

Examiners' Report
June 2013

GCSE Applied Business 5AB02 01

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Introduction

This was the seventh paper to be sat for the Applied Business qualification (single award). This paper was previously available in January and June each year, but is now only available in the June series. The paper was based on Eira Grant Photography, a small business run by Eira. The scenario proved accessible to candidates. It contained text and an image. The purpose of the scenario is to help candidates appreciate the context within which they are applying their answers.

Basing questions on the given situation still seems to present difficulty for candidates. Centres should realise that candidates are not expected to memorise scenario information, because of its introductory purpose - key information will be provided in question stems. However, the advice remains to ensure that candidates re-visit this scenario several times during the examination, to re-familiarise themselves with it. This kind of specific application will remain a key theme of this paper, and centres are therefore once again encouraged to work closely with their candidates to ensure they cope with this particular challenge.

To date the papers have covered a variety of businesses - a drum store, a cake factory, a cinema, a theme park, a hotel, a jewellers and this series a self-employed photographer. Centres are encouraged to look at a variety of businesses and ownership types with their candidates and to practice answering questions in context.

The paper contained questions from all specification areas. There were six questions in total. The paper was designed to assess candidates across the full GCSE ability range, and achieved this, proving to be accessible to all. Quality of Written information was assessed in question 7 and this was indicated by an asterix (*7).

Centres are also advised to look at the command words at the beginning of each question. Many candidates are losing marks through their lack of understanding of these words. For example 'explain' in question 3 required candidates to explain two advantages to Eira of using online payments, each awarded 2 x 3 marks. To get these marks the answer should be developed. Many candidates are submitting a list of bullet points without further development, which cannot gain full marks, or giving a variety of advantages.

The 60 minutes seemed sufficient. Gaps appeared to be due more to lack of knowledge than lack of time. The paper differentiated well, and all questions were answered as expected with no major misinterpretations. Most problems were found in question 3 where candidates had misread the question. Rather than explaining two advantages to Eira of using online payments they wrote about Eira receiving online payments from her customers. Also in 4(b) candidates gave examples of start up costs and running costs rather than explaining the difference between them.

Most centres seem to have taken full account of advice given to ensure as far as possible that candidates answer question parts in the space allocated. Where this was not so - for example, due to deleting a wrong answer in the answer line section - most candidates indicated the location of the corrected answer on the paper (eg 'see next page' or 'my answer is on the last blank page'). This practice is once again strongly encouraged. A large number of candidates wrote a great deal for Q7 and therefore needed extra sheets. Candidates should practice writing more concise answers to this extended question as the twenty lines available should be more than adequate for their answer. There were a few occurrences of candidates writing in heavy felt pens that transferred onto the reverse of the paper or in pencil that was difficult to read. Centres should clearly instruct candidates to read the rubric at the front of the paper which advises them to use black ink or ball-point pen.

Question 1 (a) (b)

Most candidates scored full marks on this question as they could identify both the order of the documents and the direction in which they would be sent.

Eira has started to draw the diagram below to show the flow of financial documents. The diagram shows the order in which documents are sent and received when *Eira Grant Photography* buys from a supplier. Each arrow shows who sends the document and who receives it.

Complete the rest of the diagram.

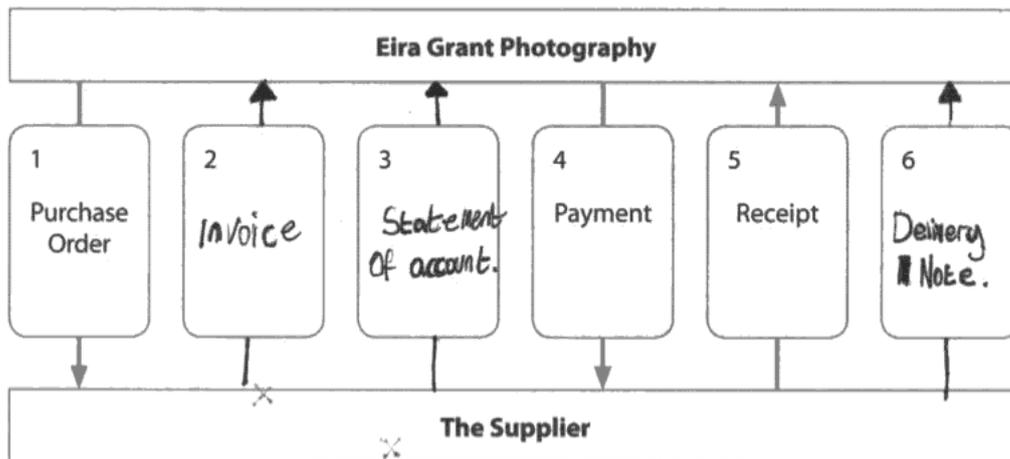
1 (a) In each blank box write the name of **one** of the three documents listed below in the correct order.

- Statement of Account
- Invoice
- Delivery Note ✓

(3)

(b) Draw an **arrow** from each of boxes 2, 3 and 6 to show who sends the document and who receives it in light of your answers to (a) above.

(3)

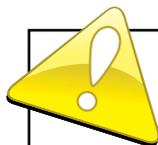


ResultsPlus

Examiner Comments

The documents are not in the correct order, therefore the candidate loses marks.

Marks can be awarded for the correct flow (direction) of the documents.



ResultsPlus

Examiner Tip

Ensure you know the order of all the documents that are used in a business.

Eira has started to draw the diagram below to show the flow of financial documents. The diagram shows the order in which documents are sent and received when *Eira Grant Photography* buys from a supplier. Each arrow shows who sends the document and who receives it.

Complete the rest of the diagram.

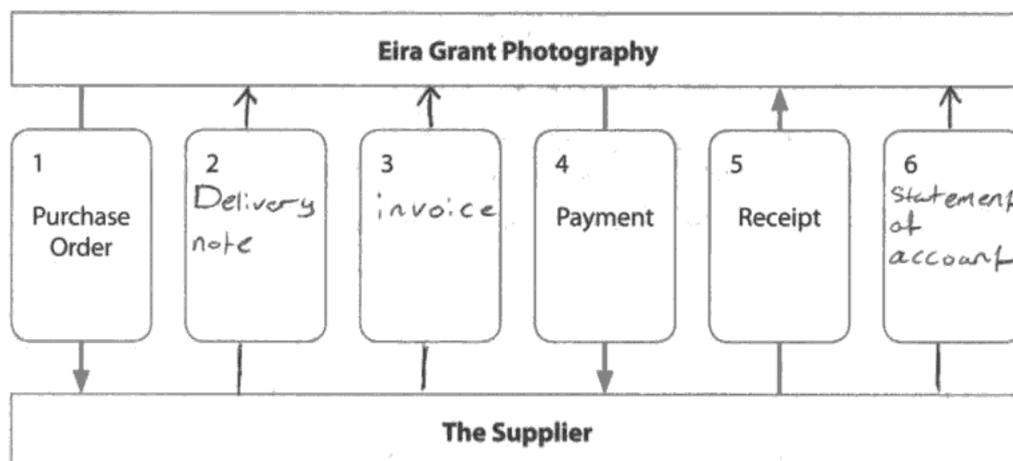
1 (a) In each blank box write the name of **one** of the three documents listed below in the correct order.

- Statement of Account
- Invoice
- Delivery Note

(3)

(b) Draw an **arrow** from each of boxes 2, 3 and 6 to show who sends the document and who receives it in light of your answers to (a) above.

(3)



ResultsPlus
Examiner Comments

A perfect answer.

Question 2 (a)

Candidates generally answered the question well. Many were able to gain marks by spotting the errors, but some candidates lost marks as they did not develop their answers fully. Candidates who were unable to either fully develop their responses or clearly explain the reasons for not paying the invoice tended to show a lack of knowledge as to the purpose of each document and how they link together. Some candidates were confused as to the numbering of the documents and to the lack of price for the camera bag.

Eira believes that these documents contain errors.

- 2 (a) Study the documents and outline **three** reasons why Eira should **not** pay this invoice.

(6)

Reason One

The "Lowepro Classified 160AW Camera Bag Black" is for free when purchased with a camera. She has been charged in this case and will be paying more if she does pay.

Reason Two

The unit price on the invoice for "Induro 4-section Carbon Fibre Tripod series 1" is higher than its actual price. This means she will be paying more when she shouldn't, as losing money can severely affect the business.

Reason Three

On the goods received note, Eira has received a different (Nikon D600) camera to the one she had ordered, which is a lower grade. She will have the wrong equipment if she proceeds meaning the photos taken wouldn't look as perfect as it would with the D700.



ResultsPlus
Examiner Comments

A perfect answer.

Eira believes that these documents contain errors.

- 2 (a) Study the documents and outline **three** reasons why Eira should **not** pay this invoice.

(6)

Reason One

"Lowepro classified 160AW camera bag black" does not show the price of it in the purchase order. so she can be paying more.

Reason Two

in goods received note the item "Nikon D600 digital SLR camera" its not the same item in purchase order and invoice. Its "D700". This can mean she can get the wrong item.

Reason Three

In goods received note, the "Lowepro classified 160AW camera bag black says free with camera. However in the invoice it does not say this. so she can be paying money for the bag when its free. because she already ordered a camera.



ResultsPlus

Examiner Comments

Reason one cannot be awarded marks but the following two reasons are correct. The candidate therefore loses two of the six marks available.

Question 2 (b)

Candidates generally answered the question well; many were able to gain full marks.

Sent and show may Eira does get what she's expecting.
(b) Outline the effect on Eira's accounts if this invoice were to be paid. (2)

Eira would ~~not~~ be paying more money for the goods than needed, in result to this she would be increasing her expenses which would decrease her profit.

(Total for Question 2 = 8 marks)



ResultsPlus
Examiner Comments

A well written answer that gains full 2 marks.

Question 3

Most candidates gained marks on this question. The difficulty candidates had in achieving the higher mark bands was that they failed to fully develop their answers. The question clearly asks that candidates explain two advantages and fully develop the individual points made to gain the marks available. Frequently, candidates who achieved lower marks made a range of points rather than developing two points.

Eira pays some of her suppliers using online payments through her bank account.

3 Explain **two** advantages to Eira of using online payments.

1 The money is instantly taken out ⁽⁶⁾
from her bank account into
the suppliers. It is a very fast
method of payment.

2 It can be done at any time
because internet access is
everywhere. E.g. phones, laptops,
computers, tablets.



ResultsPlus
Examiner Comments

The candidate only gains 3 of the 6 marks available. One mark is awarded for 'instantly taken out' 'fast payment', then a further two for 'it can be done anytime - because internet access is everywhere'.



ResultsPlus
Examiner Tip

Check the mark allocation - if there are 6 marks and 2 reasons then ensure that you develop each reason enough to allow the examiner to award you the marks.

Eira pays some of her suppliers using online payments through her bank account.

3 Explain **two** advantages to Eira of using online payments.

(6)

1 With Paying via Bank accounts, it's very hard to make any mistakes. This means that she will not lose any income.

2 It allows her to see how much money she has to spend and she can then budget it accordingly.



ResultsPlus
Examiner Comments

This candidate has not really answered the question and does not gain any marks. Some parts of the answer are very vague.

Why is hard to make mistakes?

How does it help her budget?



ResultsPlus
Examiner Tip

Make sure that you focus your answer to the question set and be clear in your response.

Question 4 (a)

Candidates generally answered the question well, most were able to gain full marks

4 Eira is considering moving the business to a purpose-built studio.
She understands that this will involve both start-up and running costs.
(a) Give an example of **one** start-up cost and **one** running cost that Eira might face. (2)

Start-up cost raw materials

Running cost Electricity, broadband, lighting and heating



ResultsPlus
Examiner Comments

Only one relevant example given. The scenario is for Eira Grant Photography and so she is very unlikely to have raw materials.



ResultsPlus
Examiner Tip

Be sure to answer the question in the context of the scenario.

4 Eira is considering moving the business to a purpose-built studio.

She understands that this will involve both start-up and running costs.

(a) Give an example of **one** start-up cost and **one** running cost that Eira might face.

(2)

Start-up cost Lighting equipment

Running cost Heating, electricity and water bills



ResultsPlus
Examiner Comments

Two relevant examples given, full marks awarded.

Question 4 (b)

Candidates who could explain the business terminology fully were able to access full marks on this question.

Candidates who failed to achieve full marks often gave further examples of start up and running costs (already assessed in 4(a)) rather than developing their explanation of the difference between start up and running costs.

(b) Explain the difference between start-up and running costs.

(4)

A start up cost is a cost that a business will only have to pay once to initially get their business up and running, whereas a running cost is a continuous cost that has to be paid either a few times a year or monthly.



ResultsPlus
Examiner Comments

A well written answer that gains all 4 marks.

(b) Explain the difference between start-up and running costs.

(4)

Start-up cost is an one off payment and that you will only need to pay for it once, ~~as eg~~ eg. equipment

~~running~~ Running cost is an regular payment that you need to buy for example stock.



ResultsPlus

Examiner Comments

The candidate only gains half of the marks available because they do not develop their answer; they give examples which although are correct is not an explanation of the difference as required.



ResultsPlus

Examiner Tip

Make sure you read the question and answer fully.

Question 5

Candidates generally answered the question well and many were able to gain full marks.

Errors were made where candidates had not learned the layout of the P and L account and had therefore inserted figures in the wrong boxes. A significant number of candidates put the figure for total expenses in the box below the wording 'total expenses' and then wrote net profit in the box provided for total expenses.

The most common error, as in previous series, was for candidates to add the Cost of Sales to Total Sales figure rather than subtract. Many also added transport costs to Cost of Sales.

- 5 Use the information on the previous page to construct the Profit and Loss Account for Eira Grant Photography.

Eira Grant Photography		
Profit and Loss Account for the year ended		
31st December 2012		
	£	£
Total Sales		52 000
Cost of sales.		6 000
Gross Profit		46 000
Expenses:		
Insurances	1 500	
Drawings (wages)	27 500	
Transport costs	4 500	
Light, heat and power	1 500	
Telephone and broadband	750	
Total Expenses		35 750
net profit		10 250

(Total for Question 5 = 6 marks)



ResultsPlus
Examiner Comments

A perfect, well laid out answer that gains full marks.

- 5 Use the information on the previous page to construct the Profit and Loss Account for Eira Grant Photography.

Eira Grant Photography		
Profit and Loss Account for the year ended		
31st December 2012		
	£	£
Total Sales		52 000
Cost of Sales		6 000
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Expenses:		
Insurances	1 500	
Drawings (wages)	27 500	
Transport costs	4 500	
Light, heat and power	1 500	
Telephone and Broadband	750	
Total Expenses		10 250
	35 750	

(Total for Question 5 = 6 marks)



ResultsPlus
Examiner Comments

The candidate has correctly filled in P and L account but has put the Total Expenses in the wrong box thus losing the box to insert Net Profit and the total.



ResultsPlus
Examiner Tip

The bottom left box will always be net profit or net loss. Ensure you know the layout of a P and L account.

6 (a) Using the information given on page 12 fill out the Invoice below.

(7)

Eira Grant Photography	Invoice Date <u>24 May 2013</u>	
	Invoice Number <u>477</u>	
Invoice to: <u>Mrs Deborah Davery</u>		
<u>15 Broad Street</u>		
<u>Burton on the Water</u>		
<u>BW24 1XG</u>		
Product/Service	Charge (£)	Total (£)
<u>1x Newborn Premier session</u>	<u>250</u>	<u>250</u>
<u>1x 20cm x 25cm Frame</u>	<u>15</u>	<u>15</u>
	Total Cost	<u>265</u>
	5% Discount	<u>13.25</u>
	Total to Pay	<u>251.75</u>

After the invoice has been sent Eira realises that she has charged the customer for



ResultsPlus
Examiner Comments

A perfect answer.

Question 6 (b)

This question was well answered by most candidates who clearly demonstrated their knowledge and understanding of how overcharging a customer could affect both the accounts and more importantly the reputation of the business.

After the invoice has been sent, Eira realises that she has charged the customer for the Newborn Premiere Collection instead of the Newborn Session.

(b) Outline **one** effect of this error on *Eira Grant Photography*.

~~Eira Grant Photography would~~ ^{the customer} ~~lose~~ ⁽²⁾
~~money~~

Eira Grant Photography would lose money

(Total for Question 6 = 9 marks)



ResultsPlus
Examiner Comments

The company has overcharged the customer and so will not be losing money, although may lose sales because of this.

After the invoice has been sent, Eira realises that she has charged the customer for the Newborn Premiere Collection instead of the Newborn Session.

(b) Outline **one** effect of this error on *Eira Grant Photography*.

(2)

She will have to deal with a credit note from Mrs Deborah which is a waste of time as now she has to refund her and maybe lose her as a customer due to unsatisfying customer service.

(Total for Question 6 = 9 marks)



ResultsPlus
Examiner Comments

A well developed answer that scores full marks.

Question 7

This was the 'extended answer' element of the paper to include Quality of Written Communication, and some candidates struggled to formulate fluent responses to this question. Candidates were asked to advise on the advantages and disadvantages of using profitability ratios to assess the performance of the business but where candidates had not fully read or understood the question they produced limited generic responses at Level 1 referring to profitability ratios in general.

Generally candidates struggled to gain marks outside of level 1 and 2 although the question allowed for more able candidates to gain level 3. Many candidates did not have a clear idea of what role profitability has in a business and therefore couldn't evaluate the advantages of using profitability ratios. Another major shortfall was candidates confusing liquidity and profitability thus showing a lack of understanding. Candidates are advised to learn the difference between liquidity and profitability, between the Profit and Loss account and Balance Sheet and to be clear on how the two are linked.

Candidates in the main answered the question at a basic level considering the advantages of Gross Profit and Net Profit ratios. Some candidates considered how the ratios could allow for the better management of costs and expenses. Far fewer candidates could explain the use of Return on Capital Employed (ROCE) or explain how the ratios could be useful in considering the current success and/or performance of the business for key stakeholders (ie Eira/shareholders/future investors etc).

Knowledge was generally sound but marks were limited as this question asks the candidates to 'advise' and 'assess'.

To gain higher marks candidates needed to consider the use of profitability ratios, and how they are only useful if set in context with other elements of financial performance such as the consideration of liquidity and how they could be used as a tool for comparison with previous years, other competitors, or bank interest.

The above elements were unfortunately rarely combined or fully developed in answers given by candidates although some of the more able candidates used a range of these points to develop their answers.

QWC: The Quality of Written Communication used by candidates was of variable quality. Most answers were written in extended prose rather than as bullet points, which is encouraging, and there were some good attempts. Some candidates unfortunately are still showing poor quality of written communication with poor sentence structure, grammar and spelling. More able candidates were able to fluently structure their answers considering both advantages and disadvantages and reaching valid conclusions using full paragraphs. In addition, more able candidates used good grammar, spelling and business terminology in their responses.

All candidates are reminded of the importance of QWC when structuring their answers as this determines the level and the marks that can be awarded.

Eira is not sure whether *Eira Grant Photography* is as profitable as it should be. She understands this can be checked by using any of these profitability ratios:

- Gross Profit Margin
- Net Profit Margin
- Return on Capital Employed.

*7 Advise Eira on the advantages and disadvantages of using profitability ratios to assess the performance of *Eira Grant Photography*.

Firstly, one of the advantages of using these ratios is that they provide information about whether a business is improving or getting worse over a period of time. This will help to assess the performance of the business because ratios and percentages can be compared from past years. For example, if the Gross Profit Margin increases, Eira will know that she is cutting down on her cost of sales.

However, a disadvantage to these ratios is that they can sometimes be unreliable if the business isn't accurately recording each profit and loss they make/expenses. For example, if the business doesn't record extra expenses during that year, the Net Profit Margin will increase, however, the result will not be an accurate representation.

On the other hand, using a return on capital employed ratio will (ROCE) will

benefit the business because Fira will know how much she is gaining out of her investments in the business.

Overall, I think that the business should use profitability ratios because it can sometimes be the most accurate and realistic representation of how well the business is doing financially.

(Total for Question 7 = 10 marks)

TOTAL FOR PAPER = 60 MARKS



ResultsPlus

Examiner Comments

This candidate has structured the answer well and made many valid points, scoring 7 of the 10 marks available.



ResultsPlus

Examiner Tip

The candidate has ringed the command word at the beginning of the question - 'advise...on the performance'. This is good practice.

This has allowed the candidate to write a focussed answer, not a general answer that gives everything they know about ratios.

Eira is not sure whether *Eira Grant Photography* is as profitable as it should be. She understands this can be checked by using any of these profitability ratios:

- Gross Profit Margin
- Net Profit Margin
- Return on Capital Employed.

*7 Advise Eira on the advantages and disadvantages of using profitability ratios to assess the performance of *Eira Grant Photography*.

The Gross Profit Margin (GPM) shows her how much money she will keep as gross profit for every pound that comes into the business. The Net Profit Margin (NPM) is slightly different. It shows her how much money she will keep as net profit for every pound that comes into the business. The NPM will always be lower because it doesn't take into account ^{expenses} ~~costs~~. However, if the NPM is drastically lower than the GPM, she will realize that she may have a ~~higher~~ very high cost of sales or have too many expenses. Her knowing this will mean that she can take action faster and resolve the problem before it gets out of hand.

The ROCE shows how wisely Eira is using her capital. If she has a low ROCE, she may have to re-think how she ^{invests her} ~~uses her~~ capital, for example, machinery.

A disadvantage of GPM would be that it only shows ~~of~~ gross profit which could trick you into thinking that you're making more ~~more~~ profit than you.

actually are.

The higher ~~at~~ the percentage of these ratios, the better.

In conclusion, I feel that profitability ratios can be beneficial in the fact that you know how much money you're making but they also have their downsides. For example, if you have a low ratio, it could hinder your chances of getting a bank loan if you are going to expand the business or buy a company vehicle etc.

(Total for Question 7 = 10 marks)

TOTAL FOR PAPER = 60 MARKS



ResultsPlus

Examiner Comments

This candidate has spent rather too long explaining the ratios but has then moved on to advantages and disadvantages. The content plus the QWC combined means this candidate gains 6 of the 10 marks available.



ResultsPlus

Examiner Tip

Remember that there are very few knowledge marks (AO1 marks) in this final question. The marks are for assessment/evaluation/justification (AO2 and AO3).

Paper Summary

Based on their performance on this paper, candidates are offered the following advice:

- Use black ink or ball-point pen. Heavy felt pens transfer onto the reverse of the paper and pencil is difficult to read
- Read the scenario to ensure that your answers are in context. Re-visit the scenario several times during the examination and re-familiarise yourselves with it
- Look at the command words at the beginning of each question. Do not submit a list of bullet points without further development when the command word is eg 'Explain'
- Look for the words in bold in the question - eg 'Explain **two** advantages to Eira...' means develop two points only, not give a list of advantages
- Answer question parts in the space allocated. If this is not possible eg due to deleting a wrong answer in the answer line section, indicate the location of the corrected answer on the paper (eg 'see next page' or 'my answer is on the last blank page')
- Practice writing more concise answers for the final extended question. The twenty lines available should be more than adequate for your answer.

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