
General Certificate of Secondary
Education
**Applied Business
(Double Award)**

Unit 7 Business Finance
Mark scheme

4136
June 2015

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

1 (a) Complete the cash-flow forecast for Eat to the Beat by inserting your answers in the shaded areas below.

[3 marks]

Eat to the Beat				
Cash-flow forecast for the four months ended 31 December 2013				
	September	October	November	December
	£	£	£	£
Cash in				
Sales	5 400	7 200	7 800	10 800
Total inflow	5 400	7 200	7 800	10 800
Cash out				
Purchase of stock	7 150	3 200	3 550	4 300
Wages for an assistant	1 400	1 400	1 400	1 400
Purchase of fixed assets	14 000			
Rent	300	300	300	300
Other costs	70	70	70	70
Total outflow	22 920	4 970	5 320	6 070
Net monthly cash flow	(17 520)	2 230	2 480	4 730
Opening balance	7 000	(10 520)	(8 290)	(5 810)
Closing balance	(10 520)	(8 290)	(5 810)	(1 080)

1 (b) *Eat to the Beat was forecast to have a cash-flow problem during the first 4 months of opening. Using **Item A** and your answer to question 1(a), explain **two** ways Phil might have tried 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/instalments
- bank loan
- reduced costs
- increasing prices
- overdraft
- do not start the café straight away thus reducing start-up costs
- trade credit

AO2/Level 2

Responses might include the following partial contextual explanations:

- personal savings but not recognising that they would not solve the problem on its own. Not recognising that he would need money to live on.
- negotiating a larger overdraft but not recognising the current overdraft limit.
- getting trade credit by stocking records from new records without recognising there may not be sufficient demand for this due to existing competition.

AO2/Level 3

Responses might include the following relevant 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. 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. A combination of factors.

Level	Descriptor	Marks	Assessment Objective
3	Fully explains solution(s) to Eat to the Beat cash-flow problem.	8–7	AO2
2	Partially explains solution(s) to Eat to the Beat cash-flow problem.	6–3	
1	States method(s) to solve cash-flow problem/understanding of cash-flow.	2–1	AO1
0	No valid response.	0	

1 (c) Do you think that Phil should have opened Eat to the Beat? Use **Item A** and your answer to question **1(a)** to justify your answer.

[9 marks]

Relevant answers might include the following:

AO1/Level 1

Responses might demonstrate the following knowledge:

- there is a cash-flow problem
- steps can be taken to reduce the problem
- starting any new business is risky
- he could make a profit.

AO2/Level 2

Responses might include the following contextual explanations:

For:

- the business is likely to be profitable with a net profit margin of 20% and a Return on Capital Employed of 50%
- profits could improve as the business becomes well known
- he could expand the food side/record side if the other is not successful.
- There are funds he could use

Against:

- the research may be wrong. Even though sales of records have been increasing most people buy music as downloads
- there is a cash-flow problem and Phil will need the fixed assets and stock to make the business work
- not everybody will want to buy a snack in a record shop.

AO3/Level 3 (analysis)

Chain of argument linking factors might include:

- profit and cash are not the same:
 - a new business can expect to have cash-flow problems before profits are turned into cash
- he seems to be doing well without needing to open a shop, he does not have the necessary money to invest
- demonstrating the effects of actions that could be taken to reduce the cash-flow problem, perhaps reducing profit in the short run.

Level	Descriptor	Marks	Assessment Objective
3	Analyses reason in context.	4–3	AO3
2	Explains reason in context.	2	AO2
1	States reason	1	AO1
0	No valid response.	0	

Notes: 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 evaluation using the grid below.

Level	Descriptor	Marks	Assessment Objective
2	Offers judgement with supported justification. Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	5–3	AO3 and Quality of Written Communication
1	Offers judgement with limited justification. Ideas are communicated with some structure evident with occasional use of technical terms. There are noticeable errors in accepted conventions of written communication.	2–1	
0	Offers both no judgement or an unsupported judgement and the quality of written communication is weak, ie there is no use of technical terms, is very brief or difficult to understand.	0	

E2 – 5 marks = two-sided argument with figures

E2 – 4 marks = two-sided argument (without the use of figures)

E2 – 3 marks = one-sided argument with evidence

E1 – 2 marks = makes a justified decision

E1 – 1 mark = makes an unsupported decision

- 2 (a)** Complete the table below to identify for Phil 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 shop	✓	
Purchase of stock of CDs		✓
Rent of shop	✓	

2	(b)	Using Item B , explain two reasons why profits for Sunday opening may be different to profits for Sunday record fairs.	[8 marks]
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Relevant answers might include the following:

AO1/Level 1

Responses could demonstrate the following knowledge:

- different costs
- different revenue streams
- different selling price
- different levels of competition.

AO2/Level 2

Responses could include the following contextual descriptions:

Opening on a Sunday:

- fixed costs would be different due to wages.
- fixed costs such as rent, insurance etc. would not change
- variable costs would be different because more stock would be needed for the café
- higher selling price due to lack of competition
- revenue stream from the café
- calculation can be a description.

Record fairs:

- fixed costs would be different due to advertising and rent
- the cost of petrol would increase costs but these are semi variable as it would depend where the fair was in relation to the shop. Credit approaches that do not mention semi variable
- lower unit selling price due to the competition
- wider customer base.

AO2/Level 3

Responses could include the following contextual explanations:

- a lower selling price and higher fixed costs at the fair means that profit will be more difficult to make
- a higher selling price and lower fixed costs in the shop means that it will be easier to make a profit
- an extra revenue stream in the form of the café combined with record sales.

Level	Descriptor	Marks	Assessment Objective
3	Explains how the option(s) would affect Eat to the Beat's profits.	8–7	AO2
2	Describes how the option(s) would affect Eat to the Beat's profits.	6–3	
1	States how options would affect profits.	2–1	AO1
0	No valid response.	0	

2 (c) Phil wants to increase Eat to the Beat's sales and profits further and has identified two options:

- opening the shop on Sundays **or**
- selling at record fairs on Sundays.

Using **Item B**, recommend which option he should choose. Give reasons for your recommendation.

[9 marks]

Relevant answers might include the following:

AO1/Level 1

Responses could demonstrate the following knowledge:

- existing vs new market
- Profit
- Competition
- Costs
- Revenue stream

AO2/Level 2

Responses might include the following contextual explanations:

Opening on a Sunday

- break-even:
 - records 30, which is less than the record fairs (and less trouble to go to)
 - café 120, if this is supporting record sales it will be helpful and there is little competition on a Sunday
- means that potential customers who might be working other days can shop
- the café may attract new record customers who have come in for a snack.

Record fairs

- the break-even would be 50, which should be achievable as people will have come to the fairs to buy
- new market for business and Phil will have experience from his market stall days
- advertising for the business.

Analysis/Judgements might include:

Chain of argument linking factors, eg

- opening on Sunday is straightforward, Phil has nothing 'new' to do, low extra fixed costs and little competition for the café
- attending a record fair is opening up a new market and one where people would be buying, where Sunday opening might make no difference to overall sales.

Level	Descriptor	Marks	Assessment Objective
3	Analyses reason in context.	4–3	AO3
2	Explains reason in context.	2	AO2
1	States reason for choice	1	AO1
0	No valid response.	0	

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- 3 (a)** Complete the statement of financial position (balance sheet) for Eat to the Beat for the year ended 31 August 2014 by filling in the shaded boxes below. **[3 marks]**

Eat to the Beat
Statement of financial position (balance sheet) as at 31 August 2014

	£	£
Non-current assets (fixed) assets		
Fixtures and fittings	3 500	
Equipment	10 500	14 000
Current assets:		
Inventory (stock)	6 000	
Bank and cash	5 960	
	11 960	
Less current liabilities:		
Payables (creditors)	4 000	
Net current assets		7 960
Total net assets		21 960
Financed by:		
Capital at 1 September 2013		7 000
Add net profit		29 960
		36 960
Less drawings by owner		15 000
Owner's funds		21 960

3 (b) *Using Item C and your answer to question 3(a), explain how Eat to the Beat's statement of financial position (balance sheet) **and** income statement (profit and loss account) would help in persuading a bank to lend money to the business.* **[8 marks]**

Relevant answers might include the following:

AO1/Level 1

Responses might demonstrate the following knowledge:

- solvency/liquidity
- assets to cover the loan
- profitability.

AO2/Level 2

Responses might include the following contextual explanations:

- the balance sheet shows that the business is solvent, eg the net assets figure is £7960 or a current ratio of 2.99:1 and an acid test of 1.49:1
- the business is profitable making an impressive return of £29 960 on an initial investment of £7000 with net profit margin of 23.9%. Profits are higher than the loan repayments.

Level	Descriptor	Marks	Assessment Objective
3	Explains the value of the SOFP and income statement of Eat to the Beat in persuading a bank to lend money to the business.	8–6	AO2
2	Explains the value of the SOFP or income statement of Eat to the Beat in persuading a bank to lend money to the business.	5–3	AO2
1	States value of a SOFP/income statement in persuading a bank to lend money to the business.	2–1	AO1
0	No valid response.	0	

3 (c) *Phil wants to expand Eat to the Beat. Should he:*

- *try to get a loan from a bank or*
- *accept Debbie’s offer to invest in the business?*

*Use **Item C** and your answer to question **3(a)** to justify your answer.*

[9 marks]

Relevant answers might include the following:

AO1/Level 1

Responses might demonstrate the following knowledge:

- degree of control
- sharing of profits
- level of risk
- ability to pay back a loan.

AO2/Level 2

Responses might include the following contextual explanations:

Bank loan

- funds available to pay back the loan
- the business is solvent
- will not need to share profits which will presumably be higher after expansion
- will have full control of the decision making which would be important as Debbie may prefer to develop the café side of the business.

Debbie investing in the business

- may have difficulty in getting a loan as the assets do not cover the loan
- Experience and expertise may lead to increased profits.
- will not have to pay interest and will have expertise on the café side of the business.

AO3/Level 3 (analysis)

Chain of argument linking factors, eg

- would be able to afford a bank loan with profits of £29 960 against loan payments of £7100. He would be able to keep all the profits which could be significant after the 5 year payment period
- allowing Debbie to invest would save £35 500 over the period of 5 years and she would be bringing support and commitment to the business.

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