

**GCSE**

**Applied Business**

**Double Award**

**January 2009**

**Mark Scheme**

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**NORTHERN IRELAND GENERAL CERTIFICATE OF SECONDARY EDUCATION (GCSE)  
AND NORTHERN IRELAND GENERAL CERTIFICATE OF EDUCATION (GCE)**

**MARK SCHEMES (2009)**

**Foreword**

***Introduction***

Mark Schemes are published to assist teachers and students in their preparation for examinations. Through the mark schemes teachers and students will be able to see what examiners are looking for in response to questions and exactly where the marks have been awarded. The publishing of the mark schemes may help to show that examiners are not concerned about finding out what a student does not know but rather with rewarding students for what they do know.

***The Purpose of Mark Schemes***

Examination papers are set and revised by teams of examiners and revisers appointed by the Council. The teams of examiners and revisers include experienced teachers who are familiar with the level and standards expected of 16- and 18-year-old students in schools and colleges. The job of the examiners is to set the questions and the mark schemes; and the job of the revisers is to review the questions and mark schemes commenting on a large range of issues about which they must be satisfied before the question papers and mark schemes are finalised.

The questions and the mark schemes are developed in association with each other so that the issues of differentiation and positive achievement can be addressed right from the start. Mark schemes therefore are regarded as a part of an integral process which begins with the setting of questions and ends with the marking of the examination.

The main purpose of the mark scheme is to provide a uniform basis for the marking process so that all the markers are following exactly the same instructions and making the same judgements in so far as this is possible. Before marking begins a standardising meeting is held where all the markers are briefed using the mark scheme and samples of the students' work in the form of scripts. Consideration is also given at this stage to any comments on the operational papers received from teachers and their organisations. During this meeting, and up to and including the end of the marking, there is provision for amendments to be made to the mark scheme. What is published represents this final form of the mark scheme.

It is important to recognise that in some cases there may well be other correct responses which are equally acceptable to those published: the mark scheme can only cover those responses which emerged in the examination. There may also be instances where certain judgements may have to be left to the experience of the examiner, for example, where there is no absolute correct response – all teachers will be familiar with making such judgements.

The Council hopes that the mark schemes will be viewed and used in a constructive way as a further support to the teaching and learning processes.



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*Rewarding Learning*

**General Certificate of Secondary Education  
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**Applied Business  
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**Unit 3: Business Finance**

**[GDB31]**

**TUESDAY 13 JANUARY, MORNING**

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**MARK  
SCHEME**

## **Quality of candidate's responses**

In marking the examination papers, examiners will be looking for a quality of response reflecting the level of maturity which may reasonably be expected of a 16-year-old which is the age at which the majority of candidates sit their GCSE examinations.

## **Unanticipated responses**

The mark schemes which accompany the specimen examination papers are not intended to be totally prescriptive. For many questions, there may be a number of equally legitimate responses and different methods by which candidates may achieve good marks. No mark scheme can cover all the answers which candidates may produce. In the event of unanticipated answers in operational examinations, examiners are expected to use their professional judgement to assess the validity of answers. If an answer is particularly problematic, then examiners would seek the guidance of the Supervising Examiner for the paper concerned.

## **Positive marking**

Examiners are encouraged to be positive in their marking, giving appropriate credit for valid responses rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected of a 16-year-old GCSE candidate. Conversely, marks should only be awarded for valid responses and not given for an attempt which is completely incorrect or inappropriate.

## **Marking calculations**

In marking answers involving calculations, examiners should apply the "own figure rule" so that candidates are not penalised more than once for a computational error.

## Levels of Response Marking Grid

	<b>AO1 [3]</b>	<b>AO2 [3]</b>	<b>AO3 [3]</b>
<b>Mark Band 1</b>	<p>1. Candidates demonstrate a basic knowledge and understanding. They give a basic description. There will be little organisation.</p>	<p>1. Candidates are able to apply limited knowledge and understanding. They give simple explanations. There will be few vocational links.</p>	<p>1. Candidates' responses suggest simple, broadly relevant ideas. They reach straightforward conclusions. Responses may not be clearly presented.</p>
<b>Mark Band 2</b>	<p>2. Candidates demonstrate a sound knowledge and understanding. They give a sound description. Answers will be organised.</p>	<p>2. Candidates apply knowledge and understanding to a range of situations. They give sound explanations, with some detail. There will be some vocational links and occasional detail.</p>	<p>2. Candidates comment in depth suggesting relevant ideas for development. They reach reasoned conclusions. Responses will usually be clearly presented. They will use a good range of specialist terms where appropriate.</p>
<b>Mark Band 3</b>	<p>3. Candidates demonstrate a detailed knowledge and understanding. They give a detailed description. Answers will be well organised.</p>	<p>3. Candidates apply relevant knowledge and understanding. They give full, detailed explanations, vocational links and the inter-relationship between factors.</p>	<p>3. Candidates comment fully, suggesting detailed relevant ideas. They reach reasoned conclusions. Responses will consistently be clearly presented in a logical form. They will use a wide range of specialist terms where appropriate.</p>

1 (a)

Item	Type of finance	Reason for choice
Clothes Press	Bank Loan [1]	Loans may be repaid in instalments [1]
	Remortgage [1]	Amount of loan added to mortgage, repaid in monthly instalments [1]
Van	Lease [1]	CCC does not have to pay out large amount of capital at outset [1]
	Hire Purchase [1]	CCC has use of the van while making regular payments to the finance company [1]
Clothing bank	Hire Purchase [1]	CCC has use of the bank while making regular payments to the finance company [1]
Premises	Mortgage [1]	Repaid in monthly instalments over a long period of time [1]
	Leasing [1]	Assists in budgeting as a regular amount is paid for the lease monthly [1]
Working capital	Overdraft [1]	Interest is charged on the daily balance [1] Bank will allow CCC to overdraw up to an agreed limit [1]

[5]

[5]

(b) The bank manager may have refused to give Chris the loan because:

The bank may have asked for security to place alongside the loan to make sure that in the event of the loan not being repaid [1], the bank will not lose out and Chris may have been unable to provide the collateral [1].

The bank will require information that the business is likely to remain solvent i.e. that the business will be in a position to repay the loan and the interest charged on it [1] and evidence of this may not have been forthcoming [1].

(1 × [2] or 2 × [1])

[2]

(c) Advantage 1

The money is readily available [1], does not have to be repaid [1].

(1 × [1])

Advantage 2

It will enable Chris to employ more staff [1], increase productivity [1], increase profits [1].

(1 × [1])

[2]

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(d) Personal investment i.e. money put into the firm by Chris. [1]

(e) **Advantage** to Chris of using internal sources of finance to cover the cost of relocation:

The money does not have to be repaid [1] unlike a loan [1].

The money should be available quickly to the firm [1] and no interest is paid [1]. [2]

**Disadvantage** to Chris of using internal sources of finance to cover the cost of relocation:

Retained profits – the profits of the firm may be too low [1] to provide the finance required [1].

Sale of assets – it may take time to sell the assets [1] and Chris may not have any surplus assets to sell [1]. [2]

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2 (a)

Cost	Fixed	Variable
Warehouse	✓	
Advertising		✓
Vans	✓	
Wages		✓
Insurance		✓

[1] for each correct answer – total [5] [5]

(b) A fixed cost is a cost which does not vary with the number of goods produced, e.g. rent, rates [1].

A variable cost is one which varies with the number of goods produced, e.g. materials, wages [1]. [2]

(c) It is important for Chris to know the costs of the business:

- to enable her to calculate the price of the goods to be sold [1]
- to determine whether a profit/loss is being made and [1]
- to compare with past figures [1].

(2 × [1]) [2]

(d) (i) Revenue from sales increasing and net profit figures do not match sustained increase. [1]

(ii) Net profit = gross profit – expenses.

Gross profit = sales – cost of sales.

The net profit figure is falling due to increase in the cost of sales or increase in expenses [1]. In order to increase the net profit, the cost of sales/expenses must be examined [1] and savings made where possible [1], e.g. source materials from cheaper suppliers/reduce expenses, e.g. wages [1].

(2 × [1]) or (1 × [2]) [2]

- (e) Reasons why it is important for the owners of Chris Carey's Collections to know how much profit is being made each year.
- CCC's reason for going into business was to make a profit. She needs to know how much is being made each year to determine if the effort has been worthwhile and make sure that she is earning more by investing her money in the business than elsewhere. [1]
  - The success of the business can be measured by the profit made. [1]
  - CCC may use the net profit figure to compare with their performance in previous years and to compare with other businesses of a similar size and in the same sector [1].
- (2 × [1]) [2]

- (f) In a limited company like CCC, they will have to decide how much dividend to pay to their shareholders [1] and how much is reinvested in the business [1].
- (2 × [1]) [2]

- 3 (a) From time to time Chris Carey needs to know how much the business is worth. She will find this information in the **balance sheet** [1]. It is a **legal requirement** [1] of every company to draw up this document and a copy must be forwarded to the Registrar of Companies each year. When the accountant draws up this document for Chris Carey's Collections, he/she first lists the **fixed assets** [1]. These are followed by the current assets. Current assets are made up of **stock** [1], **debtors** [1], **bank** [1] and **cash** [1]. Current liabilities are taken from the current assets to show the **working capital** figure [1].
- (8 × [1]) [8]

- (b) Working capital is used to:
- pay the day to day costs of running the business [1]
  - it is a measure of the firm's liquidity [1]
  - if the working capital figure is too low CCC will have a cash flow problem [1]
  - CCC needs to make sure that it does not run out of working capital as it would then have to stop trading [1].
- (2 × [1]) or (1 × [2]) [2]

- (c) The balance sheet of CCC is useful to the following groups:

Managers [1]

Interest

Managers by looking at the balance sheet can tell how the business is performing [1].

They can compare figures with those of previous years to determine what action needs to be taken to improve their position [1].

Owners/Shareholders [1]

Interest

They want to see the return on their investment [1] and to see if it is worthwhile buying more shares to invest further in the business [1].

A firm wishing to do business with CCC [1]

Interest

They may look at the balance sheet to see if it is financially sound [1] as they would not want to give credit to a firm with a low working capital figure [1].

Employees [1]

They want to know how profitable and stable the business is [1] as they are interested in the security of their jobs [1]

Bank [1]

The bank needs to keep a check on the balance sheet figures [1] to make sure the business can repay any loans granted [1]. The bank needs to make sure that the liabilities are not too high [1]

Customers [1]

Customers are interested in the success and stability of CCC [1]. If CCC is successful they will be able to continue to provide the service required by the customers [1]

Correct identification of group [1]

Interest – as above ( $2 \times [1]$ ) or ( $1 \times [2]$ ) [6]

**(d)** Advantages to Chris Carey's Collections of using a Sage computer package:

The system is accurate [1]

It processes financial documents [1]

Prints out financial documents [1]

Produces reports for owners [1]

( $2 \times [1]$ ) [2]

**(e)** Disadvantages of such a package:

Expert required to set it up [1]

Users require training [1]

Computers can crash [1]

Computers get viruses and data may be lost [1]

( $2 \times [1]$ ) [2]

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- 4 (a) The name of the document is Remittance Advice [1]
- (b) The Remittance Advice is a document sent by the buyer to the seller stating that payment is being made.  
(1 × [1]) [1]
- (c) Cheque total = £325.71 [1]
- (d) The Remittance Advice must be accurate to ensure that the right amount is being paid. [1]
- (e) The amount for the credit note is in brackets as goods have been returned to CCC [1] and the amount is then deducted from the total [1].  
(2 × [1]) [2]

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5 (a) Chris Carey's Collections Cash-Flow Forecast

	January £	February £	March £
<b>Receipts</b>			
Sales	200 000	300 000	200 000
<b>Total Receipts</b>	200 000	300 000	200 000
<b>Payments</b>			
Purchases	100 000	100 000	100 000
Wages	100 000	100 000	100 000
Rates	750	750	750
Fuel	3 100	3 700	3 700
Insurance Premises	250	250	250
Insurance Motor	1 000	1 000	1 000
Electricity	70	70	70
Telephone	120	120	120
Packaging	250	250	250
Drawings	6 000	6 000	6 000
Other expenses	450	450	450
<b>Total Payments</b>	211 990 [1]	212 590 [1]	212 590 [1]
Opening bank Balance	(2 000)	(13 990) [1]	73 420 [1]
<b>Add receipts</b>	200 000	300 000	200 000
<b>Less payments</b>	211 990	212 590	212 590
Balance at the end of the month	(13 990) [1]	73 420 [1]	60 830 [1]

[1]

[8]

Total receipts – correct figures [1]  
 Total payments [1] for each correct figure  
 Opening balance [1] for correct February balance  
 [1] for correct March balance  
 Balance at the end of the month – [1] for each correct figure

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- (b) A cash-flow forecast is used to predict a business's future flows of cash. [1]  
 It helps the business to plan financial requirements. [1]  
 It allows action to be taken to prevent serious negative cash flow. [1]  
 (2 × [1]) or (1 × [2]) [2]
- (c) There is a negative balance in January of £(13 990). [1]  
 CCC is overdrawn by £13 990 [1].  
 (1 × [1]) [1]
- (d) Advice to manager to improve the situation:  
 – reduce cash outflows [1]  
 – increase cash inflows [1]  
 – arrange to borrow money in a period of negative cash flow [1]  
 (2 × [1]) or (1 × [2]) [2]
- (e) Advantage of using a spreadsheet to make out a cash-flow forecast:  
 – data can be changed easily [1]  
 – results automatically computed [1]  
 (1 × [1]) [1]
- (f) The bank manager will be interested in the cash-flow forecast [1].  
 He will want to see if the bank balance is likely to become negative [1]  
 so that financing can be arranged [1].  
  
 Investors [1]  
 Future investors will be interested in looking at the cash-flow forecast to  
 see if the business is likely to be successful [2].  
  
 [1] for correct identification of interested party and [2] for reason. [3]
- (g) Cash flow is the money coming into and going out of the business [1].  
 Profit is the difference between the cost of goods and the selling price [1].  
 (2 × [1]) [2]

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**6 Band 1 ([1]–[3])**

Answers in this band will concentrate on the advantages and disadvantages of leasing with the emphasis on the benefits of leasing as opposed to purchasing by cash.

Advantages of leasing may include the following:

- avoids high levels of start-up costs
- useful for vans which are necessary to the business but have to be replaced regularly because of wear and tear

Disadvantages may include:

- the vans are “rented” from Ford
- a regular payment has to be paid for the use of the vans

**Band 2 ([4]–[6])**

Answers will go beyond the above and refer to the effect of leasing on cash flow and profits.

Candidates will mention that leasing requires monthly payments spread over a period of time which means that the cash flow is reduced by this amount. However, it improves cash flow overall as a large payment does not have to be made to purchase initially which would have a negative impact on the cash flow situation.

Effect on profits – the lease payment is a charge against profits and therefore reduces profit.

**Band 3 ([7]–[9])**

Answers in this band will fully address the question and mention that the purchase of vans will mean that the fixed assets in the balance sheet of CCC are increased thereby increasing the net worth of the business.

Answers will have addressed all areas of the question and demonstrate a clear understanding of not only the advantages and disadvantages of leasing the vans but the effect of this on cash flow, profits and the balance sheet. [9]

**Total**

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**90**





