

Examiners' Report
June 2014

GCSE Applied Business 5AB04 01

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Introduction

This was the fifth paper to be sat for the Applied Business qualification (double award) that is available in June each year. The paper was based on a mobile catering company, Coffee, Cakes and Muffins (CCM). 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. Basing questions on the given situation still seems to present some difficulty for candidates.

Centres should 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. This kind of 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. To date the papers have covered a variety of businesses – a café bar, a farm, a retailer, a bowling alley and this series a mobile catering service. 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 asterisk (*6).

Centres are also advised to look at the command verbs at the beginning of each question as many candidates are losing marks through their lack of understanding of these words. To gain full marks answers that have the command verb 'explain' should be developed. Many candidates are submitting a list of bullet points without further development, which cannot gain full marks.

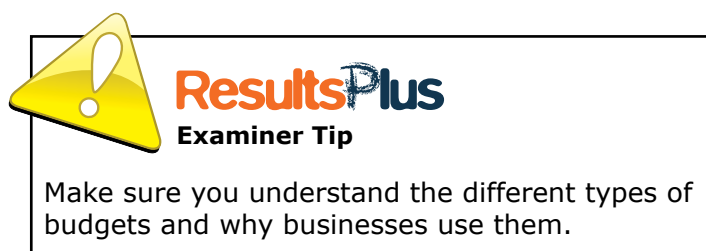
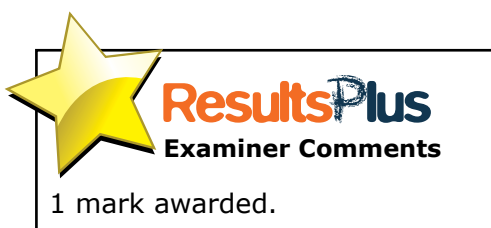
The 60 minutes seemed sufficient. There were very few gaps and these appeared to be due more to lack of knowledge than lack of time. The paper differentiated well, and all questions were answered as expected with no major misinterpretations. Most centres seem to have taken full account of advice given to ensure as far as possible that candidates answer question parts in the space allocated. 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. A large number of candidates wrote a great deal for Q6 and therefore needed extra sheets. Candidates should practice writing more concise answers to this extended question, as the twenty lines available should be more than adequate for their answer.

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 that advises them to use black ink or ballpoint pen.

Question (2) (a)

Candidates did not answer this question on the setting of a budget well and there was a definite lack of understanding shown. Some candidates realised that a budget is a planning tool and that budgets can be used to monitor and control.

A plan to control the money coming in and out of the company. This will help one business to see how much they can afford and what they can't afford. Helps with overall organising money income and out come of a business
But still only a prediction of what might happen



Question 2 (b) (c)

2(b): There was definitely a problem with budgetary analysis as candidates could not accurately calculate the variances and show them together with the correct sign (+/-). Even where the variances per month were correct the total variance was often added together incorrectly, as the candidates did not cope well with totaling one favourable and two adverse variances.

2(c): Most candidates could identify one or two suitable responses to the variances although many incorrectly believed that simply increasing the budget would solve the issue.

(i) Calculate the variances for the month of April using + or - (e.g. -£100)

(ii) State if the variances are favourable or adverse

(iii) Calculate the total variance

(7)

	April Budget	April Actual	April Variance	Favourable or Adverse?
Labour	£4 500	£5 000	£ 500	Adverse
Sales Revenue	£9 750	£10 000	£ 250	Adverse
Overheads	£600	£625	£ 25	Adverse
Total Variance			£ 775	

(c) Outline how CCM could respond to the total variance calculated above.

(3)

They could try and make the budget a little higher to try and make up for the money. They also could try and cut out in expenses. They also could try and increase the cost of things to try and cover the money that they went over budget.



ResultsPlus Examiner Comments

The candidate is awarded 5 marks for 2(a) but no marks are awarded for 2(b).



ResultsPlus Examiner Tip

2(a): Make sure you understand whether the variance is favourable or adverse. Also check your maths skills to ensure you can total positive and negative figures correctly.

2(b): A business cannot 'cut out' its expenses totally – but they could attempt to lower them and increasing costs will make the situation worse not better.

Question (2) (d)

Most candidates answered this simple multiplication question on a production budget well.

Space for your workings		
1500 Sales 0.95×1500 £1425 is their total production budget for July	1700 Sales 0.95×1700 £1615 is their total production budget for August.	2000 Sales 0.95×2000 £1900 is their total production budget for September.

The total production budget is £ 4040



ResultsPlus
Examiner Comments

Two marks are awarded.



ResultsPlus
Examiner Tip

Use the working box – even if you get the answer wrong you may get some marks for your workings.

Question 3 (a)

Most candidates answered this question on cash flow correctly and were awarded two marks

A cash flow forecast is an estimate of money that is coming in or out, including if the business is making a profit or not. A cash flow statement is the real statement.



ResultsPlus

Examiner Comments

Two marks are awarded for this correct answer.

Question 3 (b)

Some candidates gave vague responses on the use of ICT such as 'faster'/'quicker'/'easier' with no further development. Candidates should be advised that such statements must be clearly supported e.g. 'It is faster than by hand' to gain a mark. Many candidates failed to develop their point further or gave two points and so were limited to one mark.

Using a computerised spreadsheet is beneficial because it can easily be changed because you can link cells together so if you change one thing, it changes everything.



ResultsPlus

Examiner Comments

Two marks are awarded.



ResultsPlus

Examiner Tip

The question says to outline, and thus the 'because' is what gets the candidate the second mark

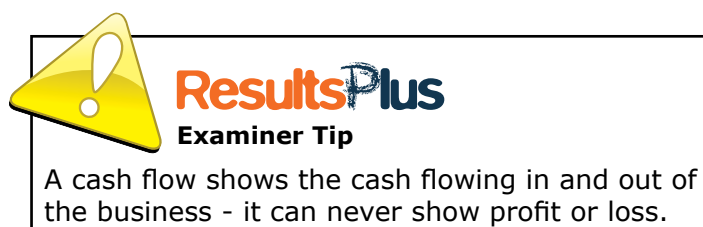
Formulas can be used to enter the information
So if information is changed it will
make the changes to the rest of the
document which saves time.



Question 3 (c)

Most candidates could identify that the cash flow position started negatively and then the situation improved in March. Very few candidates then provided a fully developed answer highlighting a solution and so were limited to two marks. Many used the correct terminology in terms of deficit and surplus. Candidates that lost all marks stated that a cash flow statement shows profit/loss.

It is bad because for 2 out of
the 3 months they are losing money.
~~bad~~ So overall they do not make any profit.



This forecast shows that in the closing balance in the first two months, CCM have lost a lot of money but in March it shows that there will be more sales therefore bringing the closing balance up from -250 to 2750.



ResultsPlus
Examiner Comments

The candidate is awarded 1 mark.



ResultsPlus
Examiner Tip

Only one mark can be awarded for the comment on the closing balance – a cash flow does not show loss.

Question 3 (d)

The majority of candidates could identify that the bank would want to see the cash flow forecast as the bank 'would want to know if the business would be able to pay them back'. Some candidates could develop this to explain that a negative/positive cash flow would result in it becoming less/more likely for the bank to provide the money. Some candidates made reference to the risk the bank was taking on. Few made reference to the bank using this to inform a decision as to how much money to lend.

The bank needs to know if they will be able to pay the loan back on time. The bank doesn't want to give money to people who won't pay it back because they will start losing money as a result.



ResultsPlus
Examiner Comments

Two marks are awarded.

The bank will be interested because they will be able to see how the business is predicted to do over the next three months. This will allow them to see what financial position they will be in. They will see if the business is reliable and able to pay the money back. They can ~~see~~ use the information to advise the business on how much money would be appropriate and needed.

(Total for Question 3 = 11 marks)



ResultsPlus
Examiner Comments

The full four marks are awarded.



ResultsPlus
Examiner Tip

Make sure you answer the question fully to gain all the available marks.

Question 4 (a)

Many candidates scored full marks identifying fixed and variable costs but where candidates lost marks it was most often due to their belief that coffee beans were a fixed rather than a variable cost.

Monthly Fixed Costs	£
Loan repayment	450
Insurance	150
Total	600

Monthly Variable Costs	£
Coffee beans	100
Milk/Sugar/Syrup	75
Sundries	50
Total	225



ResultsPlus
Examiner Comments

Full marks are awarded.

Monthly Fixed Costs	£
Insurance	£150.00
Loan repayment	£450.00
coffee beans	£100.00
Total	£700.00

Monthly Variable Costs	£
Sundries	£50.00
milk/sugar/syrup	£75.00
Total	£125.00



ResultsPlus
Examiner Comments

Only 4 marks are awarded.

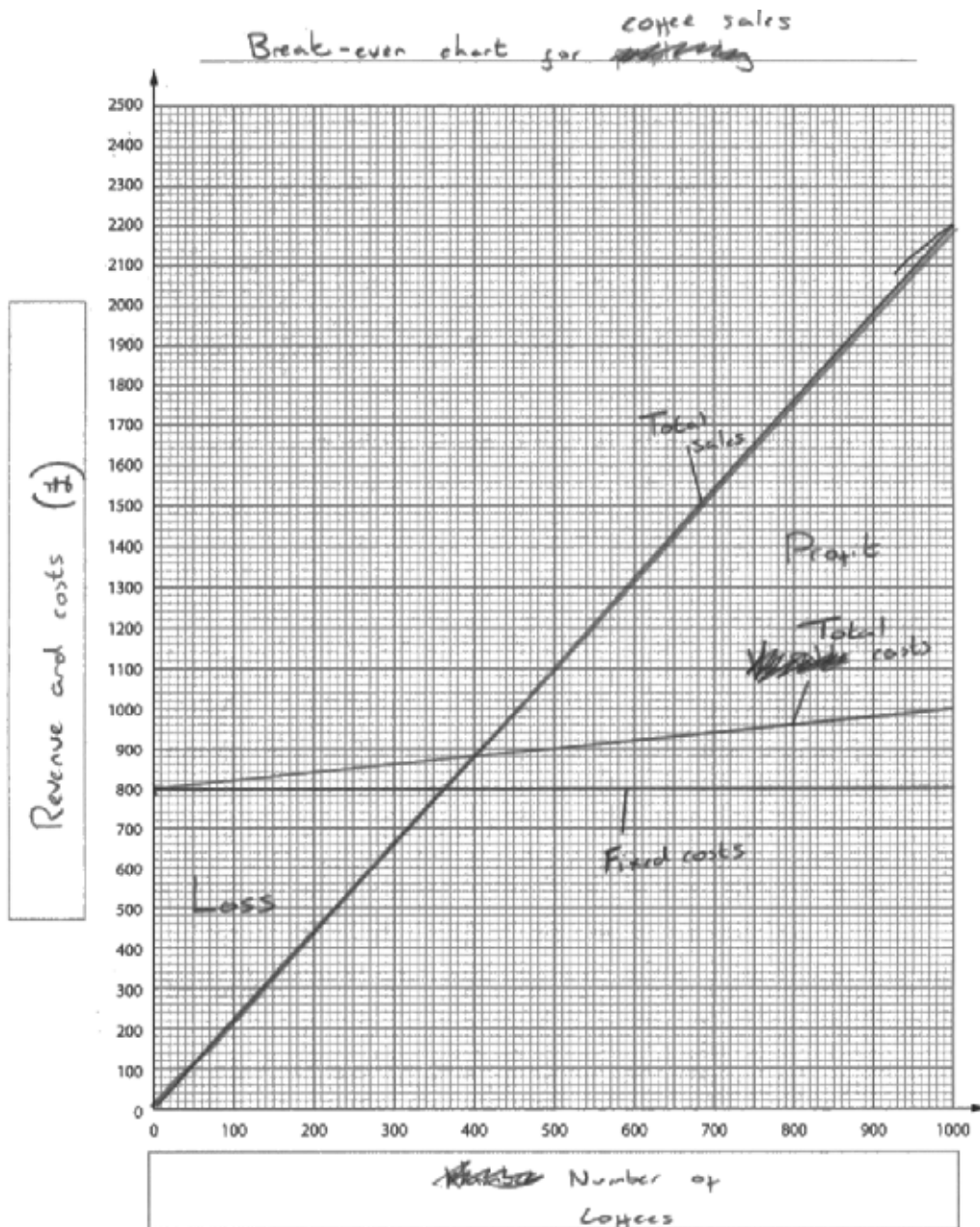


ResultsPlus
Examiner Tip

Coffee beans are a variable cost – they will increase and decrease according to the output – the amount of cups of coffee made.

Question 4 (b)

Although many candidates gained full marks on the break even chart some candidates lost marks through simple errors. Some candidates incorrectly labelled this break-even chart as a 'graph to show revenue and expenses'. Failing to label an otherwise very well drawn graph lost marks for many candidates. Labelling of the axis was not done as well as the drawing of the lines on the chart. Many candidates incorrectly circled the break-even point where the fixed costs line crossed the revenue line.



ResultsPlus
Examiner Comments

The candidate has correctly drawn and labelled the chart but does not clearly show the breakeven point.



ResultsPlus
Examiner Tip

Ensure that you have correctly drawn and correctly labelled the break even chart.

Question 5 (a)

Most candidates correctly indicated that with an increase in sales price the break even would be lower/move left. Many gave a valid point that the breakeven might increase as increased costs could cause sales to dwindle, and some made appropriate reference to a change in the margin of safety.

The total sales line would be steeper as this would be making more money per £0000, this would put the break even point further towards the y axis



ResultsPlus
Examiner Comments

Two marks are awarded.

The break even point will be easier as they won't need to sell as much as they'd be making more profit.



ResultsPlus
Examiner Comments

Only 1 mark is awarded.



ResultsPlus
Examiner Tip

Make sure you are answering the question – avoid vague answers.

Question 5 (b)

Candidates showed very poor knowledge on margin of safety and the majority failed to gain any marks. Margin of safety was not understood as the amount of sales above the break-even point and before maximum output. Most candidates believed that the margin of safety is the point at which you don't make a loss. Candidates are not showing any understanding that it is there to inform CCM on how many sales they could lose before a potential loss. Very few understood it to be a 'buffer'.

Because they can keep a tally of what they're making, to avoid over expenditure. To monitor the business, so other members of staff don't over spend.



ResultsPlus
Examiner Comments

No marks can be awarded.



ResultsPlus
Examiner Tip

Make sure you understand all aspects of break even analysis, not just how to construct the chart.

This reduces any risks as their business will be less sensitive to a situation where they are not able to sell as much coffee or if the price to acquire the product has increased. Their business is less vulnerable to any problems if they have a margin of safety.



ResultsPlus
Examiner Comments

Full marks awarded.

Question 5 (c)

Venture capital caused a huge problem for candidates as very few scored any marks. Some referenced that CCM would lose control, not be able to make own decisions and would lose a percentage stake in the business. Many talked about paying them back interest. None stated that the venture capitalist would expect growth or would impose restrictions.

1 means they would have to pay back the money at a later date and if the business is losing money then they ^{will} find it hard to not become bankrupt and still pay their venture capital.

2 also a disadvantage is their interest rates could be really high so they're having to give more money than if they went with a bank; also because venture capital only helps the business run at the start not long term.



ResultsPlus
Examiner Comments

No understanding shown – no marks awarded.

1 You have to pay them back the money plus a lot of interest

2 you have to offer a percentage of profits to them.



ResultsPlus
Examiner Comments

One mark awarded.

Question 6

Some answers were disappointing. Many candidates were unable to give advantages of a bank loan other than payments are controlled and spread over a period of time. Many candidates assumed a bank loan is 'easy to get', giving this as an advantage and making very little reference to the bank's potential refusal of lending money to a small company such as CCM. Many candidates are making the assumption that CCM would need to save up for a long time before they had enough retained profit to buy the van even though the question states they are deciding between retained profit (already received) or a bank loan. Many candidates are missing the point of retained profit, that is, to be re-invested into the business. The majority incorrectly believes that using retained profit would be a suitable method of paying back the loan. Many candidates are stating that five years is not that long to have run a successful business rather than that five years actually means CCM are quite an established business.

If CCM could afford to pay it out of their retained profits and then still have enough money to security carry it on other words then I would ~~advise~~ advise them to use the retained profits, this is because I would allow them to continue trading without having to pay a debt so they would keep all profits rather than lose a large percentage to a loan repayment.



ResultsPlus
Examiner Comments

A Level 1 answer – 3 marks awarded.

I would advise them to choose retained profits, because it's profit money that isn't / hasn't been used, which would then be a good investment for a van. If their business is doing well and making profits, then that money can go towards buying the van.



ResultsPlus
Examiner Comments

A level 1 answer – 2 marks awarded.

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 list of bullet points without further development when the command word is e.g. 'Explain...'
- Look for the words in bold in the question – e.g. 'Explain one benefit ...' means develop one point only, not give a list of benefits
- Answer question parts in the space allocated. If this is not possible e.g. due to deleting a wrong answer in the answer line section, indicate the location of the corrected answer on the paper (e.g. '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

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