



**General Certificate of Secondary Education
June 2013**

**Applied Business
(Double Award)**

413007

(Specification 4136)

Unit 7: Business Finance

Final

Mark Scheme

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1

Total for this question: 20 marks

1 (a) Explain **one** reason why a business would want to calculate break even.
(2 marks)

Relevant answers might include the following:

- allows a business to see its profits at different levels of output. Helps with pricing decisions
- allows a business to use 'what if' analysis which will help with decision making.

1 mark for stating reason and one mark for development.

1 (b) (i) Using **Item A**, explain how an increase in fixed costs to £1980 per week might affect the break-even output of Thornley's. Show your calculations.
(4 marks)

Relevant answers might include the following:

Level 1

- break-even point would rise
- higher fixed costs need to be met.

Level 2

- would need to sell more meals to cover fixed costs. Means that *Thornley's* would have to sell 72 more meals per week just to cover the increase
- break-even point would rise from 720 to 792.

Level	Descriptor	Marks	Assessment Objective
2	Explains how an increase in fixed costs might affect <i>Thornley's</i> .	4–3	AO2
1	Demonstrates understanding of break-even.	2–1	AO1
0	No valid response.	0	

- 1 (b) (ii)** Identify **one** suitable action that Alison and Jack could take if fixed costs increased to £1980 per week. Explain why your choice of action would be suitable for this business. (5 marks)

Relevant answers might include the following:

- the shop is currently selling 1400 meals per week so the issue is not really about breaking even but the amount of profits being made. There is the option to do nothing and absorb the cost
- putting up the price of meals is a possibility. Putting up the price of meals to £5.75 would return break-even to 720. How feasible this is will depend on demand. *Thornley's* is a high quality fish and chip shop so customers may be prepared to pay a premium.

Other actions might include the following:

- source cheaper materials
- open longer hours
- reduce the number of staff used.

Level	Descriptor	Marks	Assessment Objective
3	Explains suitability of action for <i>Thornley's</i> .	5–3	AO2
2	Explains action.	2	AO1
1	States action.	1	AO1
0	No valid response.	0	

1 (c) *Alison and Jack are considering offering a 20% discount to students who buy Thornley's meals on a Monday.*

*Do you think that this offer will improve Alison and Jack's profits? Use **Item A** to justify your answer. (9 marks)*

Relevant answers might include the following:

- a 20% reduction would mean a meal selling at £4.40 rather than £5.50 so this will be a reduction in profit per meal
- depends how many students currently use the shop on a Monday. If, for example, 10 students used the shop on a Monday, that would be revenue of £55 at current prices. To raise £55 at the new price would need 13 students to buy meals to increase revenue
- fixed costs will already be covered so no new resources (other than stock) needed
- will it be easy to police?
- market research is mixed so young people may just prefer other types of takeaway. No new customers may be attracted so losing money on existing young people's custom.

Level	Descriptor	Marks	Assessment Objective
3	Analyses effect of offer on the profits of <i>Thornley's</i> .	4–3	AO3
2	Explains effect on profits.	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	Judges effect of action 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	Judges effect of action 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) <i>Using Item B, explain one way in which using a cash-flow forecast could help with the financial decision-making of Thornley's.</i> (5 marks)
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Relevant answers might include the following:

Level 1

- to help plan for cash shortages
- to do 'what if' analysis.

Level 2

- the business could use 'what if' analysis to quickly see the effect of decision making options such as:
 - leasing fish and chip frying equipment
 - loans
 - rescheduling debts
 - introducing more capital.

For Level 2, the answer needs to be contextualised by use of cash-flow headings or figures.

Level	Descriptor	Marks	Assessment Objective
2	Provides explanation of point(s) in context.	5–3	AO2
1	States relevant point(s).	2–1	AO1
0	No valid response.	0	AO1

2 (b)	<i>Using Item B, explain the impact on Thornley's of leasing the new frying equipment.</i>	<i>(6 marks)</i>
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Relevant answers might include the following:

- the business would not be overdrawn in the four months. The net outflow would be £27 400 less during this period which would benefit cash flow and provide funds for replacing other expensive items of equipment
- there would be no maintenance costs to pay which would help financial planning
- no interest payments to make
- The old equipment lasted 10 years. So, over 10 years buying would be £2 900 per year as opposed to £4 800 per year leasing. Overall profits would be reduced and the business would not own the frying equipment.

Level	Descriptor	Marks	Assessment Objective
3	Full explanation of leasing on <i>Thornley's</i> .	6–5	AO2
2	Partial explanation of leasing on <i>Thornley's</i> .	4–3	
1	States impact / understanding of leasing.	2–1	AO1
0	No valid response.	0	

2 (c) Using **Item B**, recommend to Alison and Jack how they should finance the new frying equipment. Give reasons for your recommendation. (9 marks)

Relevant answers might include the following:

- the cash-flow forecast is showing a steady movement towards a positive cash flow. Leasing to protect cash flow might be an over reaction
- an overdraft would only be exceeded for the first few months so a short-term loan would suffice
- delaying purchase and overdraft could mean no negative cash flows and the equipment would be owned outright
- if the owners reduced drawings and then used a combination of the above would help
- leasing would solve the problem and free up funds for other equipment that needs replacing.

Level	Descriptor	Marks	Assessment Objective
3	Analyses recommendation in context.	4–3	AO3
2	Explains recommendation in context.	2	AO2
1	Makes recommendation.	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	

3

Total for this question: 20 marks

3 (a) Complete the balance sheet as at 30 April 2013 for The Happy Haddock by filling in the **shaded** boxes in the table below. (3 marks)

The Happy Haddock Balance sheet as at 30 April 2013		
	£	£
Non-current assets (fixed assets):		
Shop premises		243 560
Other non-current assets (fixed assets)		30 000
		(1) 273 560
Current assets:		
Debtors	1 240	
Bank	1 000	
Total current assets	2 240	
Less current liabilities		
Creditors	600	
Net current assets		(1) 1 640
Total net assets		(1) OFR 275 200
Financed by:		
Capital (Owners' funds)		275 200
		275 200

3 (b) *Explain how the information in the balance sheet in your answer to question 3(a) could be used by Alison and Jack when they are deciding whether or not to buy The Happy Haddock. (4 marks)*

Relevant answers might include the following:

- the balance sheet will show:
 - the value of the business
 - value of the assets of the business
 - what the business owes.
- in context answers will make reference to the balance sheet in 3(a) to support the bullet point above.

Level	Descriptor	Marks	Assessment Objective
2	Explains how the balance sheet could help Alison and Jack.	4–2	AO2
1	Identifies how the balance sheet could help.	1	AO1
0	No valid response.	0	

3 (c) *Using Item C, give **one** reason why the gross profit margins of Thornley's and The Happy Haddock are different. You should explain your answer. (4 marks)*

Relevant answers might include the following:

- Thornley's* is a high quality fish and chip shop, the ingredients are likely to be more expensive so that will cut margins. *The Happy Haddock* may use cheaper ingredients so margins are higher
- Thornley's* operates all year round whereas *The Happy Haddock* is seasonal so can perhaps cash in and not worry about repeat business.

Level	Descriptor	Marks	Assessment Objective
2	Explains reasons why gross profit margins are different in context.	4–2	AO2
1	States reason why gross profit margins are different.	1	AO1
0	No valid response.	0	

3 (d) *Alison and Jack are trying to improve profits further. Using **Item C** and all the information available to you, advise Alison and Jack which of the following two options they should choose:*

- *rent the shop next door to Thornley's and open a fish restaurant*
- *buy The Happy Haddock.*

Give reasons for your choice.

(9 marks)

Relevant answers might include the following:

Restaurant:

- slightly more expensive but known market
- they would be geographically close, should make management easier
- the brand is suited to Harrogate
- would the restaurant be as successful as the shop? Would it be taking the same custom?

New fish and chip shop:

- already successful – could Alison and Jack take it further?
- cheaper option
- is it the right market?
- geographical considerations
- higher profit margin.

Evaluation could centre on:

- consideration of short-term v long-term gains
- relative risk, eg competition.

Level	Descriptor	Marks	Assessment Objective
3	Analyses options in context.	4–3	AO3
2	Provides explanation of options in context.	2	AO2
1	States relevant point(s).	1	AO1
0	No valid response.	0	

See next page for Evaluation.

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	Judges choice of action 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	Judges choice of action with limited justification. Ideas are communicated in a simplistic way with limited use of technical terms. Errors in accepted conventions are noticeable.	2–1	