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Examiners' Report

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GCSE Applied Business 5AB02 01

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Introduction

This was the eleventh paper to be sat for the Applied Business qualification (single award).

This paper was previously available in January and June each year, but since being made linear is now only available in the June series. The paper was based on Beach Farm Riding Centre (BFRC), owned and managed by Julia, a sole trader. 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 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 revisit 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 challenge. To date the papers have covered a variety of businesses – a drum store, a cake factory, a cinema, a theme park, a hotel, a jeweller, a self-employed photographer, an entertainment company, a company renting hovercraft experiences, and this series a riding centre.

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. For example, 'explain' in question 4a required candidates to explain the purpose of a balance sheet (statement of financial position).

To get these marks the 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. 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 problems were found in question 4b where candidates showed little knowledge of working capital.

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. Some 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 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 1 (a) (b)

1(a) Most candidates could correctly identify the flow of documents, although some confused the order of the delivery note and invoice.

1(b) Some candidates lost a mark as they incorrectly showed the arrow for Statement of Account pointing from BFRC to the Supplier.

Some candidates omitted to draw the arrows, and so lost 3 marks.

- 1 Julia has started to draw the diagram below to show the flow of financial documents. The diagram shows the order in which documents are sent when BFRC buys from a supplier. Each arrow shows who sends the document and who receives it.

Complete the rest of the diagram.

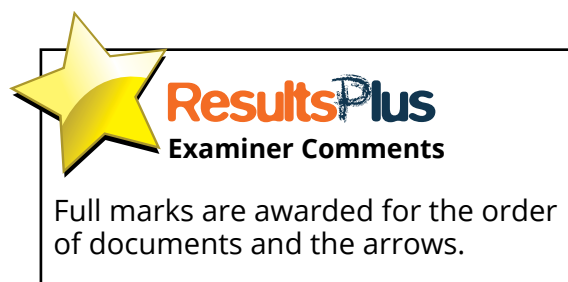
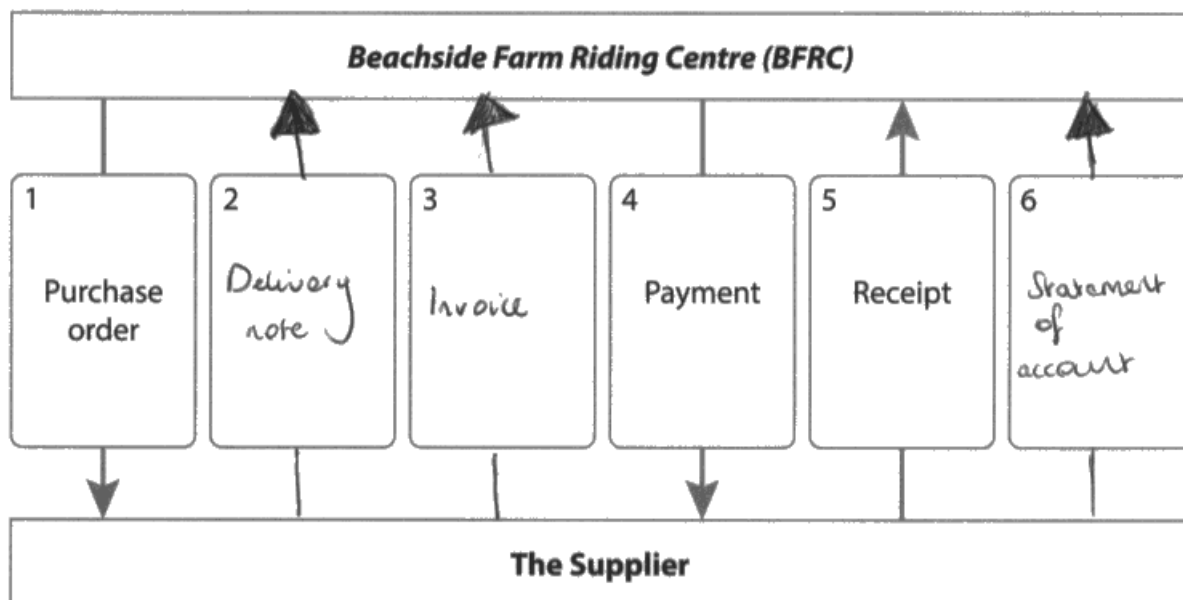
(a) In each blank box write, in the correct order, the name of **one** of the three documents listed below.

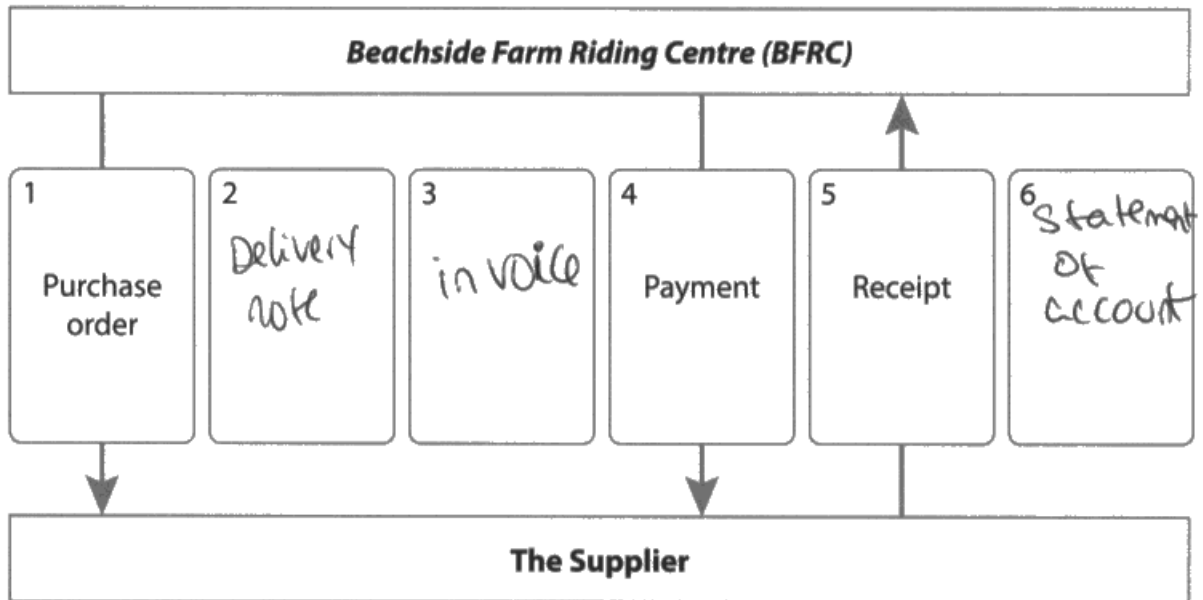
- Statement of account
- Invoice
- Delivery note

(3)

(b) Draw an **arrow** from boxes 2, 3 and 6 to show who sends the document and who receives it in light of your answers to (a) above.

(3)





ResultsPlus
Examiner Comments

No arrows have been drawn from the document, so 3 marks have been lost.



ResultsPlus
Examiner Tip

Be sure to complete each question fully.

Question 2 (a) (i)

Most candidates successfully provided a start-up cost for the 2 day stay and ride mini-break, but some did not give an answer in this context. As *BFRC* is an established riding centre it will already own horses and riding equipment therefore these answers cannot be awarded.

Many applied the scenario well and provided an in-context response, e.g. improvements to the farmhouse, beds for guests, initial marketing and brochures.

Generic answers such as 'equipment' could not be awarded.

(a) (i) Give **one** example of a start-up cost that Julia might face.

(1)

A farmhouse



ResultsPlus Examiner Comments

The scenario tells you that Julia is considering making improvements to her farmhouse – something she already has cannot be a start-up cost.



ResultsPlus Examiner Tip

Be sure to read the scenario and the question, and answer in context.

Beds for guestrooms



ResultsPlus Examiner Comments

The answer is in context, and so a mark can be awarded.



ResultsPlus Examiner Tip

Check your answer is in context.

Question 2 (a) (ii)

This question was answered well overall. Most candidates achieved one mark for outlining what is meant by start-up costs, giving answers referring to the costs incurred before trading, but some lost the second mark as frequency of purchase was not mentioned. Many gave further examples of start-up costs but this had already been awarded in 2ai.

Candidates lost marks if they repeated the stem, e.g. costs to start up the business, or money you spend at the start.

(ii) Outline what is meant by start-up costs.

(2)

The amount of money the business spends before trading and is done only once.



ResultsPlus Examiner Comments

The candidate is awarded full marks for a correct answer.



ResultsPlus Examiner Tip

Be sure that your answer shows your knowledge and understanding, and is not simply restating the stem of the question.

Start up cost is what she needs to pay to start it up.



ResultsPlus Examiner Comments

The candidate cannot be awarded any marks as the answer is simply a rewording of the question.



ResultsPlus Examiner Tip

Be sure to demonstrate your knowledge and understanding in all answers.

A start up cost is something a business must pay before they begin trading/running. These costs tend to be one-off purchases. For example, fixtures and fittings.



Question 2 (b) (i)

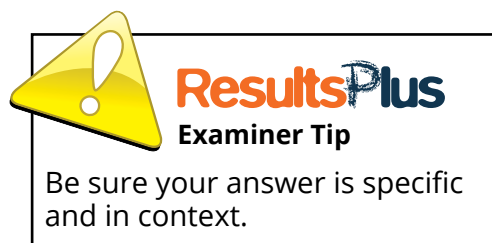
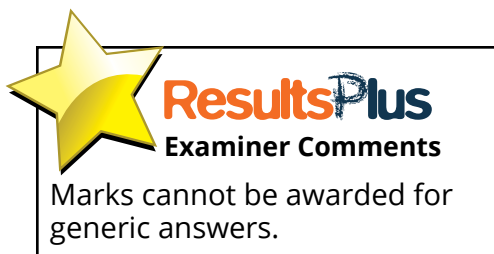
This question was answered well overall with many relevant examples of running costs for the 2 day stay and ride mini-break provided, e.g. cleaning materials, toiletries and food for guests. Again, marks could not be awarded for answers that referred to the existing service offered by *BFRC*, e.g. hay for the horses.

Additionally, generic answers such as 'bills' could not be awarded.

(b) (i) Give **one** example of a running cost that Julia might face.

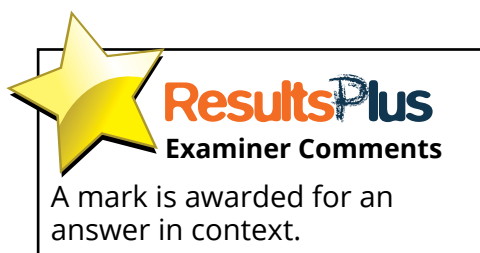
(1)

Bills



(1)

Food for the guests



Question 2 (b) (ii)

Many candidates struggled to provide a definition of running costs without repeating the stem.

Answers should refer to frequency and continuation, e.g.

Running costs are the ongoing costs of the business (1) that are required for the business to continue operating (1).

Many candidates gave further examples of running costs but this had already been awarded in 2(b)(i).

(ii) Outline what is meant by running costs.

(2)

how much it cost to keep the business
running



ResultsPlus
Examiner Comments

No marks can be awarded as the candidate has simply repeated the stem.



ResultsPlus
Examiner Tip

Make sure you show your knowledge and understanding – do not simply reword the question.

A running cost is a cost that has to be ~~eat~~ regularly paid as the business is operating. Running costs allows a business to function and be successful.



ResultsPlus
Examiner Comments

Full marks are awarded for an answer in context.

Question 3 (a)

Many candidates answered this question well, identifying four stakeholders and four valid interests in these documents. A variety of applicable stakeholders were chosen by candidates and their interests were generally outlined well. It was clear however that some had not read the scenario as this clearly states that Julia is a sole trader who both owns and manages the business. This meant that 'shareholder' was not a valid response.

Many candidates correctly identified the customer as a stakeholder, but failed to give a valid interest, often suggesting aspects that would not be provided by financial statements, e.g. gives price lists or shows the quality of the customer service.

A few misinterpreted the question gaining four marks for the stakeholders, but no marks for responses as these did not show their interest in the financial statements, e.g. employees work there.

Candidates also lost marks for giving owner and manager as two stakeholders, although the scenario states that Julia is both; others gave vague reasons that could not be awarded a mark, e.g. employees want to know how the business is doing.

3 Julia has been preparing financial statements for *BFRC*. She has asked you to explain why these are of interest to *BFRC*'s stakeholders. Julia has produced the table below.

(a) (i) Complete Column 1, identifying **four** of *BFRC*'s stakeholders.

(4)

(ii) Complete Column 2, outlining why financial statements are of interest to **each** of the four stakeholders you have identified.

(4)

Interest of financial statements to stakeholders of <i>Beachside Farm Riding Centre (BFRC)</i>	
Column 1 stakeholder	Column 2 stakeholder interest
(BFRC) Julia	She owned the business She pay to keep the business running
Customers	If it wasn't for them she wouldn't have a successful business
Hay Supplier	They supply the Hay for the horses

Staff	They keep the business in order for it to make money
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ResultsPlus
Examiner Comments

4 marks are awarded for the stakeholders, but the interest of these stakeholders in the financial document is not shown and so 4 marks are lost.



ResultsPlus
Examiner Tip

Be sure that you answer the question set to gain full marks.

Interest of financial statements to stakeholders of <i>Beachside Farm Riding Centre (BFRC)</i>	
Column 1 stakeholder	Column 2 stakeholder interest
Employee	To see whether the business is going to survive so they know their job is secure.
Manager	To see if the business is making profits and if it is healthy so they know whether its going to survive.
Customer	To see whether the business will survive so they can continue going there.
Supplier	To see whether the business is able to pay them and whether it will survive so they can keep supplying them.



ResultsPlus
Examiner Comments

The candidate has given 4 appropriate stakeholders, and correctly identified their interest in the financial documents of the business. Full marks are awarded.

Question 3 (b)

This question was generally answered well with blank responses being rare. Many candidates accessed full marks, showing clear understanding of the calculations required and filling out the invoice correctly. The main weakness found was using the previous invoice number 94037. Most students entered the address correctly, but it was common to omit the customer name. Some added this underneath the address. The figures were generally used correctly, although on occasion some candidates incorrectly calculated a 2-hour trek x 1 for £39.99 and a 1 hour trek x 1 for £24.99.

Many students failed to calculate the discount correctly, incorrectly giving £33 or £34. Candidates need also to be aware that a discount would be deducted from the goods total as this was a common error.

Candidates should be reminded that the end column for pence requires two figures, whether that be e.g. .00 or .50. Some put numerous digits in the pence column which is not awardable as this would not be acceptable in a professional business accounting document. Figures must have a decimal point followed by two figures for pence.

(b) Using the information given in the email, complete the invoice below. It has been started for you.

(7)

Beachside Farm Riding Centre (BFRC) Jenkins Farm Field Road Southend-on-Sea SE10 6CD Tel:0797002919 VAT Reg. No. 8925143	Invoice Number: 94037
	Date: 25/05/17
	Invoice to: Vicky Middleton
	42c Penny road
	Eastfields
	Essex
	Ex9 3YV

Time of trek	Trek requirements	Cost (£)(p)	Total (£)(p)
1.00pm	2 hour trek x 3	39.99	119.97
3.00pm	1 hour trek x 2	24.99	49.98
		Total	169.95
		Online booking discount@5%	8.4975
		Total to Pay	161.46



ResultsPlus Examiner Comments

The candidate has lost two marks.
 The invoice number is the last number used and so cannot be used again.
 The discount has been calculated correctly, but the format of the figures is wrong, as there must be two figures after the decimal point to show pence.
 Invoice no (0) used last invoice number
 Invoice to (1)
 2 hour trek (1)
 1 hour trek (1)
 Total (1)
 Discount (0) wrong format
 Total to pay (1)
 Only 5 marks out of 7 can be awarded.



ResultsPlus Examiner Tip

Be sure to read the instructions carefully – the email informed you that 94037 was the last invoice number.
 Be sure to use the correct format when entering figures – money has two figures for pence after the decimal point.

**Beachside Farm Riding Centre
(BFRC)**

Jenkins Farm
Field Road
Southend-on-Sea
SE10 6CD

Tel:0797002919

VAT Reg. No. 8925143

Invoice Number: 94038

Date: 24.05.17

Invoice to: Vicky Middleton

42 c Penny Road

Eastfields

Essex

EX9 34V

Time of trek	Trek requirements	Cost (£)(p)	Total (£)(p)
1.00pm	2 hour trek x 3	39.99	119.97
3.00pm	1 hour trek x 2	24.99	49.98
Total			169.95
Online booking discount@5%			8.50
Total to Pay			161.45



ResultsPlus

Examiner Comments

A perfect answer that is awarded full marks.

Question 4 (a)

The question clearly differentiated between candidates with many of the most able candidates able to gain full marks, but it was common to award two marks only for this response. The document was frequently confused with either a profit and loss account (income statement) with candidates referring to sales, spending, expenses, gross profit and net profit, or to a cash flow forecast and how much is coming in and how much is going out.

Common errors involved phrases such as 'it shows profit and loss'. In addition, candidates often repeated the stem, referring to Working Capital and Net Current Assets which was not awardable. Most candidates could identify that the balance sheet contains assets and liabilities but were not always able to explain further; few mentioned it was a snapshot of the business, some mentioned it showed what it owned and owes.

A common issue was making the wrong connections between points: listing 2 separate purposes cannot gain full marks. Candidates should be encouraged to focus on the command verb in the question stem, and when asked to 'explain' they should develop one point fully, rather than stating a range of points in their answer.

(a) Explain the purpose of a balance sheet.

(3)

The purpose of a balance sheet is to see if julia and her Company are making a profit and an increase on their cash flow on a daily basis. ALSO wheather their making a good balance or not. A balance sheet can show julia if they need to improve remain areas or keep things the same.



ResultsPlus Examiner Comments

The answer given does not show any understanding of balance sheets, and cannot be awarded any marks.



ResultsPlus Examiner Tip

Be sure to understand each of the financial documents and be able to explain their purpose clearly.

Balance sheet is a snapshot of the business's performance at a point in time. It outlines the business's ~~current~~ current assets given as its current liabilities, to show if the business are able to pay off its debt and how much they own.



ResultsPlus

Examiner Comments

The candidate clearly shows understanding of the purpose of a balance sheet, and full marks are awarded.

Question 4 (b)

This was one of the weaker responses as candidates displayed little understanding of working capital and few gained full marks. Some candidates made no attempt to answer this question.

Often candidates incorrectly referred to the use of 'workers' or gave general statements about either the income statement or the balance sheet that were not awardable.

Many responses incorrectly referred to how much profit *BFRC* made, what Julia could spend her money on, the business cash flow – and confused working capital with cost of sales. Candidates often gained one mark only for quoting the working capital formula, or for a simple statement about current assets and current liabilities.

Candidates who accessed the full range of marks often did so by referring to the use of working capital in relation to the proposed expansion, indicating that working capital could be used to see if the business was in debt or could pay off unexpected costs, and to see if money was available to expand the farmhouse for guests.

(b) Explain **one** reason why knowing the amount of working capital she has can help Julia manage her business.

(3)

This would help her business because she when to work and how is working for her.



ResultsPlus

Examiner Comments

The candidate has confused the term 'working' and applied it to workers. No understanding of working capital is shown, so no marks can be awarded.



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Examiner Tip

Be sure that you understand all parts of all financial documents.

Working capital is current assets - current liabilities. It tells if the business has enough to pay off their debt. This is beneficial as she would know whether to invest or not -



ResultsPlus

Examiner Comments

2 marks are awarded.
The candidate answer states '...current assets - current liabilities' (1)
it tells if she can pay her debts...' (1).
No further appropriate development is found, so a third mark cannot be given.



ResultsPlus

Examiner Tip

If there are three marks shown for a question make sure your answer has enough content to be awarded three marks.

If Julia knows her working capital then she will know whether or not the business can pay off its short term debts. If the working capital is low then she can ~~the~~ reduce her current liabilities (e.g. rent, ^{staff} wages). If it's high then she can be reassured that ~~the~~ her business is able to pay off all its short term debts.

(Total for Question 4 = 6 marks)



ResultsPlus

Examiner Comments

3 marks awarded for a correct answer.
The candidate shows an understanding of working capital in the answer '...pay its short term debts (1)...if it is low she can reduce liabilities...(1)
The rest of the answer is a repeat, but the candidate has given the formula in the blank space below the lines. This can be rewarded.



ResultsPlus

Examiner Tip

Try to keep your answer within the lines provided. If you have to write outside these lines make sure that the examiner knows where to look for the rest of your answer, or it might be missed.

Question 5 (a)

Most candidates completed the profit and loss account (income statement) accurately. The most common errors were placing the cost of sales in the expenses section, and adding the revenue and cost of sales together to make the gross profit figure £420 000 instead of subtracting for £180 000.

Most candidates placed wages, vet bills, mortgage, rates and insurances in the correct place but some put sales and or cost of sales in the expenses section as well as in the income section. Some candidates incorrectly added gross profit and total expenses together to give net profit. A small number of candidates lost a mark for entering Net Profit/Loss rather than Net Profit in the bottom row.

Some candidates lost marks through simple calculation errors and all candidates are advised to double-check their answers for accuracy.

- 5 Julia has asked you to help construct a Profit and Loss Account (Income Statement) for BFRC for 2016. She has sent you the following figures:

	£
Revenue from pony trekking	300 000
Wages and salaries	80 000
Vet bills	24 000
Mortgage, rates and insurance	26 000
Cost of sales	120 000

- (a) Complete the 2016 Profit and Loss Account (Income Statement) for BFRC.

(8)

2016 Profit and Loss Account (Income Statement) for Beachside Farm Riding Centre (BFRC)

	£	£
Sales Revenue		300,000
Cost of Sales		120,000
Gross Profit		180,000
Expenses:		
Wages/Salaries	80,000	
Vet Bills	24,000	
Mortgage/Rates/Insurance	26,000	
Total Expenses:		130,000
Net Profit		50,000



ResultsPlus

Examiner Comments

8 marks awarded.

The candidate has completed the profit and loss account correctly and is awarded full marks.

	£	£
Revenue from Pans Bakery		300 000
Cost of Sales		120 000
Gross Profit		420 000
Expenses:		
Wages and salaries	80 000	
Vet bills	24 000	
Mortgage, rates and insurance	26 000	
Total Expenses:		
£ 130 000		290 000



ResultsPlus

Examiner Comments

The candidate has incorrectly added the revenue and the cost of sales, and so loses one mark.

The second mark is lost as the candidate has not stated net profit, and has given the incorrect figure.



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Examiner Tip

Be sure to subtract cost of sales from revenue to get the gross profit figure.

The final line should always show net profit or net loss.

This must be stated in words in the first box, and in figures in the second box.

Question 5 (b)

5bi) This was mainly answered well but many candidates failed to develop answers to be awarded 2 marks. Some candidates made simple statements such as 'quicker or cheaper as an advantage to BFRC of customers paying by cash', which cannot be awarded. The question was not always read correctly as some candidates referred to the advantages to the customers rather than the business, e.g. customers will not have enough money so cannot buy, or they will lose their money or have it stolen before they get to BFRC, and customers prefer to pay by card so that they don't overspend. Some candidates gave the disadvantages of credit cards and did not mention cash.

5bii) Again there were instances of candidates answering questions from the wrong perspective, i.e. from the viewpoint of the customer and not BFRC, stating, for example, the likelihood the customer was making an impulse buy or the customer did not have the correct change. Many candidates recognised that cash might be less safe but did not give any further development and so limited themselves to one mark.

Julia accepts a variety of payment methods at BFRC.

(b) (i) Outline **one** advantage to **BFRC** if customers pay by **cash** rather than by credit card.

(2)

~~Cash is more easier~~
Ea Using Credit Card you need to pay interest. using cash you do not need to pay interest.

(ii) Outline **one** disadvantage to **BFRC** if customers pay by **cash** rather than by credit card.

(2)

~~Cash using cash you cant make on time payments. But using a~~
Q: you need to pay the money straight away but with credit card you can pay at a later time



ResultsPlus Examiner Comments

The candidate has not read the question correctly, which requires them to look at the advantages and disadvantages to BFRC, and has incorrectly talked about the customer. No marks can be awarded.



ResultsPlus Examiner Tip

Always take time to read the question and be sure to answer it correctly.

(b) (i) Outline **one** advantage to **BFRC** if customers pay **by cash** rather than by credit card.

(2)

An advantage is that with cash the customer gives you an immediate payment, whereas with a credit card you have to wait for 3 days for the money to transfer into the business account, therefore, using cash will allow BFRC to use the cash to pay some debt or to invest it in something that can be very useful to them.

(ii) Outline **one** disadvantage to **BFRC** if customers pay by **cash** rather than by credit card.

(2)

A disadvantage can be that if the cash ~~is~~ is left on the premises, there is a higher risk of theft and robbery, therefore, BFRC would have to increase their security which also costs money, whereas, with a credit card ~~the~~ less storage is needed on the premises and the money goes straight to the business bank without them having to take the cash to the bank which also costs money.

(Total for Question 5 = 12 marks)



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Examiner Comments

The candidate has answered both parts of the question correctly, and full marks are awarded.

Question 6

Answers were varied, but most candidates could access at least level 2 on the question. Candidates at Level 1 provided purely generic answers that were not applied to the case study and/or question asked. It was pleasing that there seemed to be very few candidates who did not attempt an answer. The more able candidates could access Level 3, with answers that had well justified and balanced conclusions, showing a greater depth of understanding as to whether *BRFC* should spend money on improving its facilities to offer 2-day mini breaks.

Many candidates produced a good response to this question, showing good knowledge and understanding of profitability and liquidity.

Candidates who produced Level 3 responses clearly evaluated whether *BRFC* should improve its facilities, using the data given to demonstrate their understanding of how the ratios would support a decision whether to go ahead with the development. These candidates also used a clear structure in their responses, accurately considering the liquidity position of *BRFC*, the profitability of *BRFC*, and reaching a justified conclusion based on their analysis. It was pleasing to see that centres had clearly demonstrated to candidates the difference between liquidity and profitability, which was reflected in most Level 2 and 3 candidate responses. In addition, many candidates could clearly differentiate between the different liquidity and profitability ratios in the data and their meaning to *BRFC*. Some candidates, however, assumed the liquidity ratios showed how much profit *BRFC* had made. This was the most common misconception.

Another issue that was commonly seen was reference to ideal ratios without any further development of the significance of this to *BRFC* or their investment decision, e.g. stating that the acid test ratio was not at the ideal ratio of 1:1 – 1.5:1 without any development. Centres are advised to ensure that candidates can explain the ratios in context to the scenario given.

Many students ended with a simple statement but no justification. Any conclusion needs to be justified. Unsupported conclusions cannot be credited. Many candidates concluded with 'I think it would be a good idea to spend money on the farmhouse'. This is not a supported conclusion.

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. More able candidates could fluently structure their answers considering both liquidity and profitability and reach 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.

BFRC is considering expanding the business by offering 2 day 'stay and ride' mini breaks.

Julia believes this will attract more customers. This would involve making some improvements to the farmhouse to accommodate guests.

Julia has calculated the following financial ratios for BFRC.

Ratio	2015	2016
Acid Test Ratio	0.84:1	0.73:1
Current Ratio	1.48:1	1.41:1
Gross Profit Margin	50%	60%
Net Profit Margin	15%	17%

- *6 Using the information in the above table, evaluate whether BFRC should spend money on improving the farmhouse.

(10)

From looking at BFRC's gross profit margin and net profit ~~margin~~ margin, I would say they are at a ~~good~~ good figure, and both are increasing - the gross profit margin by 10% in a year, and the net profit margin by 2% in a year. As the gross profit margin has ~~more~~ increased the most, I assume this is because BFRC are reducing their ~~or cost~~ cost of sales, which is obviously a positive thing, as it is generating more overall profit.

However, the net profit margin isn't increasing at a similar rate, which it needs to be to allow BFRC to reserve money ~~to~~ ^{also} to pay start up costs for the expansion. It is ~~likely~~ likely that if the business goes through with their improvements, the net profit will vastly decrease, as expenses ~~to~~ will obviously go up to maintain the ~~farmhouse~~ farmhouse.

I advise that the business wait a few years and look at ways in which they could decrease their expenses to prepare for improvements.

Both ~~profitability~~^{liquidity} ratios, acid test ratio and current ratio have faced a decrease in the year - in current ratio a decrease of 0.11:1, and ~~in~~ in acid test ratio a decrease of 0.07:1. Although the decreases aren't particularly drastic, it is still ~~poor~~ poor, as they should ideally be increasing rather than decreasing to demonstrate the business is ~~improving~~ improving. The decrease shows that the business is becoming more liquidable.

The current ratio is also alarming, as current ratio should ~~be~~ ideally be between 1.5:1, and ~~1.9:1~~ 1.9:1. Anything lower than 1.5:1, which BFRG have, means they are incapable of paying off their debts if they were to all be called in ~~simultaneously~~ simultaneously, ^{and} the business would go bankrupt. Improving the ~~farmhouse~~ farmhouse would ^{most likely} involve more debts being taken out, thus a lower current ratio, and BFRG would be at an even greater risk of bankruptcy.

The drastic difference for each year in the current ratio and acid test ratio is also

confusing, as acid test ratio disincludes stock. A pony trekking business would've have any/very little stock, as the ponies and riding equipment would be categorised as fixed assets as they will be used for more than a year. This leads me to believe that Julia has made a mistake \pounds in the liquidity ratios.

Overall, I would advise BFRC to wait a few years to improve their farmhouse, and try and improve both their net profit margin to allow room for expenses, and generate more money for start-up costs, and to improve their liquidity ratios by looking at ways to either increase current assets or decrease current liabilities.

However, it depends on how much reserved cash BFRC have for the improvement, as they may be able to easily pay for the improvements without drastically changing the figures, and it also depends on the expenses the improved farmhouse will require, as it may not be a lot, meaning they could cope with the increase.



ResultsPlus

Examiner Comments

The response is a good example of an answer at Level 3. 10 marks are awarded. The candidate has demonstrated a good understanding of both liquidity and profitability ratios in context (e.g. a pony trekking business...very little stock...improve their farmhouse...ponies and riding equipment). A justified conclusion is present, and full marks are awarded.



ResultsPlus

Examiner Tip

Be sure that your answer is concise and well structured. When asked to evaluate be sure to weigh up both sides and come to a justified conclusion.

- *6 Using the information in the above table, evaluate whether BFRC should spend money on improving the farmhouse.

BFRC should ~~spend~~ spend money ⁽¹⁰⁾ on improving the farmhouse. ~~because~~ ~~over~~ we know this because over one year acid test ratio has gone from 0.84:1 down to 0.73:1. Current ratio has 1.48:1 down to 1.41:1. However the net profit margin has gone from 15% up to 17%.



ResultsPlus

Examiner Comments

The answer is a series of points, and therefore in Level 1. 3 marks are awarded.



ResultsPlus

Examiner Tip

Be sure that each point you make is developed, or you restrict the amount of marks that you can be awarded. Answers that are bulleted lists or a number of points only are restricted to Level 1 and 3 marks maximum.

Paper Summary

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

- Use black ink or ballpoint 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. Revisit 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.
- Where there are two columns (£ and p) the pence column requires two figures, whether that be e.g. .00 or .50
- If a question has multiple marks one simple statement cannot gain full marks.
- 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.

Grade Boundaries

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

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