

**GCSE**  
**APPLIED BUSINESS**  
**(DOUBLE AWARD)**

413007 - Unit 7 Business Finance  
Mark scheme

---

4130  
June 2014

---

Version 1.0 Final

---

---

Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Assessment Writer.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Further copies of this Mark Scheme are available from [aqa.org.uk](http://aqa.org.uk)

1

Total for this question: 20 marks

**1 (a)** Complete the table below to identify whether the costs are fixed or variable. Place **one** tick in the appropriate column for each cost.

[3 marks]

	Fixed cost	Variable cost
Insurance of van	✓	
Cost of cleaning materials		✓
Advertising the cleaning service	✓	

**1 (b)** Using the formula below, calculate how many jobs Quality Clean needs to complete per week in order to break even.

[3 marks]

Correct answer: 15 (jobs per week)

$$15(1) \text{ of.} = \frac{\text{£120 (1)}}{(\text{£24} - \text{£16})/\text{£8 (1)}}$$

**1 (c)** *Using Item A, explain how calculating break even might help Joanne to plan for the future of the business.*

**[5 marks]**

**Relevant answers might include the following:**

**AO1/Level 1**

**Responses might demonstrate the following knowledge:**

- allows a business to make decisions about changing costs or revenues
- helps with pricing decisions
- awareness of the effects that changes in costs and revenues have on break even
- allows a business to use ‘what if’ analysis which will help with decision making.

**AO2/Level 2**

**Context can be achieved by referring to:**

- the business
- its figures
- Its competition
- Its margin of safety
- or a combination of the above

L2 – 3 marks shows awareness of the type of business and/or the equipment Joanne would need.

L2 – 4 marks reference to the prices/cost figures of the business

L3 – 5 marks makes use of competition or margin of safety for example

- show Joanne that if her projections are correct of 60 jobs per week she will easily break even (15 jobs)
- although she is charging less (£24) than her competitors (£25–£26), she still breaks even
- allows her to use ‘what if’ analysis to see what the change would be if she increased her prices to that of competitors. For example £24 to £25.

Level	Descriptor	Marks	Assessment Objective
2	Explains how calculating break even might help Joanne to plan for the future of the business.	5–3	AO2
1	States reason(s)/demonstrates knowledge of why a business would calculate break even.	2–1	AO1
0	No valid response.	0	

- 1 (d)** *Joanne’s main competitors pay their cleaners a higher wage. If Joanne paid the same wage, her variable costs would increase to £18 per job. Do you think that Joanne should pay the same wages to her cleaners as her competitors? Give reasons for your recommendation.*

**[9 marks]**

**Relevant answers might include the following:**

**AO1/Level 1**

**Responses might demonstrate the following knowledge:**

- identifies that higher variable costs mean a higher break-even point
- profits will decrease
- need to match competitors wages.

**AO2/Level 2**

**Responses might include the following contextual explanations:**

- break-even point will rise to 20
- profit will fall from £360 to £240
- Joanne’s customers are happy with the high quality cleaning jobs that she provides so she needs to attract the best cleaners
- a lot depends on the level of employment of cleaners, her salary may be quite reasonable.

**AO3/Level 3 (Analysis)**

- if she does not increase wages to match competitors, her lower wages will not attract new experienced cleaners if they can work for competitors
- this increase in variable costs will cause profits to fall and break even to rise (break-even point will rise to 20 and profit will fall from £360 to £240). This means she will not reach her target of £300 profit per week from the team without taking some action to reduce break even
- Quality Clean is a new high quality business so it will be difficult to attract the right type and quantity of cleaners if she does not match the wages of competitors
- her options for action are limited because she will not be able to increase prices much because her competitors are only charging £1–£2 more and she is a new business that is not yet fully established.

Level	Descriptor	Marks	Assessment Objective
3	Analyses the effect that an increase in cleaners, wages would have on Joanne’s business.	4–3	AO3
2	Explains the effect that an increase in cleaners’ wages would have on Joanne’s business.	2	AO2
1	States relevant point(s).	1	AO1
0	No valid response.	0	

**Note:** AO3 also assesses students' quality of written communication. When deciding on the AO3 level to be awarded, consider the degree to which the student orders and communicates his/her ideas.

In addition, and separately, award marks for knowledge and application using the grid below.

Level	Descriptor	Marks	Assessment Objective
2	Makes judgement of whether Joanne should match competitors' wages or not with clear justification. Ideas are communicated with some structure and use of technical terms. There are occasional errors in accepted convention.	5–3	AO3
1	Makes judgement of whether Joanne should match competitors' wages or not with limited justification. Ideas are communicated in a simplistic way with limited use of technical terms. Errors in accepted conventions are noticeable.	2–1	

2

Total for this question: 20 marks

**2 (a)** Complete the cash-flow forecast for Quality Clean by inserting your answers in the shaded areas below.

[3 marks]

<b>Quality Clean</b>				
<b>Cash-flow forecast for the four months ended 30 April 2011</b>				
	<b>January £</b>	<b>February £</b>	<b>March £</b>	<b>April £</b>
<b>Cash in</b>				
Sales from office cleaning			3 080	3 080
Sales from domestic cleaning	5 760	5 760	5 760	5 760
Total inflow	5 760	5 760	8 840	8 840
<b>Cash out</b>				
Wages for office cleaning	1 848	1 848	1 848	1 848
Wages for domestic cleaning	3 840	3 840	3 840	3 840
Purchase of new equipment	4 800			
Other costs	425	425	425	425
Total outflow	10 913	6 113	6 113	6 113
<b>Net monthly cash flow</b>	(5 153)	(353)	2 727	2 727
Opening balance	300	(4 853)	(5 206)	(2 479)
Closing balance	(4 853)	(5 206)	(2 479)	248

April opening balance ofr if the same as March closing balance.

- 2 (b)** *Quality Clean is forecast to have a cash-flow problem during the first **three** months of the office cleaning contract. Using **Item B** and your answer to question **2(a)**, explain **two** ways in which Joanne could try to solve this cash-flow problem.*
- [8 marks]**

Relevant answers might include the following:

#### AO1/Level 1

Responses might demonstrate the following knowledge:

Identifies methods that could be used to solve cash-flow problems that include:

- leasing
- bank loan
- rescheduling debts
- reduced costs
- increasing prices
- negotiating a larger overdraft
- cancel the contract

Do not accept:

- repetition
- don't pay/sack employees etc
- find a partner.

#### AO2/Level 2

Responses might include the following contextual explanations:

- a reason for the cash-flow problem is the purchase of the fixed assets. A leasing arrangement or bank loan coupled with the current overdraft facility would solve this. Students may offer calculations to support this
- another reason for the cash-flow problem is that payment for office cleaning is in arrears. The cash-flow forecast might persuade the bank to increase the overdraft limit
- a full explanation would include consideration of the extent of the problem and the current overdraft facility.

Level	Descriptor	Marks	Assessment Objective
3	Explains two ways to solve Quality Clean's cash-flow problem.	8–6	AO2
2	Explains one way to solve Quality Clean's cash-flow problem.	5–3	
1	States valid method(s) of solving cash-flow problem / understanding of cash-flow.	2–1	AO1
0	No valid response.	0	



**2 (c)** Using **Item B** and your answer to question **2(a)**, recommend to Joanne whether or not Quality Clean should accept the contract from National Workspace plc. Give reasons for your recommendation.

**[9 marks]**

**Relevant answers might include the following:**

**AO1/Level 1**

**Responses might demonstrate the following knowledge:**

**Reasons for/against accepting the contract from National workspace plc:**

- more profits
- more customer awareness
- risk.

**AO2/Level 2**

**Responses might include the following contextual explanations:**

**For**

- the cash-flow forecast is temporary and the possible profits are attractive
- if this contract is successful it could attract future orders, which are less likely to experience cash-flow problems as cash will be generated by the initial contract.

**Against**

- the business could be overstretching itself as the cash flow illustrates
- if the contract is not successful (after four months) Quality Clean could be left with unneeded equipment. This would be the case even if the equipment is bought outright or leased
- will Quality Clean be able to manage the extra work?

**AO3/Level 3 (Analysis)**

- initially, there is a cash-flow problem because new equipment is required, and moving to the commercial market involves trade credit, however the cash-flow problem diminishes quickly. The contract is profitable and, if successful, the business model could be used for other contracts
- the contract is only for an initial four months and might not continue. The business will need to have sourced new equipment that would no longer be required which will need to be written off against profits meaning an overall loss.

Level	Descriptor	Marks	Assessment Objective
3	Analyses benefits/drawbacks of accepting/rejecting the contract.	4–3	AO3
2	Explain benefits/drawbacks of accepting/rejecting the contract.	2	AO2
1	States relevant points.	1	AO1
0	No valid response.	0	

**Note:** AO3 also assesses students' quality of written communication. When deciding on the AO3 level to be awarded, consider the degree to which the student orders and communicates his/her ideas.

In addition, and separately, award marks for knowledge and application using the grid below.

<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>	<b>Assessment Objective</b>
2	Makes judgement with clear justification. Ideas are communicated with some structure and use of technical terms. There are occasional errors in accepted convention.	5–3	AO3
1	Makes judgement with limited justification. Ideas are communicated in a simplistic way with limited use of technical terms. Errors in accepted conventions are noticeable.	2–1	

**3****Total for this question: 20 marks**

**3 (a)** Complete the income statement (profit and loss account) for Quality Clean for the year ended 30 April 2014 by filling in the shaded boxes below.

**[3 marks]**

**Quality Clean**  
**Income statement (profit and loss account)**  
**for the year ended 30 April 2014**

		£	£
Revenue (sales)			320 000
Less cost of sales			6 000
Gross profit			314 000
Expenses	Wages	156 000	
	Insurance	5 000	
	Other expenses	8 200	169 200
Net profit			£144 800 ofr

**3 (b)** Using **Item C** and your answer to question **3(a)**, explain how Joanne's statement of financial position (balance sheet) and income statement (profit and loss account) show that Quality Clean has been successful.

**[8 marks]**

### AO1/Level 1

Responses might demonstrate the following knowledge:

**SoFP shows the:**

- solvency of the business at a given moment in time
- value of assets and liabilities
- capital of a business.

**Income statement shows the:**

- amount of profit/loss during a period
- level of sales
- cost of sales
- expenses.

### AO2/Level 2

Responses might include the following contextual explanations:

**SoFP:**

- both short-term and long-term solvency. Students can use figures or produce current ratio
- plenty of fixed assets (£95 000 against liabilities of £9 300) that can be used as security for loans.

**Income statement:**

- profitable. Students can calculate profit margins.
  - gross profit 98.25%
  - net profit 45.25%
  - ROCE 76.94%
- few expenses
- most costs variable.

Level	Descriptor	Marks	Assessment Objective
3	Explains how the SoFP <b>and</b> income statement show that Quality Clean has been successful.	8–6	AO2
2	Explains how the SoFP <b>or</b> income statement show that Quality Clean has been successful.	5–3	
1	Shows understanding of SoFP and/or income statement.	2–1	AO1
0	No valid response.	0	

**3 (c)** *Joanne has two options open to her:*

- *expand into the nearby town*
- *sell her business to Douglas Jones.*

*Using **Item C** and your answer to question **3(a)**, recommend to Joanne which option she should choose. Give reasons for your recommendation.*

**[9 marks]**

**Relevant answers might include the following:**

**AO1/Level 1**

**Responses might demonstrate the following knowledge:**

**Make recommendation based on reason for option.**

- financially better
- less risk.

**AO2/Level 2**

**Responses might include the following contextual explanations:**

**Expansion:**

- the business is very profitable with a 76.94% ROCE
- the business is very solvent
- the fact that someone wants to buy the business is encouraging for its prospects
- she will make more in the long run if she does not sell.

**Selling:**

- the business will not be as profitable because a manager would need to be paid
- Joanne would be paid more than the book value for the business
- she gets a salary with no risk involved.

**AO3/Level 3 (Analysis)**

**Chain of argument linking factors, eg:**

- the current business is solvent and makes £144 800 and the expansion is expected to be similar so, even after deducting the manager's wages, she could have profits of £114 900
- she would receive £200 000 which is £11 800 more than the book value and she will also receive a salary (possibly £50 000) with no risk involved because, as it stands, she does not have the protection of limited liability.

Level	Descriptor	Marks	Assessment Objective
3	Analyses reasons for expanding/selling the business.	4–3	AO3
2	Explains reasons for expanding/selling the business.	2	AO2
1	States relevant points.	1	AO1
0	No valid response.	0	

**Note:** AO3 also assesses students' quality of written communication. When deciding on the AO3 level to be awarded, consider the degree to which the student orders and communicates his/her ideas.

In addition, and separately, award marks for knowledge and application using the grid below.

Level	Descriptor	Marks	Assessment Objective
2	Makes judgement with clear justification. Ideas are communicated with some structure and use of technical terms. There are occasional errors in accepted convention.	5–3	AO3
1	Makes judgement with limited justification. Ideas are communicated in a simplistic way with limited use of technical terms. Errors in accepted conventions are noticeable.	2–1	