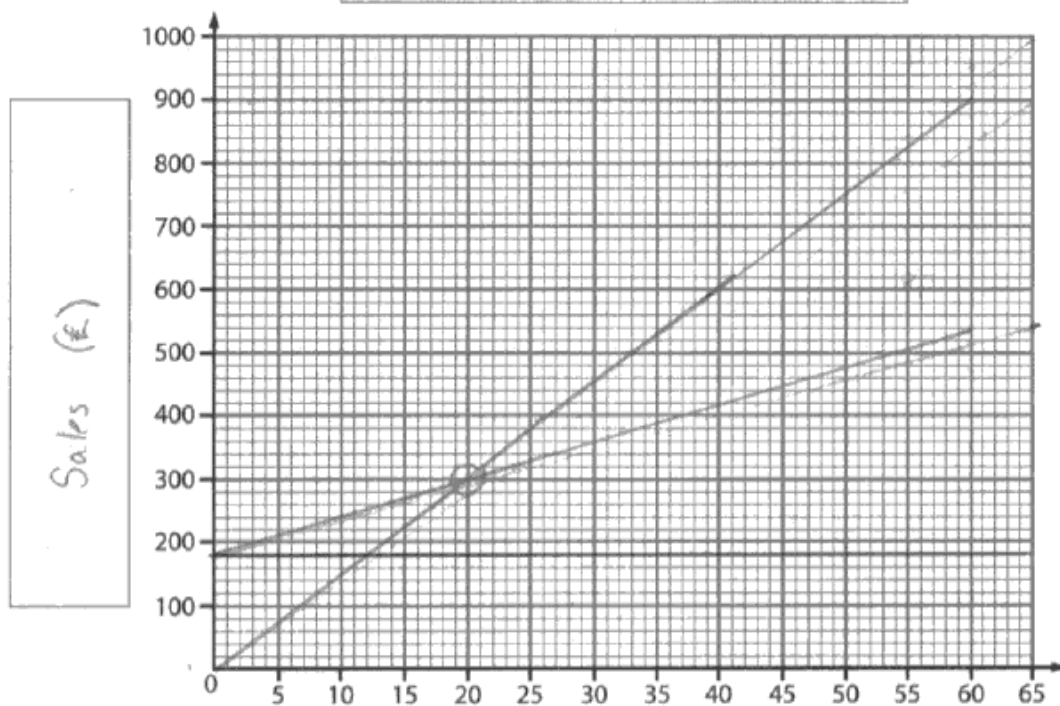
You may find it helpful to complete the activity table below before you complete the chart.

(6)

Activity Table

Family Deals	0	30	60
Sales	0	450	900
Variable Costs	0	180	360
Fixed Costs	180	180	180
Total Costs	180	360	540

Break even chart on family deal



Number of family deals sold weekly.



ResultsPlus

Examiner Comments

This candidate has drawn the chart correctly but the axes are incorrectly labelled and none of the lines have a label. Had these been included the candidate would have scored full marks.



ResultsPlus

Examiner Tip

Ensure that you fully label the chart as stated in the question to score full marks.

Question 5 (d)

This question was answered well in general although many candidates listed as many advantages and disadvantages as they could rather than giving one advantage and one disadvantage with development.

A few candidates struggled with this question, showing little knowledge of how ICT could assist with break-even analysis. Some gave very brief advantages such as 'quicker' or 'easier'. Many made points that could equally be applied to a break-even chart drawn by hand. Also, in the context of the scenario of such a small business it seemed unlikely that a relevant disadvantage would be 'hacking' but this was a common answer.

TPB Ltd is considering using ICT to assist with future break-even analysis.

(d) Explain **one** advantage and **one** disadvantage to TPB Ltd of using a spreadsheet for this purpose.

(8)

Advantage

As they can change the figures on the spreadsheet which will give them a different breakeven number depending on the company doing well or not so well.
The spreadsheet can be easily transferred, accessed or edited.
The spreadsheet can be portable.
Automatic calculations on the spreadsheet.

Disadvantage

The file could be hacked. It could be lost if ~~on~~ the electronic device it is on stops working for one reason or another.
Some staff may have to be trained to use the software (added costs)
The software itself may cost to ~~buy~~ ^{buy and use.}



ResultsPlus
Examiner Comments

This candidate has given a variety of advantages and disadvantages which is not what the question required.



ResultsPlus
Examiner Tip

Always read the question thoroughly and look for the words in bold.

TPB Ltd is considering using ICT to assist with future break-even analysis.

(d) Explain **one** advantage and **one** disadvantage to TPB Ltd of using a spreadsheet for this purpose.

(8)

Advantage

Break-even formula could be used which would make the break-even analysis more quicker and TPB Ltd could know how much units they need to sell in order to break-even. ~~But~~ Using ICT could assist with future break-even analysis because charts and graphs can be produced from it and the spreadsheet can be cut and pasted into other documents or presentations.

A spreadsheet for break-even analysis allows what if situations to be explored therefore identify future problems.

Disadvantage

A slight error in a formula could be hard to detect and can lead to other problems. The spreadsheet or document would need to be backed up in more than one memory system so that when the document is corrupted on a system, it can be retrieved on another.

~~But~~ The document can be corrupted with virus therefore losing the work. Training may be time consuming and expensive especially when training someone with a low ICT skills to use the spreadsheet.

Also the hardware and software is expensive therefore incurring additional costs to TPB Ltd.

(Total for Question 5 = 18 marks)



ResultsPlus
Examiner Comments

A well written answer that gains full marks.

Question 6

This was the 'extended answer' element of the paper and candidates were asked to assess the possible reasons for variances in the budgets at TPB Ltd.

This was quite well answered. Most answers were written in extended prose rather than as bullet points, which is encouraging, and there were some good attempts with the majority of candidates scoring marks at Level 2. Unfortunately, many candidates failed to reach Level 3 as they did not satisfactorily conclude their answer drawing on the analysis given and in direct relation to the question.

When concluding, many candidates simply summarised the advantages and disadvantages they had previously identified and explained.

The biggest issue with this question was, as in previous series, that many candidates seemed not to have planned their response which meant that they wrote far too much for little effect.

When studying its various budgets and actual income and expenditure, TPB Ltd has noticed that there are a number of variances.

*6 Assess the possible reasons for these variances.

There are a number of reasons why there are variances on budgets, this is because a budget is a plan its only a rough estimate of how well it might do over that certain period of time.

Variances are caused because the budgeter may over budget (estimate) on how well he thinks the business will do in that month this is an Adverse Variance, or he could under budget and the business may do much better than he first thought this is a favourable ^{Variance} budget. Also there are many other reasons why there are variances such as the supplier may boost his prices up meaning you have to spend more exceeding the amount you budgeted. Local competitors may have a better deal on meaning more people use their service rather than yours for that month this means that the amount you budgeted to make that month on sales may have dropped. or in that month there was a school holiday meaning more people used the TPB and sales increased.

There are many possible variances for the finance documents but a business would always prefer if the variance was favourable not adverse.



ResultsPlus
Examiner Comments

This is a well written answer with good QWC and it scores 7 of the 10 marks available. A justified conclusion would have gained the candidate more marks.

When studying its various budgets and actual income and expenditure, TPB Ltd has noticed that there are a number of variances.

*6 Assess the possible reasons for these variances.

The actual income can change so if it is too low covering the expenditure can become a problem. The number of variances can be from the ~~ex~~ production cost of the item, the quantity sold which will effect the income of the business. Also the business may overspend for something and have to change the quantity of the items/services.

The budgets that have been set is not the actual income/variance etc. ~~at~~ the budgets are planned and predicted from previous charts.



ResultsPlus
Examiner Comments

This answer shows some knowledge only and so can only be awarded level one marks.

Paper Summary

Based on their performance on this paper, candidates are offered the following advice:

- Use black ink or ball-point pen. Heavy felt pens transfer onto the reverse of the paper and pencil is difficult to read.
- Read the scenario to ensure that your answers are in context. Re-visit the scenario several times during the examination and re-familiarise yourselves with it.
- Look at the command words at the beginning of each question. Do not submit a bullet list of points without further development when the command word is eg 'Explain'.
- Look for the words in bold in the question - eg 'Explain **one** advantage and **one** disadvantage to *TPB Ltd* ' means develop two points only, not give a list of advantages and disadvantages.
- Answer question parts in the space allocated. If this is not possible eg due to deleting a wrong answer in the answer line section, indicate the location of the corrected answer on the paper (eg 'see next page' or 'my answer is on the last blank page').
- Practice writing more concise answers for the final extended question. The twenty lines available should be more than adequate for your answer.

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

<http://www.edexcel.com/iwantto/Pages/grade-boundaries.aspx>

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