

Examiners' Report
June 2015

GCSE Applied Business 5AB04 01

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Introduction

This was the sixth paper to be sat for the Applied Business qualification (double award) that is available in June each year. The paper was based on Shirlham Dog Boarding Kennels (SDBK). 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, a mobile catering service and in this series a kennels. 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 available seemed sufficient. There were very few gaps and these appeared to be more due to lack of knowledge than lack of time. The paper differentiated well, and all questions were answered as expected with no major misinterpretations; although there was some evidence of misreading and/or misinterpretation of the questions and the information provided in some answers. In some cases, it seemed that candidates preferred to write pre-rehearsed answers rather than addressing the exact question set.

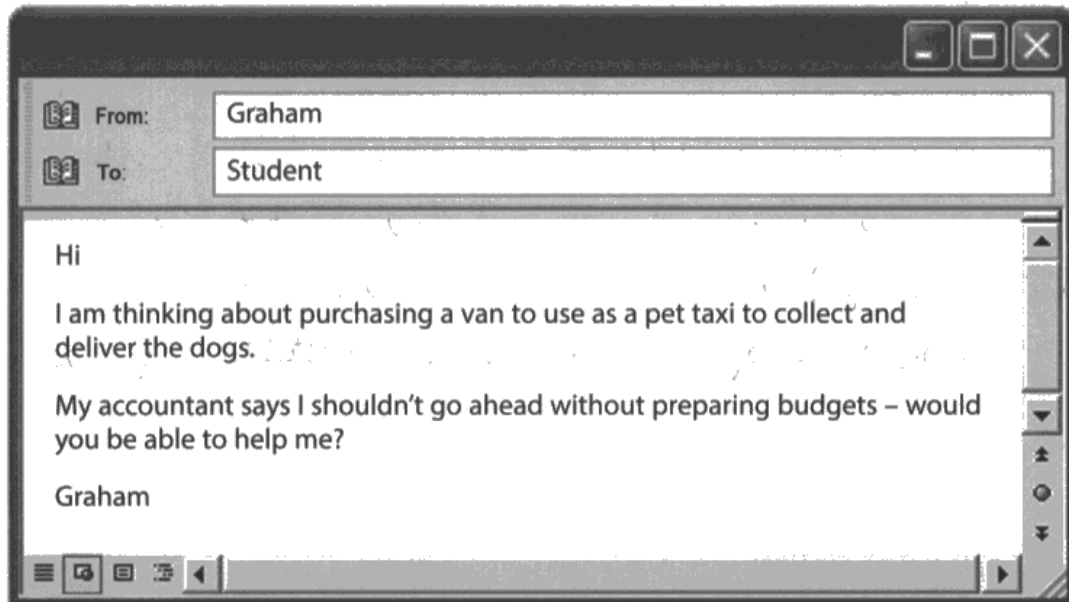
Most centres seem to have taken full account of advice given to ensure, as far as possible, that candidates answer question parts in the space allocated. Where this was not so, for example, due to deleting a wrong answer in the answer line section - most candidates indicated the location of the corrected 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.

Nevertheless, it is evident that many candidates have been well prepared and tackled the paper well.

Question 2 (a)

Candidates did not answer this question on budgeting well. Many answers were generic and candidates did not focus on sales budgets. There were many 'profit and loss answers' instead of stating it being the amount of money expected to receive from the sale of goods and services.

2 Graham has sent you the following email.



Graham has been told to prepare a sales budget. When Graham compares the actual sales with the sales budget there may be variances.

(a) State **four** reasons why these may occur.

(4)

- 1 Sales budget is just a prediction
- 2 could be human error
- 3 Sales may have been higher than expected
- 4 unexpected competitors could have created a new promotion and taken some of their sales.



ResultsPlus
Examiner Comments

A good answer that is awarded full marks.



ResultsPlus
Examiner Tip

Be sure that each point is different and you are not repeating points by writing them in a different way.

Question 2 (b)

Candidates on the whole do not have a full and wide understanding of the term capital expenditure or a capital expenditure budget. Most stumbled upon some marks here by knowing these would be 'big' or 'expensive' purchases, then developing this to identify it would help 'plan' what he could spend. There was definitely a problem with candidates incorrectly believing that a capital expenditure budget 'will stop overspending' or 'ensuring you do not overspend'. When looking at all the budget answers on the whole the incorrect idea that budgets 'stop you from going over' was by far the most widely offered response. However, more and more candidates are correctly describing budgets as 'helping to prevent overspending' or to 'control spending'.

(b) Outline **two** benefits to Graham of producing a capital expenditure budget before starting a pet taxi service.

(4)

1 Show how much he will have left after buying the van

2 It will insure he does not over spend, and go into debt.



ResultsPlus
Examiner Comments

The first part of the answer is too vague to be awarded marks, and the second part is incorrect as it cannot prevent overspending.



ResultsPlus
Examiner Tip

This is a four mark question, looking for two benefits to be outlined. Make sure you have expanded each point correctly to gain full marks.

Question 2 (c)

Most candidates could identify one other budget, the most common response being labour budget.

In addition to the sales and capital expenditure budgets, Graham uses other budgets.

(c) Name **one** other budget that Graham may use in *SDBK*.

(1)

expenditure budget



ResultsPlus
Examiner Comments

A vague answer that cannot be awarded any marks. Capital expenditure budget is already mentioned in the question stem, so what sort of expenditure was meant?



ResultsPlus
Examiner Tip

Be specific and be sure to read the stem to ensure you name one other budget.

In addition to the sales and capital expenditure budgets, Graham uses other budgets.

(c) Name **one** other budget that Graham may use in *SDBK*.

(1)

sales costs budget



ResultsPlus
Examiner Comments

Again, a vague unrewardable answer.



ResultsPlus
Examiner Tip

Always name a specific budget.

Question 2 (d)

Most candidates answered this question on monitoring of budgets well.

Many candidates were able to fully develop answers and discussed variances and seeking potential remedies. Weaker/wrong answers saw references to it 'stopping overspending' and a great deal of candidates incorrectly stated that using budgets would help 'prevent making a loss', or 'ensuring you make a profit'. Full understanding of the wider purposes of 'budgets' in general and the full range of budgets used by business is not fully understood as a broader topic

(d) Explain why Graham should monitor all budgets.

(3)

Budgets are ~~no~~ financial plans and estimate the income and expenditure of a business. Graham should monitor budgets to see whether SDBK are doing as they planned and too see whether there are variances. By monitoring the budgets there would not be a big shock to SDBK if there was a variance and then they would be able to take quick action.

(Total for Question 2 = 12 marks)



ResultsPlus
Examiner Comments

A clear, well written answer, that gains full marks.



ResultsPlus
Examiner Tip

Make sure 'explain' questions are answered with three linking parts.

Question 3 (a)

The majority of answers gave general, generic uses and benefits of using ICT in business, rather than answering the given question of explaining the benefits to the kennels of using ICT for financial planning. Also in previous series many candidates made unsupported claims of 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 three points and so were limited to one mark.

Most answers drew on formulas/automatic recalculation and efficiency to gain marks. It was pleasing to see the number of candidates that described modelling and potential for 'what if' formulas.

3 Graham has been doing some financial planning in preparation for the new pet taxi service.

(a) Explain **one** benefit to SDBK of using ICT when carrying out financial planning.

(3)

With ICT you are able to use spreadsheets, this would allow you to type in formulas accurately and work an answer out without any mistakes

Part of Graham's planning involves preparing a cash-flow forecast.



ResultsPlus

Examiner Comments

The candidate is awarded one mark for knowing that formulas are more accurate, but cannot be awarded any marks for the development of the answer.



ResultsPlus

Examiner Tip

Computers are only as good as the people using them. Only if the formulas are correct and if the user inputs the data correctly will the answer have no mistakes.

Question 3 (b)

Although many candidates could complete the blanks in the cash flow, this proved difficult for some. Centres are advised to ensure that candidates have practiced completing both blank and partially completed cash flow documents.

Graham is unsure whether it is a good option to go ahead with.
Part of Graham's planning involves preparing a cash-flow forecast.

- (b) Complete the cash-flow forecast for SDBK for August – October 2015 by inserting the correct figures in the blank boxes below.

(5)

Cash-Flow Forecast for SDBK for August to October 2015

| 2015 | August (£) | September (£) | October (£) |
|--------------------|------------|---------------|-------------|
| Total Receipts | 23 200 | 22 000 | 21 500 |
| Total Payments | 23 000 | 22 750 | 22 200 |
| Net Inflow/Outflow | 200 | (750) | (700) |
| Opening Balance | 1 000 | 1 200 | 450 |
| Closing Balance | 1 200 | 450 | (250) |



ResultsPlus
Examiner Comments

The candidate has correctly filled in all blanks and gains full marks.



ResultsPlus
Examiner Tip

Be sure to mark negative figure either with a minus sign or preferably by putting the figures in brackets.

Question 3 (c)

Most candidates could identify that the forecasted cash flow position for SDBK starts negatively and then the situation should improve in March. Very few candidates however provided a fully developed answer explaining a solution and so were limited to two marks. Many candidates used the correct terminology in terms of deficit and surplus, but some candidates lost marks as they incorrectly stated that a cash flow forecast shows profit/loss.

In October, SDBK predicts a negative closing balance.

$$1200 - 450 = 750$$

(c) Explain **one** effect of this negative cash-flow on SDBK.

(3)

SDBK may not ~~have~~ be able to take out a loan that could be used for capital expenditure. As they have a negative closing balance it is too risky for the bank to provide a loan as the business may not be able to repay it. Therefore SDBK may struggle to be accepted for a loan and miss out on the benefits that a loan ~~using~~ a loan could have for the business.



ResultsPlus
Examiner Comments

A good answer that gains all three marks.



ResultsPlus
Examiner Tip

Make sure you have appropriately developed 'explain' answers to gain all three marks.

Question 3 (d)

Most candidates identified that SDBK would need to look at a source of finance to cover the deficit, but although this deficit is shown as only £250 many believed the company would become bankrupt. More able candidates noted that this was a small amount and as such an overdraft would be the most suitable solution.

(d) Outline **one** way in which SDBK could manage this negative cash-flow.

(2)

SDBK could reduce costs such as spending less money on wages. Reducing staff wages may improve the cashflow.



ResultsPlus Examiner Comments

The candidate is awarded two marks as they have correctly identified that a reduction in costs would help, and developed this by giving an example of a relevant cut they could make.



ResultsPlus Examiner Tip

Ensure you read the stem - if it says one way don't list two ways, give one and develop it or you will lose marks.

(d) Outline **one** way in which *SDBK* could manage this negative cash-flow.

(2)

SDBK could try ~~and~~ and make more profit the following month in order to compensate for the loss of the negative cash-flow.



ResultsPlus
Examiner Comments

The candidate incorrectly talks about profits rather than cash flow and so does not gain any marks.



ResultsPlus
Examiner Tip

Be sure that you do not confuse cash flow forecasts with profit and loss forecasts.

Question 4 (a)

Most candidates were able to differentiate between fixed and variable costs, although a number of candidates thought that dog food would be a fixed cost.

- 4 Shirley and Graham have decided to carry out a break-even analysis on the business. To do this, expected costs have to be classified into fixed costs and variable costs.

(a) Using the table below, classify each of these costs as either a fixed cost or a variable cost.

(6)

| Costs | Fixed | Variable |
|------------------------------------|-------------------------------------|-------------------------------------|
| Loan repayment | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Insurance | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Sundries (cleaning materials etc.) | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Dog food | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Business rates | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Purchase of printer paper and ink | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |



ResultsPlus
Examiner Comments

The candidate has confused fixed and variable costs and gains no marks.



ResultsPlus
Examiner Tip

Make sure that you are placing your ticks in the correct columns or you will lose marks.

Question 4 (b)

Many candidates drew perfect breakeven graphs but failed to fully label them and so lost marks. A common error was to omit the breakeven point label. The axis was also poorly labeled with 'sales' rather than 'costs and revenues' being used. The title of the graph was often too vague to award as it did not refer to the pet taxi service e.g. "Break even chart".

Shirley and Graham predicted that at least 20 people a month will use the pet taxi service.

They have given you some forecast costs and revenue information to use when drawing a break-even graph for their first month of operation:

- Revenue from each pet pick up £8
- Fixed costs £60
- Variable costs each pet pick up £2

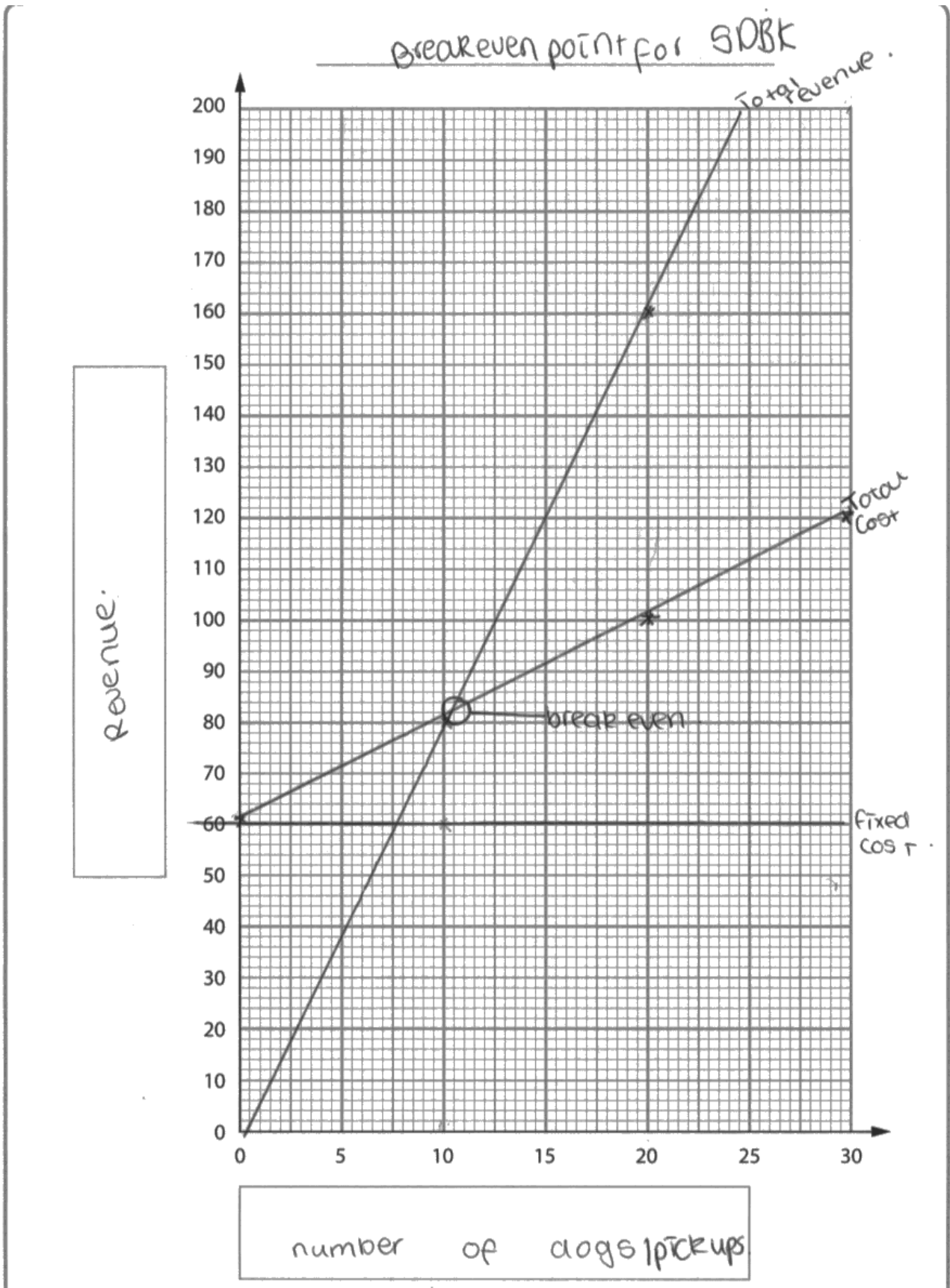
(b) Draw a fully labelled break-even graph for SDBK on the graph supplied opposite.

(6)

You may find it helpful to complete the activity table before you draw the graph. It has been started for you.

Activity Table

| Revenue and Costs for SDBK | | | | |
|----------------------------|----|----|-----|-----|
| Number of pick ups | 0 | 10 | 20 | 30 |
| Sales Revenue | 0 | 80 | 160 | 240 |
| Variable Costs | 0 | 20 | 40 | 60 |
| Fixed Costs | 60 | 60 | 60 | 60 |
| Total Costs | 60 | 80 | 100 | 120 |



ResultsPlus
Examiner Comments

Although the candidate can clearly construct a breakeven graph they have lost marks by failing to label it correctly.



ResultsPlus
Examiner Tip

Be sure to give the correct specific title for the graph, and use the correct 'costs and revenues' label on the axis.

Question 5 (a)

The majority of candidates identified that the change would affect the total cost line and so shift the breakeven point to the right. Some candidates lost marks as they identified the change in the breakeven point but developed this by giving a solution e.g. 'so they would have to sell more' rather than outlining the effect on the breakeven point.

- 5 Shirley and Graham have realised that they have underestimated the monthly fuel costs for the van and need to increase them.

(a) Outline the effect this would have on the break-even graph.

This would increase the steepness of the total cost line and the break even point would be higher. ⁽²⁾



ResultsPlus
Examiner Comments

The candidate has correctly identified the changes and gained both marks.

- 5 Shirley and Graham have realised that they have underestimated the monthly fuel costs for the van and need to increase them.

(a) Outline the effect this would have on the break-even graph.

This would increase the breakeven point, meaning that SDBK would have to pick up more dogs before they break even. ⁽²⁾



ResultsPlus
Examiner Comments

The candidate has identified that there would be an increase in the breakeven point, but the development of the answer is a repeat, saying they would need more dogs to break even.

Question 5 (b)

Many answers given related to computerised systems/accounts and not the use of spreadsheets for purposes of breakeven. Again, there were unsupported answers of 'quicker and easier' without explaining why this was the case. This question was poorly answered in general as the majority of candidates provided a list of points or developed one point only. Some candidates incorrectly stated that these systems would mean 'no human error', but more able candidates highlighted that the automatic calculation was more accurate or limited human errors. Many candidates used 'what if' examples to support their answers, which was pleasing. Many candidates identified that the graphs could be produced far more quickly than by hand and how figures can be linked for ease of change.

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

(b) Explain **one** advantage to SDBK of using a spreadsheet to assist with future break-even analysis.

(3)

the advantage of SDBK using a ICT is it save them
this will make them more aware
of their spending and it will always
be accurate



ResultsPlus

Examiner Comments

The first part of the answer is very vague, accuracy is not guaranteed as there can be input errors. It cannot be awarded any marks.

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

(b) Explain **one** advantage to SDBK of using a spreadsheet to assist with future break-even analysis.

(3)

The one advantage of SDBK of using a spreadsheet would
be that a spreadsheet is more accurate is less
time consuming this could be good for the business
as they will have other jobs to do, also you can add
formulas to the spreadsheet which make the calculations
much more accurate.



ResultsPlus

Examiner Comments

A clear developed answer that gains full marks.

Question 5 (c)

Candidates struggled with developing the advantage of a bank loan much more than the disadvantage. Overall this question was answered very well, but where a mark was lost it was often on developing an advantage of bank loans. Most candidates were confident that the interest charged would be a disadvantage. They understood that a loan might be simple to obtain and can be done quickly by going to banks and applying but failed to develop this further, simply giving 'quick and easy' as an advantage. Worryingly, many candidates lost marks as they stated that the loan was 'free money'.

Shirley and Graham have decided to purchase the air-conditioned van to use as a pet taxi. They are considering using a bank loan to purchase this van.

(c) Outline **one** advantage and **one** disadvantage to SDBK of using a bank loan to purchase the van.

(4)

Advantage:

You get the money straight away but you can pay back in instalments.

Disadvantage:

They may ask you to secure the loan on your house or car, so if the loan isn't paid back they can take that item.



ResultsPlus
Examiner Comments

A concise answer that correctly identifies an advantage and disadvantage of bank loans and develops each. Full marks awarded.

Question 6

This question tested the candidates ability to evaluate.

Overall this question was answered well, with the majority of candidates falling in level 2. Most candidates attempted to provide a balanced answer by listing advantages and disadvantages of both types of finance then attempting to draw a conclusion, albeit the conclusion was often very weak and unsupported. However the more able candidates were able to access level 3, with answers that had well-justified and balanced conclusions that not only drew out advantages and disadvantages previously discussed but also provided another piece of evidence as support for their choice.

It seems as though a number of candidates failed to read the question correctly, and referenced using a loan as one of the options for form of finance, perhaps carrying this idea over from the previous question.

Common errors were for candidates to confuse leasing and hiring. Leasing was not well understood and candidates are stating that 'you can take it back any day whenever you like'. Very few understand that leasing is usually a contract for a longer period of time as many candidates are talking of it in terms of daily hire. The majority incorrectly thought that insurance would not need to be paid if leasing, and that petrol would be free.

Some candidates confused personal savings and retained profit thus losing marks.

Many candidates felt that using their personal savings would mean you had personally invested so you would try harder to make it work, although Shirley and Graham are already heavily invested in this business as they are the owners.

The most common advantage given for taking a lease was to keep their personal savings for other things, and being able to have a new van, with the major disadvantages given being the effect on cash flow and not owning the vehicle. Many candidates correctly stated that personal savings would be available immediately without having debt, plus the vehicle would become a fixed asset. It was pleasing to see candidates picking up on the problem of branding a leased vehicle e.g. 'use of decals could be limited if leasing' or fitting it with cages in the context of transporting dogs to and from the kennels. Likewise a small amount of candidates recognised that as they are using the van to transport dogs that could damage the van they may have a problem finding a leasing company. A very small number of candidates noted the depreciation of the value of the vehicle as a disadvantage of purchasing a van.

The most common disadvantages of personal savings given were 'not having enough' or 'not having any left to spend', and more able candidates argued that if they did not have enough savings they would also need to find a loan, and that using their personal savings may mean that Shirley and Graham may not have any savings left for other things such as holidays/ personal use or a backup in case of emergencies.

QWC: The Quality of Written Communication used by candidates was of variable quality. Most answers were written in extended prose rather than as bullet points, which is encouraging, and there were some good attempts.

Some candidates unfortunately are still showing poor quality of written communication with poor sentence structure, grammar and spelling. Many candidates need to work on their paragraph structure as responses were completed in 'blocked text', where clear paragraphs were needed.

More able candidates were able to fluently structure their answers with a balanced argument and reaching valid conclusions using full paragraphs. In addition, more able candidates used good grammar, spelling and business terminology in their responses.

All candidates are reminded of the importance of QWC when structuring their answers as this determines the level and the marks that can be awarded.

Shirley and Graham have decided not to take out a bank loan, but to look at other ways of obtaining the van for their pet taxi.

They have narrowed this to two options:

1 ~~to~~ +
1 - of each.

Option 1 – Use their personal savings to purchase a van

Option 2 – Lease a van

*6 Evaluate which would be the more appropriate source of finance for SDBK to use to obtain the van.

If SDBK were to use option 1 and use their own savings to buy the van they would have ~~no~~ fewer savings for use on other things, like an unexpected need for capital expenditure or for repairs of unexpected damage. The business would have to find a different source of finance for these things then.
However, if SDBK were to buy the van using

their own savings it would become an asset for the business. This means that SDBK would be able to sell the van if need be as a source of finance for other things.

Leasing a van would not give SDBK any assets as the van is not their property. Instead it is the asset of the one who leased it. When the business no longer needs the van they would not be able to sell it to get some money back from it & they would simply have to return it to its owner.

However ~~renting~~ leasing a van may be cheaper for the business overall if the total cost of them leasing the van comes to less than it would have cost the business to buy their own ~~or~~ using personal savings. Also, the value of the van decreases over time as it ages and is used. This wouldn't be SDBK's problem though as it isn't their asset. Leasing a van has another advantage over using personal savings as if the van were to make a loss the SDBK could simply stop leasing the van. However if personal savings were used to a personal loss of the full cost of the van would be suffered. Therefore leasing a van comes with more personal security for the SDBK's owners.

In conclusion, ~~the~~ SDBK ~~to~~ should lease a van rather than use personal savings to purchase one as it is the most appropriate source of finance for them.

(Total for Question 6 = 10 marks)



ResultsPlus
Examiner Comments

A well written L3 answer. The candidate balances their arguments and attempts a conclusion.



ResultsPlus
Examiner Tip

To evaluate is to make a balanced argument with a supported conclusion. Be sure to talk about the disadvantages of both options then come to a conclusion which is not simply a repeat of what you have written previously.

Shirley and Graham have decided not to take out a bank loan, but to look at other ways of obtaining the van for their pet taxi.

They have narrowed this to two options:

- Option 1 – Use their personal savings to purchase a van
- Option 2 – Lease a van

*6 Evaluate which would be the more appropriate source of finance for SBDK to use to obtain the van.

I think the most appropriate source of ^{finance} financial is that they should lease a van because if they lease the van then they could get the money from customers so that they could then pay the lease for the van. This would also help their business because once they have made enough money they may be able to purchase

another van and make more money. So in my opinion I think they should lease a van. And this also means that they won't have to use their own money to buy a van.



ResultsPlus
Examiner Tip

This is a poorly worded answer. The candidate has noted two points only.

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 if the command word is e.g. 'Explain...'
- Look for the words in bold in the question. '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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