GCSE MARKING SCHEME

SUMMER 2016

APPLIED BUSINESS - UNIT 4
4704/01

INTRODUCTION

This marking scheme was used by WJEC for the 2016 examination. It was finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conference was held shortly after the paper was taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners.

It is hoped that this information will be of assistance to centres but it is recognised at the same time that, without the benefit of participation in the examiners' conference, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about this marking scheme.

General Marking Policy

The mark scheme should be used **positively**, i.e. students should be rewarded for what they know and can do. Examiners should **not** start by awarding full marks and then deducting one for each wrong answer.

If examiners are unsure as to whether they should award a mark or not they should give the candidate the benefit of the doubt.

In some of the more open questions there is often no **single** correct answer. The mark scheme gives some idea of anticipated answers but candidates should **not** be penalised if they have come up with a plausible answer which the chief examiner has not anticipated.

The mark scheme has been prepared in such a way as to **reward** candidates wherever possible for their knowledge and ability, however, cases may arise where a candidate has given a good answer and the mark scheme does not seem to cater for what he/she has written. As a result, the examiner may feel that if they were to apply the mark scheme rigidly they would be unable to reward the candidate's efforts. In such **exceptional** cases the examiner may use his/her discretion in order to reward the candidate.

If an examiner is in any doubt as to the application of the mark scheme the chief examiner should be contacted immediately. It is far better to clear up any problems straight away rather than leave them to the subsequent checking processes.

Marking Instructions - General Notes

1.   Mark all scripts in red ink. Only work marked in red is acceptable on the final submission of a script. Prior to the examiners conference, examiners may mark scripts in pencil, but after the conference the pencil must be changed to red with any necessary amendments made.

2.   Place the marks for **each** answer in the 'Examiners Column' opposite the appropriate question. The **total mark** for each question should be placed in a circle at the end of the question and then placed in the grid on the front cover.

3.   All questions must show evidence of having been marked even if irrelevant.

4.   A record must be kept of the marks that form the initial batch of scripts sent to the Chief Examiner/Team Leader.

GCSE APPLIED BUSINESS
BUSINESS FINANCE AND DECISION MAKING II
UNIT 4

SUMMER 2016 MARK SCHEME

1. (a) (i) Start-up costs are costs that Miriam will need to pay once before her business starts trading **(1)** Running costs are costs that Miriam will need to pay regularly **(1)** whilst her business is trading **(1)**
Total of 4 marks

   (ii) Start-up cost - e.g. materials for the kennels; initial stock purchases **(1)** Running cost - e.g. rent, electricity, dog food **(1)**
Total of 2 marks

   (b) Profit is the revenue Miriam makes from sales minus **(1)** all costs of the business **(1)** Cash Flow is the movement of money **(1)** in and out of the business **(1)**
Total of 4 marks

   (c)

Inputs	Outputs
Sales Revenue	Rates
Loan from bank	Dog food
Miriam's capital	Loan repayment
	Electricity
	Wages for dog handlers

1 mark for each correct answer   **Total of 8 marks**

(d)   Advantages:
Miriam can easily produce graphs which make financial statements easy to compare and amend
Calculations can be performed quickly using formulae so there is less risk of human error
"What if" scenarios can be performed without redrafting the whole cash flow

Disadvantages:
It would be time consuming for Miriam to initially set up
Expensive training might be needed to enable Miriam to confidently use the software
Both software and hardware is expensive for a small business, such as Miriam's, to buy
Viruses/breakdowns could mean loss of work and time which is costly for the business.

Candidates must fully evaluate and apply their answers to The Dog House

Total of 6 marks

(e)   Miriam, the owner **(1)** she will need to know that she has sufficient money coming into the business every month to pay the bills **(1)**

The bank **(1)** they will need to know if the business is likely to have cash flow problems as this might affect the safety of their investment. **(1)**

Supplier **(1)** they have made a deal for two months credit and need to know that their money is safe **(1)**

Any relevant stakeholder

Total of 4 marks

(f) *The Dog House's* Cash Flow Forecast for four months ending 31 October 2016

	A	B	C	D	E
1		JULY	AUG	SEPT	OCT
2		£	£	£	£
3	Opening Balance at Bank	200	(400)	1 800	1 800
4					
5	RECEIPTS				
6	Sales	11 000	12 800	12 500	13 500
7	Capital Introduced		1 000		
8	TOTAL RECEIPTS	11 000	13 800	12 500	13 500
9					
10	PAYMENTS				
11	Purchases	3 000	3 000	2 800	3 000
12	Materials for new kennels	900	900		
13	Rent and Rates	3 500	3 500	3 500	3 500
14	Wages	4 000	4 000	4 000	3 000
15	Electricity			2 000	
16	Loan interest	200	200	200	200
17					
18	TOTAL PAYMENTS	11 600	11 600	12 500	9 700
19					
20	Closing Balance at Bank	(400)	1 800	1 800	5 600

1 mark for each correct shaded area   **Total of 5 marks**

(g)   Miriam should go ahead and build additional kennels **(1)**
      Her sales have increased **(1)**
      With her injection of £1000 extra capital the business has been able to pay off
      the cost of the extra kennels immediately **(1)**
      Her closing balance is increasing **(1)**

                                                              Total of 4 marks

2.　(a)　(i)

STOCK　RECORD CARD
Stock Description:　Cardboard Boxes (1)

Stock Ref No.:　　CbB
Location:　　　　Area D　Shelves　5-7

Date	Goods Received		Goods Issued		Balance
	Ref.	Quantity	Ref.	Quantity	
1 April					250
7 April	P.O.4498	250			500
12 April			R.O.5846	450	50
15 April	P.O.4532	300			350
20 April	P.O.4781	250			600

Cardboard Chocolate Boxes **(1)**
1 mark for date entry row
2 marks for Goods Received Columns (both correct)
1 mark for Goods Issued Columns (both correct)
1 mark for <u>each</u> of Balance column - (5)

Total of 10 marks

　　　　(ii)　To keep an accurate record of cardboard boxes leaving the Stores **(1)**
　　　　　　Guards against theft **(1)**
　　　　　　To check that cardboard boxes leaving the store have been
　　　　　　requisitioned **(1)**

　　　　　　1 + 1 for development　　　　　　　　　　**Total of 2 marks**

　　(b)　(i)

Re-order level	=	100 **(1)**	X	3 **(1)**	+	50 **(1)**

Total of 3 marks

　　　　(ii)　Re-order level = 350

Total of 1 mark

(c)   Advantages
Temptation Chocolates' costs reflect the current market price.
There is a tax advantage to Temptation Chocolates when there are rising
prices as undue high profits are not shown.
Over a period of time LIFO helps iron out fluctuations in Temptation
Chocolates' profit.
In periods of inflation LIFO will tend to show the correct profit made by
Temptation Chocolates.

Disadvantages
Calculations for the Finance Department of Temptation Chocolates will
become complicated when frequent purchases are made at highly fluctuating
rates.
The cost of different but similar batches of chocolates produced at the same
time may differ.
In times of falling prices Temptation Chocolates may need to write off stock
values.
The LIFO system of stock valuation is not accepted by the tax authorities

Advice
Not advisable for Temptation Chocolates to use LIFO as a means of stock
valuations because of the possible complexity of calculation and it is not
acceptable to the tax authorities.

Any valid conclusion or reason accepted.

Total of 7 marks

Level 1	0-2	Candidate shows some basic understanding of the LIFO method of stock valuation. QWC barely adequate to convey meaning. Candidates demonstrating no understanding awarded zero marks.
Level 2	3-4	Candidate demonstrates a more detailed understanding of the LIFO method of stock valuation and some attempt is made at evaluation. The style of writing is appropriate to purpose and QWC mainly accurate. Some business terms will be used.
Level 3	5-7	Candidate fully evaluates the use of LIFO as a method of stock valuation by weighing up the advantages and disadvantages. Reasoned advice is given. Clearly expressed with highly accurate QWC. Work is organised and specialist terms are used

(d)   An instant display/printout of current stock levels of boxes of chocolates can
be obtained that can be used to track stock holdings precisely.
Automatic updating of stock balance levels so less time is spent by
Temptation Chocolates employees on data entry and retrieval.
Indicates when minimum or maximum stock levels have been reached so
stock levels can be reduced, lowering overheads
It promotes better decision making by Temptation Chocolates Managers e.g.
slow moving items can be identified.
It eliminates human error and data can be obtained quickly and accurately.
Stock valuation can be made quickly, saving both time and money for
Temptation Chocolates.
Highlights internal theft problems by Temptation Chocolates employees.

Any three advantages 1+1 for development　　　　**Total of 6 marks**

3. (a) (i) An individual, business or other organisation that has an interest **(1)** in the way the business is run and in its finances **(1)**.

      Any three relevant stakeholders   **Total of 2 marks**

      (ii) <u>Owners</u>
      Product consistency; More satisfied customers BUT Cost of system
      <u>Workforce</u>
      Better working environment BUT possible job loss
      <u>Customers</u>
      Consistent product BUT possible price increases
      <u>Bank</u>
      Make money from lending BUT possibility of bad debt

      Any valid answer. Must have advantage and disadvantage.
      No mark for naming Stakeholder.   **Total of 6 marks**

    (b) (i) Flow/continuous production

                                                  Total of 1 mark

      (ii) Advantages
      A large number of products can be produced meaning economies of scale can be achieved so lowering unit cost.
      Highly computerised with robots completing tasks - capital intensive- more reliable than human workers and less costly time lost.
      Can respond quickly to changes in demand so no need to stockpile stock.

      Any two valid advantages 1+1 for development
      OFR 2 marks maximum   **Total of 4 marks**

    (c) (i) Investors In People

                                                  Total of 1 mark

      Benefits:
      Skilled work force (1) – leading to higher pay rates (1)
      Motivated work force (1) –job satisfaction (1)
      More efficient production (1) – leading to lower costs (1)
      Improved performance (1) – leading to higher profits (1)
      Any other relevant point
      1+1 for development x 2
      OFR 2 marks maximum

                                                  Total of 4 marks

(d) (i) EV of consolidating

I EV =
= 0.7 x £850 000 + 0.3 x £350 000
    (1)   **(1)**
= £595 000 + £105 000

= £700 000
    (1) OFR

II EV of buying new premises

EV = 0.4 x £650 000 + 0.6 x £300 000
      (1)   **(1)**
= £260 000 + £180 000

= £444 000
   (1) OFR

Total of 6 marks

(e) (i) *Hopscotch Ltd* should not go ahead go ahead with the proposed purchase of the new premises **(1)**

Total of 1 mark

(ii) The business is likely to make a less profit **(1)** and the probability of failure is higher **(1)**

Total of 2 marks

(f) (i) Mortgage **(1)**

Total of 1 mark

(ii) Advantages:
a long term source of finance
interest on loan rates can be lower
interest rates can be fixed so know the exact repayments and can plan ahead

Disadvantages
The building is used as security for the loan
Could lose premises if unable to meet repayments
Tied in for a long time
Any other relevant advantage or disadvantage

Level 1	0-2	Candidate has a basic understanding of some features of a mortgage. Those demonstrating no understanding zero marks
Level 2	3-4	Candidate evaluates on fully or discusses advantages or disadvantages of using a mortgage as a source of finance.
Level 3	5-6	Candidate fully evaluates the use of a mortgage as a source of finance.

Total of 6 marks