

Edexcel GCSE

Specimen Papers and Mark Schemes

**Edexcel GCSE in Applied Business
(Double Award) 2306**

For first award in 2004

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Contents

Question Paper	page 1
General Guidance on Marking	page 19
Mark Scheme	page 21

Background Scenario

The questions in this paper are based on the following scenario.

You should read this carefully before you start to the answer the questions.

Sasha Ltd.

Sasha Ltd is a fashionwear company that designs and produces clothes aimed at the teenage market. They sell to retailers across the UK. The business has been running for five years and has grown steadily. It is owned and run by two directors; Sasha, who runs the design department and Peter, who runs the finance department. Sasha and Peter have been looking at ways of making their business stronger and they have been making plans for future growth. Sasha and Peter know they have to make a profit but they also know they have to watch their cash flow. They have made sure they keep accurate records of their transactions on their IT system and they use these records to produce their final accounts.

Sales revenue for their business is greater in the winter than in the summer. In the winter the production department is very busy and works flat out while in the summer the business is often quiet. Sasha and Peter want to keep their factory busy all year around and also want to increase their total sales income. They have therefore been thinking of introducing a range of summer sports clothes.

Sasha and Peter know this will mean buying new equipment but they feel that this would be a good investment. They decide to do some careful planning.

Answer ALL questions in the spaces provided

*Leave
blank*

1. You work in *Sasha Ltd's* finance department.

Order 5 batches of sweatshirt material from Bales and Co. using the document reference number 5471.

PURCHASE ORDER	
Date:	<i>Sasha Ltd</i> The Castle Trading Estate Belmont
Order no: 12345	BM23 4DY
TO:	
Please supply	Reference no.

(3)

Total 3 marks

2. This is an invoice which has been filled out wrongly by a member of *Sasha Ltd's* accounts department and Peter has asked you to check the calculations.

Leave blank

INVOICE			
Sasha Ltd.	Date: 1 st July 2002		
Invoice to: The Roundabout Deemston Shopping Centre Deemston Crandonsire CR23 3TH	Invoice No.: 23456		
Quantity	Description	Unit price	Total
25	Sweatshirts	9.99	249.75
30	Pairs of shorts	4.50	135.00
10	Track tops	24.99	24.90
Sub total			409.65
VAT@17.5%			71.68
Total to pay			481.33

(a) Circle the first calculation error you find on the invoice, (reading downwards from the top). (1)

(b) Calculate the following items correctly:

(i) Sub total £ (1)

(ii) VAT £..... (1)

(iii) Total to pay £ (1)

(c) Identify and explain **two** possible effects of these errors on *Sasha Ltd*.

Leave
blank

(i)
.....
.....

(2)

(ii)
.....
.....

(2)

(d) Explain fully why *Sasha Ltd* want to make sure they have accurate records of:

(i) financial transactions with their customers;

.....
.....

(2)

(ii) financial transactions with their suppliers.

.....
.....

(2)

(e) (i) Name the financial document that *Sasha Ltd* will send its customers at the end of each month.

.....

(1)

(ii) Why is it important to *Sasha Ltd* that their customers receive this document each month?

.....

(2)

Total 15 marks

3. The chart below shows forecast sales income based on market research for *Sasha Ltd's* new products.

Leave blank

Sales forecasts for <i>Sasha Ltd's</i> new products; April – September 2003						
Month:	April	May	June	July	August	September
Forecast sales income: (£000)	75	100	125	150	130	100

(a) Give reasons for the changes in forecast sales income figures over the months from April – September:

.....

.....

.....

(3)

(b) Give reasons why the number of clothing items sold by *Sasha Ltd* over this period might be different from forecasts.

.....

.....

.....

(3)

(c) Explain why *Sasha Ltd* might experience cash flow problems over these months despite a strong sales performance.

.....

.....

.....

(3)

(d) Identify the bank service which could help *Sasha Ltd* deal with possible cash flow problems.

.....

(1)

(e) Give **two** advantages and **two** disadvantages to *Sasha Ltd* of using this bank service.

Advantages

.....

(2)

Disadvantages

.....

(2)

(f) State **two** advantages of using a **spreadsheet** to produce cash flow forecasts.

(i)

(ii)

(2)

Total 16 marks

Leave blank

4. These are some of *Sasha Ltd's* costs:

*Leave
blank*

- machine operators making clothes are paid for each item they make
- workshop insurance is paid monthly
- material is bought from suppliers
- office staff are paid monthly salaries
- rent and business rates is paid monthly
- item of new equipment/machinery.

Identify each of these costs as either a Fixed Cost or a Variable Cost by placing a tick in the appropriate column of the table below:

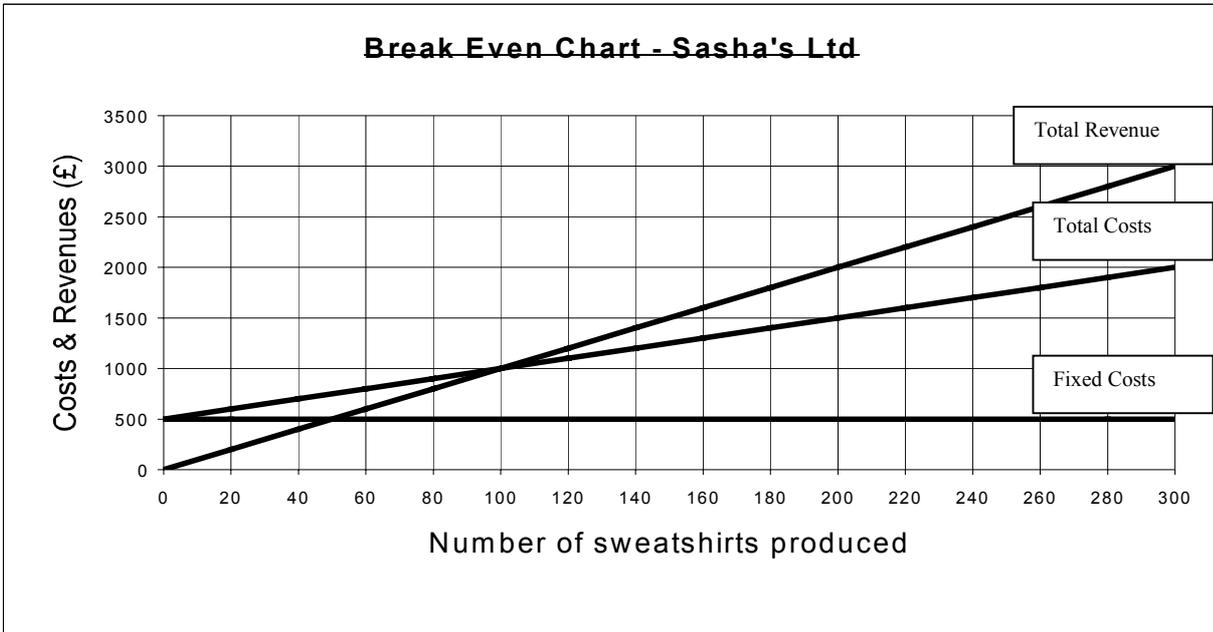
	FIXED COSTS	VARIABLE COSTS
Machine operators' wages		
Workshop insurance		
Materials		
Office staff salaries		
Rent and business rates		
New equipment		

(6)

Total: 6 Marks

5. Sasha and Peter have completed this chart to help them work out how many sweatshirts they will have to sell to break even and make a profit.

Leave blank



- (a) (i) State the total costs if 200 sweatshirts are sold.

.....

(1)

- (ii) State how many sweatshirts need to be produced and sold to reach the break even number?

.....

(1)

- (iii) State how much profit or loss is made by producing and selling 200 sweatshirts?

(your answer must include the word 'profit' or 'loss')

.....

(1)

(b) The cost of the material used to make sweatshirts increases by 20%.

State **two** different actions that *Sasha Ltd* could take to continue to break even at the same point. In each case explain why you think this action will prove successful.

Leave blank

(i) Action 1:
.....
.....
.....

(2)

(ii) Action 2:
.....
.....
.....

(2)

Total 7 marks

Leave blank

6. All limited companies like *Sasha Ltd* need to draw up final accounts every year. Details for *Sasha Ltd's* costs and revenues for the year ending 31st December 2001 are given below:

Wages	£50,000
Salaries	£60,000
Income from sales	£800,000
Heat and light	£6,000
Insurance	£3,000
Purchases of stock	£500,000

- (a) Use the information given above to complete the profit and loss statement by filling in the grey boxes in the table below.

Profit and Loss Statement for Sasha Ltd for Year Ended 31 December 2001		
		£
	Sales	
	Cost of Sales	
	Gross Profit	
Expenses	£	
	Total Expenses	
	Net Profit	

(9)

(b) Explain why each of the following people or groups might be interested in *Sasha Ltd's* profit and loss statement, or how they might use this information.

Leave blank

(i) *Sasha Ltd's* bank manager.

.....
.....
.....
.....

(2)

(ii) Employees of *Sasha Ltd.*

.....
.....
.....
.....

(2)

(iii) The local community in the area around *Sasha Ltd's* factory and workshop.

.....
.....
.....
.....

(2)

Total 15 marks

Leave
blank

7. Sasha and Peter need a new machine to make the sweatshirts they plan to sell.

(a) Suggest **two** suitable methods of finance, other than a bank overdraft. For each method give **one** advantage and **one** disadvantage.

(i) Method (1)

Advantage (1)

Disadvantage (1)

(ii) Method (1)

Advantage (1)

Disadvantage (1)

(b) If Sasha and Peter decide to buy their machine, it will need to be regularly serviced by a local engineering company. The cost will be £25.00 a month for this service.

(i) State a suitable method *Sasha Ltd* could use to make this regular payment.
..... (1)

(ii) Explain why you think this method is suitable.
.....
..... (1)

Total 8 marks

8. As part of their final accounts, *Sasha Ltd* draws up an annual balance sheet.

(a) Explain the purpose of a balance sheet.

.....

(2)

(b) The following accounts appear in different sections of *Sasha Ltd's* balance sheet. Identify which section they appear in by ticking the correct column for each account.

Account	Fixed Assets	Current Assets	Liabilities
Debtor			
Equipment			
Creditor			
Bank loan			
Delivery Van			

(5)

(c) Information contained in a balance sheet may be used when trying to obtain finance such as a bank loan, for company growth. State **one** other suitable method of non-banking finance and explain the advantages and or disadvantages to Sasha and Peter of using this.

(i) Method

.....

(1)

(ii) Advantages

.....

.....

(2)

(iii) Disadvantages

.....

.....

(2)

Total 12 marks

General Guidance on Marking

Examiners should look for qualities to reward rather than faults to penalise. This does NOT mean giving credit for incorrect or inadequate answers, but it does mean allowing candidates to be rewarded for answers showing correct application of principles and knowledge, and for critical and imaginative thinking. Examiners should therefore read carefully and consider every response; even if it is not what is expected it may be worthy of credit. The Principal Examiner or Team Leader should be consulted as necessary.

Using the Mark Scheme

1. In the first column the question is identified.
2. The second column identifies the expected answers to the question. The expected answers are not necessarily exhaustive and so professional judgement should be applied by the marker
3. For some of the expected answers, example answers have been supplied to give additional guidance, particularly where the question allows for a wide-range of responses from the candidate.
4. The third column identifies how the marks should be awarded.
5. **(1)** indicates the award of each mark
6. 1x4 **(4)** indicates that the mark (sub total) for that part of the question is **four** made up of four one mark answers or parts.
7. The **(6)** or similar mark in the third column is the sub total allocated to that part of the question and is the same as the sub total which appears on the question paper.
8. The total mark for each question is in **Bold** at the bottom of each full question.
9. Information in **Bold** which appears in the bottom of the second column for that question gives guidance on how to award a range of marks and must be followed for that specific question ie **Low response (1) or detailed explanation (2)**

Mark Scheme

GCSE (Double Award) in Applied Business

Unit 3:

Business Finance

Mark scheme

Question		Expected answers	Mark allocation	
1.	(a)	Purchase order Fill in: – ‘to’ section Bales and Co (1) – ‘please supply’ section – 5 reels of cotton (1) – reference no -5471 (1)	1 x 3 (3)	
Total marks for Question 1			3 marks	
2.	(a)	Total cost of track tops wrongly calculated £24.90 instead of £249.90	(1)	
	(b)	(i)	£634.65	(1)
		(ii)	£111.06	(1)
		(iii)	£745.71	(1)
	(c)	Any two of the following: <ul style="list-style-type: none"> • might delay payment (1) and therefore affect cash flow until the mistake is rectified (1) • mistake might not be detected (1) and the business would lose money (1) • the business could look inefficient to the customer (1) thus affecting further sales (1) • other financial records might be inaccurate as a consequence (1) and take time to rectify (1) (1) each for the two possible consequences and (1) further where more detail is added	2 x 2 (4)	
	(d)	(i)	Any two of the following: <ul style="list-style-type: none"> • keep track of how much customers owe (1) • without checking, customers may not pay on time (1) Further (1) if student recognises the effect this will have on the cash flow	(2)
		(ii)	Keep track of how much Sasha Ltd owe to suppliers (1) Further (1) if recognition of impact on business when suppliers are not paid	(2)
	(e)	(i)	Statement	(1)
(ii)		Any two of the following: <ul style="list-style-type: none"> • reminds the customer to pay on time (1) • gives the customer a clear idea as to the state of their account (1) • shows the customer what is owing currently and what has been owing for some time (1) • understanding of knock on effect on cash flow of business (1) 	(2)	
Total marks for Question 2			15 marks	
3.	(a)	Would expect to see a strong progressive take-up, as products become established in the market (1) , peaking in mid summer (1) and declining as the season changes (1) . Possible decline in sales with competition	(3)	
	(b)	Poor weather, (1) unfavourable change in consumer tastes, (1) increasing competition (1) , market research flawed (1)	3 x 1(3)	

Question		Expected answers	Mark allocation
3.	(c)	Delay in payment to Sasha Ltd by retailers, (1), possibly due to poor sales in the retail market (1) possibly accompanied by unexpected cash expenditure (1) Low response (1) or detailed explanation (2)	(3)
	(d)	An overdraft (1) or loan (1)	(1)
	(e)	Advantages: availability of emergency finance (1); flexibility and ease of arrangement (1) Disadvantages: high interest rates (1); loss of independence (1)	(4)
	(f)	Any two of the following: <ul style="list-style-type: none"> • provides a means for good presentation (1) • much easier to deal with calculation using automated routines and formulae (1) • errors can be easily put right (1) • more than one person across the company can have access to the document (1) • changes can easily be made (1) 	2 x 1 (2)
Total marks for Question 3			16 marks
4.		Fixed Cost - <ul style="list-style-type: none"> • workshop insurance (1) • staff salaries (1) • rent and business rates (1) • item of new equipment (1) Variable Cost - <ul style="list-style-type: none"> • materials (1) • machine operator's wage (1) 	6 x 1 (6)
Total marks for Question 4			6 marks
5.	(a)	(i) £1,500	(1)
		(ii) 100 items	(1)
		(iii) Profit of £500	(1)
	(b)	Any two of the following: <ul style="list-style-type: none"> • action: Shirts would have to increase in price (1) • costs remain covered as previously (1) • action: The business might try to cut costs elsewhere (1) • the overall relationship between costs and revenues will stay the same (1) • action: Buy the materials from a cheaper supplier (1) • original cost structure retained (1) 	2 x 2 (4)
Total marks for Question 5			7 marks
6.	(a)	(1) each for inputting data into correct boxes Calculations - Gross profit = £300,000 Total expenses = £119,000* (*salaries + heat and light + insurance + wages) Net profit = £181,000 (1) for each correct calculation (9) maximum	(9)

Question		Expected answers	Mark allocation
6.	(b)	(i) Bank manager – Any two of the following: <ul style="list-style-type: none"> • to consider profitability of business (1) • ability to repay loans (1) • looking at solvency (1) • support for a future loan (1) 	2 x 1 (2)
		(ii) Employees – Any two of the following: <ul style="list-style-type: none"> • need to know the business is solvent (1) • job security (1) • may want to ask for a pay rise (1) • need to know that the business is doing well (1) • position of profit is good for motivation (1) 	2 x 1 (2)
		(iii) The local community – Any two of the following: <ul style="list-style-type: none"> • business needs to be doing well to provide employment opportunities (1) • other businesses are affected by business success eg local shops/garages/stationers etc (1) • people in employment have money to spend in the local community (1) • the presence of business might attract other businesses to follow (1) • businesses pay rates (1) 	2 x 1 (2)
Total marks for Question 6			15 marks
7.	(a)	Any two of the following: Hire purchase (1) <i>Advantages:</i> <ul style="list-style-type: none"> • spread the payment (1) • machine will belong to business once payment is complete (1) <i>Disadvantages:</i> <ul style="list-style-type: none"> • unless all payments are made, machine will not belong to business (1) • committed to hire purchase payment until end of agreement (1) Leasing (1) <i>Advantages:</i> <ul style="list-style-type: none"> • spread the payment (1) • maintenance is often included in the payment (1) • can ‘upgrade’ for newer machine at end of the lease agreement (1) <i>Disadvantages:</i> <ul style="list-style-type: none"> • business will never own machine (1) • not an asset, therefore cannot borrow against it (1) 	

Question		Expected answers	Mark allocation	
7.	(a)	Bank loan (1) <i>Advantages:</i> <ul style="list-style-type: none"> • can purchase machine outright, therefore gaining an asset (1) • able to sell machine if needed (1) <i>Disadvantages:</i> <ul style="list-style-type: none"> • ties up capital (1) • difficult to upgrade machine, as little value at end of useful life (1) (1) for each example and (1) for each advantage and (1) for each disadvantage.	(6)	
	(b)	(i)	Direct debit (1) or standing order (1)	(1)
		(ii)	Any one of the following: <ul style="list-style-type: none"> • efficient (1) • can't forget (1) • no need to write cheques or deliver cash (1) 	(1)
Total marks for Question 7			8 marks	
8.	(a)	<ul style="list-style-type: none"> • balance sheets shows the businesses liquidity (1) • balance sheet shows what assets and liabilities the business has (1) • balance sheet shows how much is in the shareholders' funds/worth of business (1) 	2x1 (2)	
	(b)	<ul style="list-style-type: none"> • debtors (current assets) (1) • equipment (fixed assets) (1) • creditors (liabilities) (1) • bank loan (liabilities) (1) • delivery van (fixed assets) (1) 	5 x 1 (5)	
	(c)	Venture Capital: <ul style="list-style-type: none"> • not a loan, therefore has a positive affect on balance sheet (1) • may lose some 'control' as venture capital company may want a stake in business (1) • part of profits will need to be used to give venture capital company a return on investment (1) Limited issue of shares to friends, family and/or associates: <ul style="list-style-type: none"> • again watering down ownership (1) • in times of difficulty shareholders are last to be paid (1) • part of profits gained will need to be used to provide shareholders with dividend (1) • keep ownership within the company (1) (1) for method, further (2) each for advantages / disadvantages	(5)	
Total marks for Question 8			12 marks	

<i>Question</i>		<i>Expected answers</i>	<i>Mark allocation</i>
9.		Any four of the following: <ul style="list-style-type: none"> • expand product/range/diversify into new markets, especially related to summer fashions (2) • promote and target products more aggressively, eg via advertising & greater market research (2) • improve competitiveness eg by reducing production/administration costs (2) • win contracts with a wider range/larger number of retail outlets (2) • implement closer monitoring of credit control (2) • establish a web presence and sell directly online (2) • attract substantial investment (2) 	4 x 2 (8)
Total marks for Question 9			8 marks
Total marks for Paper			90

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