



GCSE

Applied Business

413007 Unit 7 Business Finance

Mark scheme

4130
June 2016

Version 1.0: Final Mark Scheme

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.

Level of response marking instructions

Level of response mark schemes are broken down into levels, each of which has a descriptor. The descriptor for the level shows the average performance for the level. There are marks in each level.

Before you apply the mark scheme to a student's answer read through the answer and annotate it (as instructed) to show the qualities that are being looked for. You can then apply the mark scheme.

Step 1 Determine a level

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptor for that level. The descriptor for the level indicates the different qualities that might be seen in the student's answer for that level. If it meets the lowest level then go to the next one and decide if it meets this level, and so on, until you have a match between the level descriptor and the answer. With practice and familiarity you will find that for better answers you will be able to quickly skip through the lower levels of the mark scheme.

When assigning a level you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best fit approach for defining the level and then use the variability of the response to help decide the mark within the level, ie if the response is predominantly level 3 with a small amount of level 4 material it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

Step 2 Determine a mark

Once you have assigned a level you need to decide on the mark. The descriptors on how to allocate marks can help with this. The exemplar materials used during standardisation will help. There will be an answer in the standardising materials which will correspond with each level of the mark scheme. This answer will have been awarded a mark by the Lead Examiner. You can compare the student's answer with the example to determine if it is the same standard, better or worse than the example. You can then use this to allocate a mark for the answer based on the Lead Examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

Indicative content in the mark scheme is provided as a guide for examiners. It is not intended to be exhaustive and you must credit other valid points. Students do not have to cover all of the points mentioned in the Indicative content to reach the highest level of the mark scheme.

An answer which contains nothing of relevance to the question must be awarded no marks.

Total for this question: 20 marks

1 (a) Complete the table below to identify for Lee whether the costs are fixed **or** variable. Place **one** tick in the appropriate column for each cost. **[3 marks]**

	Fixed cost	Variable cost
Wages to workers paid hourly		✓
Insurance of the van	✓	
Loan interest	✓	

1 (b) Lee discovered that a competitor was charging an average price of £23 per job. Using **Item A**, explain **two** ways in which Lee could have responded to this competition. **[8 marks]**

Relevant answers might include the following:

AO1	AO2
Reduce prices	Reduce prices to the same as the competitor, this would increase break-even to 16.8 (17). Lee would need to sell more than the 45 jobs per week to reach the profit target.
Reduce variable costs	
Reduce fixed costs	Pay the loan over a longer period which would reduce the annual fixed costs. Candidate could offer a calculation.
Do nothing	Do nothing. Existing customers are happy with the current prices and quality.
Employ less staff	
Cheaper suppliers	

Level	Descriptor	Marks	Assessment Objective
3	Explains two appropriate ways Lee could respond to the competition.	8–6	AO2
2	Explains one appropriate way Lee could respond to the competition.	5–3	
1	States way(s) Lee could respond to the competition.	2–1	AO1
0	No valid response.	0	

1	(c)	<p><i>Instead of buying the van, Lee could have leased the van for an initial payment of £1020 and monthly payments of £336 over four years.</i></p> <p><i>Using Item A, recommend to Lee whether he should have leased the van or taken out a loan to buy it. Give reasons for your recommendation.</i></p>	[9 marks]
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Relevant answers might include the following:

A01	A02	A03
<p>Lease Understanding of leasing, e.g. would not own the van</p>	<p>Pays £17 148 over four years but still does not own the van.</p>	<p>Uses data to compare the options, e.g. £21 312 – £17 148 = £4 164 therefore leasing cheaper.</p> <p>There is competition in the market so leasing will help to reduce the break-even point and increase short-term profits.</p> <p>The initial payment for the lease would take a large portion of Lee’s bank account, which could cause problems meeting wages etc.</p>
<p>Loan Understanding of bank loan, e.g. would own the van.</p>	<p>Pays more each month compared to leasing. But would own the van after four years.</p>	<p>There is no initial payment with the loan, so initial cash-flow advantages.</p> <p>Owning the van will be useful collateral.</p> <p>There is the possibility that there may be a maintenance aspect to the lease, this would not be present with the loan.</p>

Level	Descriptor	Marks	Assessment Objective
3	Analyses recommendation.	4–3	AO3
2	Explains recommendation.	2	AO2
1	Makes recommendation.	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, i.e. there is no use of technical terms; answer is very brief or difficult to understand.	0	

Analysis/Judgements might include:

- cash-flow v ownership which is more important to Lee at the moment?
- issues surrounding the deposit.

Total for this question: 20 marks

2 (a)(i) State **one** reason why Lee's Gardening Services was forecast to have a negative cash-flow in March. **[1 mark]**

Relevant answers might include the following:

- cash out exceeds cash in [1]
- the purchase of fixed assets [1]
- not enough opening cash [1]
- sales too low [1]
- any other example using Item B

2 (a)(ii) Using **Item B**, by how much would Lee's Gardening Services go over its agreed overdraft of £800 in March if the cash-flow forecast is correct? **[2 marks]**

Correct answer **£225 [2 marks]**

£1025 - £800 **[1 mark]** = £225 **[1 mark]**

2	(b)	<p><i>The cash flow forecast shows a negative closing balance in March. Using Item B, explain two actions that Lee could take to solve this problem.</i></p>	[8 marks]
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Relevant answers might include the following:

AO1	AO2
Credit arrangements e.g. trade credit	Arrange credit when purchasing fixed assets.
Increase bank overdraft	Arrange to increase bank overdraft using cash-flow forecast as evidence.
Bank loan	To pay for fixed assets
Reduce costs	Do not buy in bulk.
Find cheaper suppliers	
Do not buy fixed assets	
Reduce wages	

Level	Descriptor	Marks	Assessment Objective
3	Explains two appropriate actions.	8–6	AO2
2	Explains one appropriate action.	5–3	
1	States action(s).	2–1	AO1
0	No valid response.	0	

2 (c) Using **Item B**, recommend to Lee whether or not Lee’s Gardening Services should accept the estate agent’s contract. Give reasons for your recommendation. **[9 marks]**

Knowledge	Application	Analysis
The contract is profitable.	Calculates the extra profit of £400 per month. Recognition that the contract will provide income during Dec-March next year.	Discusses the impact of extra profit, for example no further equipment needed. Regular work.
There are cash-flow implications.	Expands on the cash-flow problem in March/April.	Discusses the impact of the cash-flow problem.

Level	Descriptor	Marks	Assessment Objective
3	Analyses recommendation.	3–4	AO3
2	Explains recommendation.	2	AO2
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Analysis/Judgements might include:

- cash v profit
- the further costs involved in accepting the contract, higher interest now but benefits later
- risk that other work will not reach targets.

Total for this question: 20 marks

3 (a) Complete the forecast income statement for Top Gardens for the year ending 31 May 2017 by filling in the shaded boxes below.

[3 marks]

**Top Gardens
Forecast income statement (profit and loss account)
for the year ending 31 May 2017**

		£	£
Revenue (sales)			88 400
Less cost of sales			4 300
Gross profit			84 100
Expenses	Wages	45 000	
	Fuel	2 220	
	Other expenses	12 000	59 220
Net profit			24 880

(OFR applies)

3 (b) *Using Item C and your answer to question 3(a), explain how Lee could use Top Gardens' forecast statement of financial position (balance sheet) **and** forecast income statement (profit and loss account) to decide if he should buy the business.*
[8 marks]

Relevant answers might include the following:

AO1	AO2
SOFP shows assets/liabilities.	<p>SOFP shows assets/liabilities</p> <ul style="list-style-type: none"> • Fixed assets £48 000 • Current assets £2 170 • Current liabilities £290 • Net current assets £1 880. <p>Explains the importance of assets/liabilities, e.g. collateral/debt (£55 000)/book value of the business (£49 880). Using relevant ratios</p>
Income statement shows profit.	<p>States the profit figure of £24 880.</p> <p>Explains the importance of the profit figure, e.g. in paying back the loan. Uses profit margins or other relevant ratios</p>

Level	Descriptor	Marks	Assessment Objective
3	Explains the value of the forecast SOFP and forecast income statement in describing the financial performance of Top Gardens	8–6	AO2
2	Explains the value of the forecast SOFP or forecast income statement in describing the financial performance of Top Gardens.	5–3	
1	States value of a SOFP/income statement in describing financial performance.	2–1	AO1
0	No valid response.	0	

3 (c) Using **Item C**, recommend to Lee if he should buy Top Gardens. Give reasons for your recommendation. **[9 marks]**

Relevant answers might include the following:

A01	A02	A03
Profitability	Figures show the business is profitable £24 880 per year. Net profit bigger than the loan repayments. (i.e. loan repayments £12 348 per year)	The profit would be adding to existing revenue and help with the replacement of fixed assets. Top Gardens has a higher net profit margin of 28.14% than LGS's of 26.51%. Lee will be buying a more profitable business.
Solvency	Assets of £48 000 so close to the amount of the loan.	Looks as if his house would be safe, due to value of assets.

Level	Descriptor	Marks	Assessment Objective
3	Analyses recommendation.	4–3	AO3
2	Explains recommendation.	2	AO2
1	Makes recommendation.	1	AO1
0	No valid response.	0	

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0	Offers both no judgement or an unsupported judgement and the quality of written communication is weak, i.e. there is no use of technical terms; answer is very brief or difficult to understand.	0	

Analysis/Judgements might include:

- personal risk v reward
- Lee's track record is good; taking over new customers should be feasible.