



**General Certificate of Secondary Education
June 2011**

**Applied Business
(Double Award)**

413007

(Specification 4136)

Unit 7: Business Finance

Report on the Examination

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General Comments

Centres should be congratulated for the way that they have prepared students for this paper. Many students produced very good responses that had the strong application, analysis and judgement required for the high level marks.

Where appropriate, for AO2 marks to be awarded, answers must be in the context of the scenario given. It was therefore disappointing to see many students giving generic answers which do not allow them to access the high level marks. On the other hand, many students were able to write in context by using the details and figures in the scenarios. Establishing context is also a platform for effective analysis and judgement.

Two areas caused particular problems in this paper:

- The confusion that many students experience between cash and profit. In question two, for example, students should be writing about cash, not profit.
- Students offered multiple suggestions or actions rather than fully developing just one or two. Student's answers tended to be limited to Level 2 marks by doing this. This type of answer was typified by the use of the word 'also' to move to a new explanation, instead of developing an explanation of the strongest action.

Question 1

- (a) Students answered this question well, with many gaining full marks. The most common mistake was to treat the DJ hire per event as a fixed cost.
- (b) Most students knew the difference between fixed and variable costs, but there were gaps in knowledge as to why this was important.
- (c) Most students were able to calculate *Partytime's* revised break-even. Better students made reference to the level of demand and margin of safety. Few recognised that the new break even point of 20 prom nights might create a problem for this business as this was the level of demand indicated in the Item.
- (d) Most students wanted to increase price and realised that there was a risk involved in doing this. Students also used calculations to support their answers, which helped to provide analytical answers and allowed for supported judgements.

There were several common mistakes:

- students suggesting the action of lowering fixed costs without specifying a *particular* fixed cost to be lowered
- stating that loans or overdrafts would solve the problem when this would have no beneficial effect on break-even.
- confusion between fixed and variable costs in the context of this business.
- although the question allowed for more than one action, many students gave multiple suggestions with their answers becoming descriptive rather than analytical
- no judgement made as to why the suggested action would help break-even.

Question 2

- (a) Students answered this question well, with many gaining full marks. The two most common mistakes were to omit the brackets for the answers to March and April, as well as calculation errors.
- (b) Most students knew that the information in a cash-flow statement could be used as a basis for decision making. Successful students, for example, indicated that it was a forecast that can identify when shortages of cash may occur (Level 1), such as March-May (Level 2). The overdraft limit would not be exceeded and a specific solution/course of action was taken (Level 3). Weaker students produced several responses that were completely generic and did not describe or explain *Partytime's* cash-flow. This approach limited their response to Level 1.
- (c) Successful students were able to answer either in favour of the deposit or against the need to introduce it. Those in favour of a deposit often mentioned that it would help with the start-up costs and the lack of revenue in the early months. Those who were against a deposit pointed out that there was not a problem because, once the initial costs had been covered, the balance became positive.

Some students confused profit with cash-flow and this limited the marks they were able to achieve.

Question 3

- (a) Whilst many students gained all three marks, it is frustrating to see so many students adding cost of sales to sales revenue as their gross profit calculation.
- (b) It was disappointing that so few students were able to access Level 2 to gain full marks. Students were generally able to state that the bank would like to see a profit and loss account to establish if a business was likely to be able to repay a loan. What they did not do was make use of the information in **3(a)** to provide an explanation in context.

Students who did make use of the figures available tended to dwell on the £5000 loan repayment per annum as being smaller than the profit stated in the profit and loss account, whilst failing to take into account that profits were expected to increase to £60 000.

- (c) It was pleasing to see many well-prepared students who were able to use financial ratios. It was particularly encouraging that many students were able to identify that expenses must have been high to cause the drop between gross and net profit margins.

The main areas of weakness included:

- not realising that the gross profit margin expressed profit in terms of sales value and that it was an indication of pricing policy or the cost of materials
- confusion between net profit and net profit margin. Some students said that *Partytime* was making less net profit than the industry average, rather than the net profit margin being less than the industry average
- discussing solvency and saying that these ratios were different names for current ratio and acid test
- discussing break-even.

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