

Applied Business (Double Award)

General Certificate of Secondary Education 1491

Mark Scheme for the Unit

June 2008

1491/MS/R/08

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All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the Report on the Examination.

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GCSE Applied Business (1491)

MARK SCHEME ON THE UNIT

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4865 Business Finance

Question		Answer
1	(a)	Check the following Delivery Note which was received today against the details in the Purchase Order Form.
	(i)	<p>Circle any errors on the Delivery Note.</p> <p>3 marks</p> <p>Acceptable annotation ✓ or ✗</p>
	(ii)	<p>In the space provided on the Delivery Note, record any problems found with the delivery.</p> <p>1 mark</p> <p>Acceptable annotation ✓ or ✗</p>
	(iii)	<p>Sign and date the Delivery Note with today's date.</p> <p>1 mark</p> <p>Acceptable annotation ✓ or ✗</p>

Number:668856

DELIVERY NOTE

*Lovely Linen Ltd
123 Mantle Street
Bridgwater
Somerset
TA56 9TK*

**Bike Shed
Unit 34
Black Marston Retail Park
Exmouth
Devon
EX95 1TY**

Order No: 00857 (1)
Your ref: KL
Account: TBS3998
Date: 10 June 2008

PLEASE CHECK THIS DELIVERY AND RECORD ANY PROBLEMS OR ACTIONS TAKEN IN THE BOX BELOW.

Quantity	Reference	Description	Colour
12	SDC124	Single Duvet Covers	Blue
20 (1)	SMP112	Single Mattress Protectors	White
24	HPC274	Housewife Pillow Cases	Yellow (1) for either/or
15 (1)	SFS388	Single Fitted sheets	White

COMMENTS:

The order number is correct – it should read 00957.
Wrong housewife pillow cases – ordered blue (HPC275) not yellow
Too many mattress protectors delivered – ordered 10 not 20. (1 mark)

SIGNED: A Student DATE: 10 June 2008 (1 mark for row)

1	(b)	<p>Lovely Linen Ltd has started to complete the following Invoice for the <i>Bike Shed</i>. Using details from the Purchase Order in Text 1, complete the missing information.</p> <p>6 + 1 marks</p> <p>Annotation ✓ or ✗ OFR ✓ +</p>	<p>One mark for each of the six items shown, plus an additional one mark if the total is correct.</p>
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Invoice:342378

Lovely Linen Ltd
123 Mantle street
Bridgwater
Somerset
TA56 9TK

Bike Shed
Unit 34
Black Marston Retail Park
Exmouth
Devon
EX95 1TY

Order No: 00857
Your ref: KL
Account: TBS3998
Date: 17 June 2008


Quantity	Reference	Description	Unit Price		Total	
			£	p	£	p
12	SDC124	Single Duvet Covers	10	00	120	00
10	SMP112	Single Mattress Protectors	8	20	82	00(1)
24	HPC275	Housewife Pillow Cases	2	50	60	00(1)
16	SFS388	Single Fitted sheets	7	75	124	00(1)
		Sub Total			386	00(1) OFR
		VAT@17.5%			67	55(1) OFR
		Total			453	55(1) OFR

(1) for all correct

Terms:28 days net

1	(c)	<p>Complete the following diagram to show two further documents that may flow between Lovely Linen Ltd and the Bike Shed to complete this business transaction. Complete the arrows to indicate the direction in which each document would flow.</p> <p>4 marks</p> <p>Annotation ✓ or ✗</p>	<p>One mark each for up to two of the following documents plus an additional one mark in each case if the arrow is in the correct direction</p> <ul style="list-style-type: none"> • credit note ← • statement (of account) ← • remittance advice/slip ↔ • cheque → • receipt ←
	(d)	<p>State three reasons why it is important for reference numbers, such as the Purchase Order number, to be included on all the financial documents that flow between the Bike Shed and Lovely Linen Ltd in a financial transaction.</p> <p>3 marks</p> <p>Annotation ✓ or ✗ or rep</p>	<p>One mark for each correct reason identified up to a maximum of three reasons</p> <ul style="list-style-type: none"> • so that the correct document can be identified • makes it easier to find the documents once they are filled in case of any query arising • if a customer orders the same thing on a regular basis it makes it easier to determine which transaction is being queried • makes it easier to reconcile items on the statement of the account • makes it easier to link an invoice with the corresponding purchase order • telephone queries are easier to deal with as it will be much quicker to look up all the relevant transaction documents to find the source of the query.

2	(a)	<p>Complete the following Credit Card voucher for the payment using information from Roy's card and today's date</p> <p>5 marks</p> <p>Annotation ✓ or ✗ OFR ✓+</p>	<p>One mark for each correct entry as shown below</p>
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CREDIT CARD VOUCHER			
	Description	£	p
MR ROY I LAWLESS 33 STONY BANK LANE WELTON EXMOUTH DEVON EX59 20J	5 travel towels @ £12.00 each	60	00
	10 tubes of toothpaste (@ £1.25 each)	12	50(✓ for row)
	8 packs of soft drinks (@ £5.00 each)	40	00(✓ for row)
	Total	112	50(✓) OFR
6 2 5 4 3 4 8 1 7 1 4 9 5 1 5 1 CARD NUMBER		(✓)	
SIGNATURE R I LAWLESS DATE 10 June 2008 (✓)			
0 9 0 7 0 9 0 9 1 4 - 3 5 - 1 7 Valid From Expiry Date Code Number			

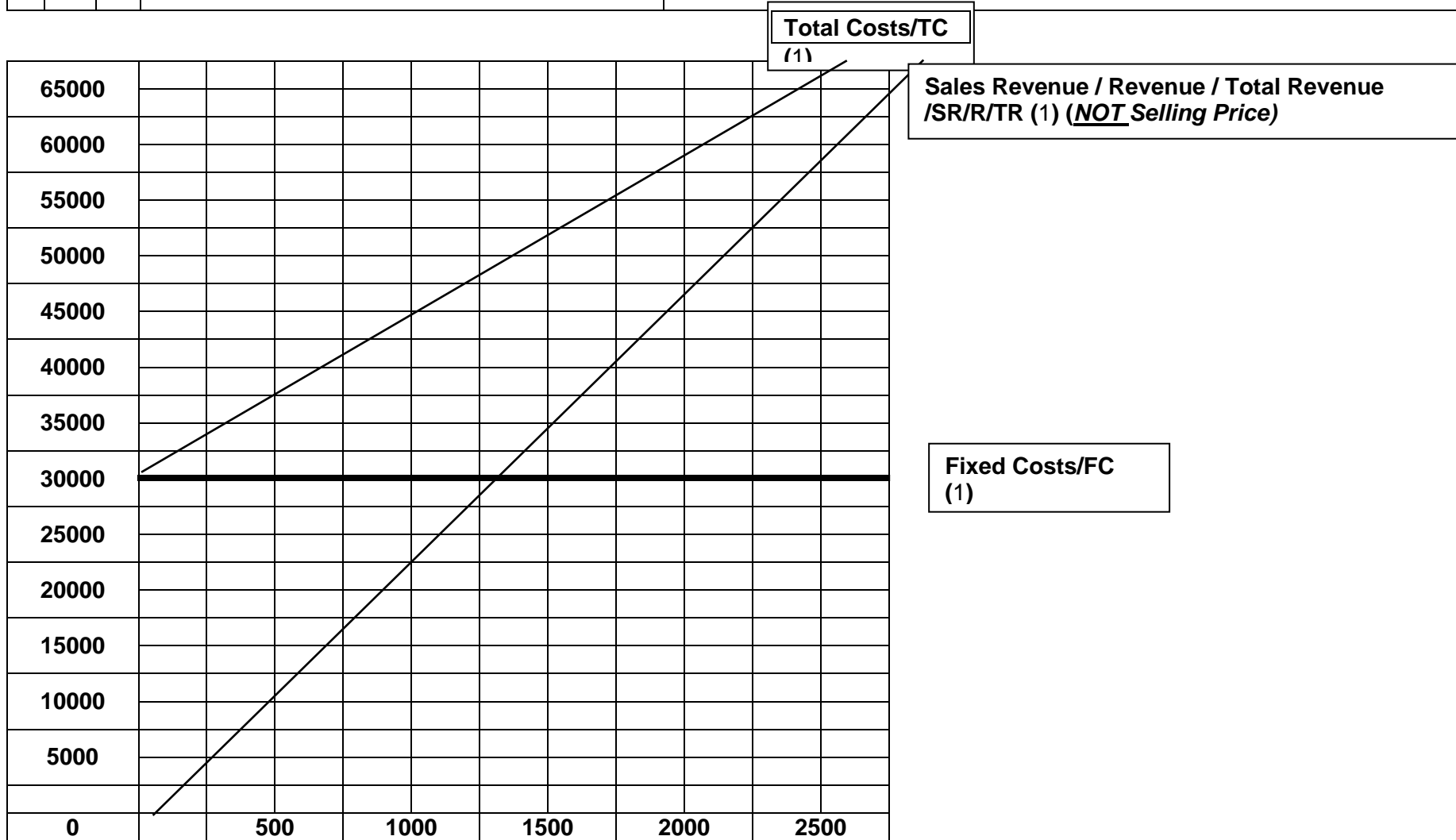
	(b)	<p>Identify and explain <u>two</u> advantages to <u>Roy</u> of using a credit card to pay for these purchases.</p> <p>4 marks</p> <p>Annotation ✓ or ✗ or <i>rep</i></p>	<p>One mark each correct identification up to a maximum of two advantages, plus a further one mark for each of two explanations</p> <ul style="list-style-type: none"> • it is safer (less risky) than carrying/using cash (1) because cash can be stolen and/or lost whereas when a credit is stolen it can be cancelled by the account holder (1). • It is more convenient for paying large amounts (1) because cash is bulky and it is easier for Roy to carry his credit card (1). • flexible payment method (1) because Roy could use if for on-line/telephone purchases (1). • have up to 56 days free credit (1) which allows Roy to get sufficient money to pay the credit card bill (1). • allows Roy access to other credit card services eg cash back, loyalty points, insurance etc (1) which should make his business life more efficient (1).
3	(a)	<p>Complete the table below to indicate which of the 5 items listed would be a cost and which would be a revenue to Kate and Roy.</p> <p>5 marks</p> <p>Annotation ✓ or ✗</p>	
COSTS			REVENUE
Administration (✓)			Franchise Fee (✓)
Decoration the new outlets (✓)			10% Commission receivable (✓)
Purchase of new beds and equipment (✓)			

(b)	<p>Kate and Roy know that they will need finance to put beds and equipment in the new franchise outlets.</p> <p>Suggest <u>two</u> sources of finance that they might consider using for these start-up costs. Give <u>two</u> reasons why <u>each</u> source might be suitable.</p> <p>6 marks</p> <p>Annotation ✓ or ✗ or rep</p>	<p>One mark for each of two correct identifications and one mark for each of two reasons why each source might be suitable.</p> <p>Possible identifications with suggested explanations could include:</p> <p>Bank loan/Mortgage (1) – long term source of finance (1) with lower interest rates (1) can be paid back in instalments over a long period of time (1) could be suitable if a number of outlets need to be fitted out (1) lower monthly payments (1) knowledge of monthly instalments aids financial planning (1)</p> <p>Short or medium-term loan (1) – can be paid back over 1 to 5 years (1) suitable for start-up cost such as equipment (1) fixed rate of interest makes it easier to budget/plan for (1)</p> <p>Leasing/Hire Purchase (1) – possible source of finance for equipment as payments are spread (1) for hire purchase they would have ownership once the last payment was made (1) for leasing opportunity for upgrades and trade-in and maintenance saving the business money (1)</p> <p>Owner’s capital/ Family and friends (1) – Roy and Kate may wish to use their personal savings because they will not have to pay any interest (1) money is available immediately (1) they do not owe any money (1) does not have to be repaid (1) investment may give them a better return than it would in a savings account (1)</p> <p>Share Capital (1) – The couple might opt to expand into a Ltd and sell shares to raise finance (1) as they would then have to limited liability (1)</p> <p>Retained Profit (1) - money is available immediately (1) they do not owe any money (1) does not have to be repaid (1) they will not have to pay any interest (1)</p>
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4	(a)	<p>Using the information in Text 4 and the following formula, calculate the break-even point of a <i>Bike Shed</i> franchise outlet.</p> <p>4 marks</p> <p>Annotation ✓ or ✗</p>	<p>One mark for each correct element of the formula:</p> $\text{BEP} = \frac{\text{£30 000 (1)}}{(\text{£24.00 (1)} - \text{£9.00 (1)})} = 2000 \text{ (1)}$
	(b)	<p>Potential franchisees of the <i>Bike Shed</i> franchise outlets would need to think carefully before committing to this new business opportunity. Explain what the break-even point calculated in part (a) might inform a new franchisee about the possible success of a <i>Bike Shed</i> outlet.</p> <p>4 marks</p> <p>Annotation L1, L2 each time the candidate achieves each level in the body of the response.</p>	<p>Level 2: (2 to 4 marks) Candidate explains/analyse what the break-even point might tell a new franchisee about the possible success of a bike shed outlet.</p> <p>Level 1: (1 mark) Candidate states or describes features of break-even point.</p> <p>Indicative content:</p> <ul style="list-style-type: none"> the BEP shows how many items would need to be sold each year for all costs to be covered (L1) the BEP shows when a venture will start making a profit (L1) and then they will be able to see if the venture is feasible (L1) if the BEP is estimated to be too high they will be able to prepare strategies to combat this (L1) if the BEP is near the capacity for the franchise then the franchisee may consider the venture to be unfeasible (L2) or need to think of ways to reduce costs or increase revenue (L2) BEP calculation is not the only method they could be using (L1) because to get a fuller picture other financial forecasts/information would give a more complete picture of the viability of the Bike Shed venture (L2) the BEP is 2000 rentals (L2) which is a lot to achieve in one year (L2) but it is only an estimate and the actual could be higher or lower (L2) eg energy costs are unpredictable (L2)

	(c)	Label the five boxes on the break-even chart below. 5 marks Annotation ✓ or ✗	One mark for each correct label as indicated below
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Costs and revenue (1)



5	(a)	<p>From his budgets, Roy has been able to estimate the following figures for the six months to 31 December 2008. Using these figures complete the Forecast P and L statement below.</p> <p>5+1 marks</p> <p>Annotation ✓ or ✗ or OFR ✓ +</p>	<p>One mark for each of the five items shown, plus an additional one mark if all is correct.</p>
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Profit and Loss Statement for the Bike Shed franchise venture for six months to 31 December 2008		
Revenue		£ 16 000 (1)
Cost of sales		£ 3 200
Gross profit		£ 12 800 (1) OFR
Expenses		
1. Administration	£ 1 000]	
2. Advertising	£ 2 000] (1)	
3. Insurance	£ 500]	£ 3 500 (1) OFR
Net profit (loss)		£ 9 300 (1) OFR

5 (b)	<p>Kate thinks that the Forecast P&L statement might be a useful indication of whether or not the expansion to their existing <i>Bike Shed</i> business will be successful.</p> <p>Do you agree with her?</p> <p>Give reasons for your answer.</p> <p>6 marks</p> <p>Annotation L1, L2, L3 each time the candidate achieves each level in the body of the response.</p>	<p>Level 3: (5 or 6 marks) Candidate evaluates the potential use of this forecast P&L in Kate's decision making and considers other issues</p> <p>Level 2: (3 or 4 marks) Candidate analyses the use of this forecast P&L in Kate's decision making</p> <p>Level 1: (1 or 2 marks) Candidate identifies features of a forecast P&L</p> <ul style="list-style-type: none"> • consideration of the gross/net profit figures alone (L1) e.g. the profit and loss statement shows that the expansion will make a profit • consideration that it is only a forecast (L1) • consideration of the type and level of expenses (L1) e.g. category of expense and / or £3500 (L1) which are quite high (L2) • this forecast if only for one outlet and potentially there could be many more which would increase this level of profit (L2) • forecast profitability is a good indicator but it should not be used in isolation when making decisions to expand the Bike Shed (L2) • net profits/gross profits could be compared to sales (%) to judge how healthy the profit margin would be for the new venture (L2) • in decision making, the highest profits should not be the only focus as quality of life for the franchisors etc should also be considered (L2) • therefore I agree with Kate that a forecast P & L is useful because there is no point in starting up this new business if it is not going to make a profit. However other financial information and forecasts should be considered as should external factors such as location and competition as these could affect the profitability of the expansion (L3)
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(c)		<p>Roy knows the importance of producing accurate budgets and calculating variances for their business ventures. Identify and explain two reasons why the revenue and expenses budgets which he has produced for the <i>Bike Shed</i> franchise outlet may need to be changed in the future.</p> <p>4 marks</p> <p>Annotation ✓ or ✗ or rep</p>	<p>One mark for each of two correct reasons identified, plus one mark for each of two explanations</p> <ul style="list-style-type: none"> • expenses may rise (1) this is because electricity or gas might change (1) or the cost of advertising in certain publications might be different to what he has researched (1) • revenues may change (1) due to increasing popularity (1) cost of foreign holidays increasing (1) • if there are variances these will need to be investigated to see if differences are a one-off or if they indicate a change in trend(1) this will cause budgets to change from one period to another (1) • the revenue budget may need to change as the figures may not reflect the true potential rentals for different parts of the country (1) as some areas are likely to be more popular with bikers than others (1) • Roy may have based his budgets on the current Bike Shed business (1) and the revenue could be higher due to satisfied customers returning (1)
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5	(a)	<p>Classify the four balance sheet items listed above and insert them correctly in the table below.</p> <p>4 marks</p> <p>Annotation ✓ or ✗</p>	<p>One mark for each correct classification as shown below</p>
<ul style="list-style-type: none"> • loan over 20 years (1) • overdraft (1) • fixtures and fittings (1) • debtors (1) 			<p>Is an example of Long Term Liabilities</p> <p>Is an example of Current Liabilities</p> <p>Is an example of Fixed assets</p> <p>Is an example of Current Assets</p>

(b)	<p>New <i>Bike Shed</i> franchisees will need to be aware of the financial position of their outlet.</p> <p>Identify and explain <u>two</u> reasons why a balance sheet might be useful document for a franchisee.</p> <p>4 marks</p> <p>Annotation ✓ or ✗ or <i>rep</i></p>	<p>One mark for each of two correct reasons identified, plus one mark for each of two explanations</p> <ul style="list-style-type: none"> • it shows what a business owns and / or what a business owes (1) which allows the franchisee to assess the financial health of the business (1) • it is a snapshot of the financial value or worth of a business (1) which a franchisee could use to gain finance (1) • it tells them the value of their business/assets (1) so they can work out how much their investment is worth (1) • it shows how much capital they have invested in the business (1) and how the capital has been used in running the business (1) • it shows any external debts owing (1) and this reflects the level of risk at any one time (1) • it indicates the solvency of the business (working capital) (1) which tells them if they are likely to face cash flow problems in the future (1) or if there is surplus money that could be invested elsewhere (1)
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7	(a)	<p>Complete the unshaded boxes in the following cash flow Forecast for the first six months of a <i>Bike Shed</i> outlet.</p> <p>10 marks</p> <p>Annotation ✓ or ✗ OFR = ✓+</p>	<p>One mark for each correct insertion or calculation as indicated below</p>
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CASH FLOW FORECAST FOR A BIKE SHED OUTLET						
	Jul – 08	Aug – 08	Sep – 08	Oct – 08	Nov – 08	Dec – 08
Income	£	£	£	£	£	£
	250 rooms	250 rooms	200 rooms	180 rooms	150 rooms	200 rooms
1 Income from rentals	6 000	6 000	4 800	4 320 (1)	3 600	4 800
Total	6 000	6 000	4 800	4 320	3 600	4 800
Expenditure						
1 Initial franchise fee	10 000		0			
2 Rent of premises	800	800	800 (1)	800	800	800
3 Water and utility bills	400	400	400	400	450	450
4 10% commission	600	600	480	432	360	480 (1)
5 Vending machine hire	400	400	400	400	400	400
6 Laundry expenses (£2)	500	500	400	360	300	400 (1)
7 Admin charge	50	50	50	50	50	50
8. Wages	1 150	1 150	920	838	680	920
Total	13 900	3 900	3 450	3 280	3 040	3 500 (1) OFR
Income – Expenditure	(7900) (1)	2 100	1 350	1 040	560	1 300 (1) OFR
Opening Balance	0	(7 900)	(5 800)	(4 450)	(3 410)	(2 850)
		(1) (OFR)				
Closing Balance	(7 900) (1)	(5 800)	(4 450)	(3 410)	(2 850)	(1550) (1) (OFR)

	(b)	<p>Using information from the cash flow forecast, state how much initial finance a franchisee might need before starting to operate a <i>Bike Shed</i> outlet. Justify your answer.</p> <p>2 marks</p> <p>Annotation ✓ or ✗</p>	<p>One mark for a statement of how much finance (OFR) plus one mark for an appropriate justification</p> <ul style="list-style-type: none">• £7900 or lowest negative figure (OFR) (1) would be needed as this is the highest negative amount on the CFF (1)
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(c)	<p>Discuss the usefulness of a cash flow forecast to potential franchisees about whether or not to operate a <i>Bike Shed</i> outlet.</p> <p>6 marks</p> <p>Annotation L2 or L3 each time the candidate achieves each level in the body of the response.</p>	<p>Level 3: (4, 5 or 6 marks) Candidate evaluates the decision to operate an outlet in relation to one or two issues.</p> <p>Level 2: (1, 2 or 3 marks) Candidate analysis the decision to operate an outlet in relation to one or two issues.</p> <ul style="list-style-type: none"> • the negative closing balance every month would indicate the need for an overdraft (L2) • the figures are only estimated so the income or expenditure of the Bike Shed could be very different in reality (L2) • there is a positive trend (the closing balance goes from -£7900 to -£1550) (L2) which suggests that the closing balance may continue to increase and this could indicate that it could be a worthwhile investment. (L3) • first 6 months have a negative cash flow (L2) a franchise may have to organize some form of finance over the first 6 months (L3) an overdraft is the usual form of finance to cover short term cash flow issues but £7900 is a rather large amount for an overdraft (L3) • a short term loan might be suitable to use for the franchise fee but this has to be paid back over time with interest and may cause further cash flow problems (L3) • income from rentals is variable, in July and August 2008 it is £6000 per month, this falls during the next 3 months to £3600 but then rises to £4800 in December 2008 (L2) this is possibly due to winter months indicating a fall in custom and the rise in December could be due to Christmas trade (L3). I would anticipate a fall in revenue during the next winter months as the hotel industry tends to be seasonal. If the Bike Shed outlet increases income over time then they need to do some advertising or promotion. (L3)
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8		<p>Discuss, using examples, how the use of ICT rather than manual calculations (in preparing financial forecasts) might benefit Kate and Roy in their meetings with possible franchisees.</p> <p>6 marks</p> <p>Annotation L1 or L2 each time the candidate achieves each level in the body of the response.</p>	<p>Level 2: (4 to 6 marks) Candidate analysis using examples, how the use of ICT rather than manual calculations in preparing financial forecasts might benefit Kate and Roy.</p> <p>Level 1: (1 to 3 marks) Candidate describes the benefits of using ICT in preparing financial forecasts.</p> <p>Level 1</p> <ul style="list-style-type: none"> • Automatic calculations means fewer mistakes when formulas are used • If you want to present a forecast to potential franchisees then the presentation will be more professional. • The financial forecasts could be imported into a presentation software package which will make this look more professional to the potential franchisee. • Graphs can be produced from the financial data easily. <p>Level 2</p> <ul style="list-style-type: none"> • easier to compare financial information in tables as these can be brought up on the computer screen. Manually this will take some time and if changes had to be made these would mean starting again. • easy to do 'what if' scenarios – automatic calculations improve accuracy and save time. Manually this will take some time and if changes had to be made these would mean starting again. • the presentation to potential franchisees is likely to be much more professional and may stimulate a positive outcome. Manually this could be scruffy and uncoordinated. • can produce a variety of linked spreadsheet documents eg CFF, break-even, budgets, P&L and Balance Sheets which if done manually would be time consuming. • templates can be used each month to save time which stops preparing forecasts from scratch as you would have to if preparing them manually.
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Grade Thresholds

General Certificate of Secondary Education
Applied Business (Specification Code 1491)
June 2008 Examination Series

Component Threshold Marks

Unit		Max Mark	A*	A	B	C	D	E	F	G	U
4863	Raw	50	47	42	36	30	25	20	15	10	0
	UMS	100	90	80	70	60	50	40	30	20	0
4864	Raw	50	47	42	36	31	26	21	16	11	0
	UMS	100	90	80	70	60	50	40	30	20	0
4865	Raw	100	87	78	68	59	51	43	36	29	0
	UMS	100	90	80	70	60	50	40	30	20	0

Entry Information

Unit	Total Entry
4863	4342
4864	4790
4865	4279

Specification Aggregation Results

Grade	A*A*	A*A	AA	AB	BB	BC
UMS	270	255	240	225	210	195
Cum %	1.69	3.90	9.16	15.85	27.03	37.83

Grade	CC	CD	DD	DE	EE	EF	FF	FG	GG	U
UMS	180	165	150	135	120	105	90	75	60	0
Cum %	51.34	60.34	67.66	73.26	78.29	83.06	87.99	92.10	95.83	100

There were 5317 candidates aggregating this series.

For a description of how UMS marks are calculated see:
http://www.ocr.org.uk/learners/ums_results.html.

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