



General Certificate of Secondary Education

**Business Subjects and
Economics 4130**

Unit 7 Business Finance

Specimen Mark Scheme

The specimen assessment materials are provided to give centres a reasonable idea of the general shape and character of the planned question papers and mark schemes in advance of the first operational exams.

Further copies of this Mark Scheme are available to download from the AQA Website: www.aqa.org.uk

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1

Total for this question: 24 marks

1 (a) Complete the table below to identify for Dan whether the costs are fixed or variable. Place **one** tick in the appropriate column for each cost. (4 marks)

Costs	Fixed Costs	Variable Costs
Insurance of delivery van	✓	
Buying ingredients for meals served		✓
Road fund licence	✓	
Wages of hourly paid staff		✓

1 (b) Using **Item A** and the formula below, state how many functions Dan will need to cater at each year to break-even. Show your calculations. (3 marks)

Break-even point = $\frac{\text{Fixed costs}}{\text{(average selling price per unit less variable cost per unit)}}$

$$40 (1) = \frac{\text{£10 000 (1)}}{(\text{£500} - \text{£250}) (1)}$$

Or 3 marks for correct answer (even with no working shown).

1 (c) Explain the effect on the break-even point for Dan's outside catering service, if the fixed costs were to rise to £12 500 per year. (3 marks)

Possible answers include:

- the break-even point would rise to 50 functions;
- he would make less profit;
- he would need more customers.

Context would include quantifying effect.

Level	Descriptor	Marks	Assessment Objective
2	Candidate explains what will happen to the break-even point.	2–3	AO2
1	Candidate states what will happen to the break-even point.	1	AO1
0	No valid response	0	

1 (d) (i) Identify **two** possible actions that Dan could take if the fixed costs for the outside catering service were to rise to £12 500. Explain the possible effects of each action. *(8 marks)*

Actions can include:

- reduce prices and try and cater at more functions;
- increase prices and make more on each function;
- reduce costs.

Context can include:

- an attempt to quantify the action by a calculation;
- the outside catering service is new, eg will raising prices drive away business.

Level	Descriptor	Marks	Assessment Objective
2	Candidate explains action(s) Dan could take.	3–4	AO2
1	Candidate states relevant action(s).	1–2	AO1
0	No valid response.	0	

Apply twice

1 (d) (ii) Which of the actions that you identified in **question 1 (d) (i)** would you recommend Dan takes? Justify your recommendation. *(6 marks)*

Note: AO3 also assesses candidates' quality of written communication. When deciding on the AO3 level to be awarded, consider the degree to which the candidate orders and communicates his/her ideas.

Level	Descriptor	Marks	Assessment Objective
3	Candidate offers judgement with justification. Ideas are communicated using a clear structure and use of technical terms.	5–6	AO3 and Quality of Written Communication
2	Candidate offers judgement with some justification. Ideas are communicated with some structure and use of technical terms. There are occasional errors in accepted conventions of written communication.	3–4	
1	Candidate offers unsupported judgement. Ideas are communicated in a simplistic way with limited use of technical terms. Errors in accepted conventions are noticeable.	1–2	
0	No valid response	0	

2**Total for this question: 15 marks**

2 (a) Identify and explain **two** actions that Dan could take to improve the cash-flow position of *Dan's Diner*. *(10 marks)*

Actions can include:

- delay in replacement of new equipment;
- employing less waiters/waitresses;
- leasing van instead of buying;
- overdraft;
- bank loan;
- offering less credit period or no credit period at all for the outside catering service.

Level	Descriptor	Marks	Assessment Objective
3	Candidate clearly explains action(s) that Dan could take to improve the cash-flow.	4–5	AO2
2	Candidate explains action(s) that Dan could take to improve the cash-flow.	2–3	
1	Candidate identifies action.	1	AO1
0	No valid response.	0	

Apply twice

2 (b) Which of the actions that you identified in **question 2 (a) (i)** would you recommend Dan takes? Justify your recommendation. *(5 marks)*

Note: AO3 also assesses candidates' quality of written communication. When deciding on the AO3 level to be awarded, consider the degree to which the candidate orders and communicates his/her ideas.

Level	Descriptor	Marks	Assessment Objective
2	Candidate offers judgement plus full 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.	4–5	AO3 and Quality of Written Communication
1	Candidate offers judgement plus 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.	1–3	
0	No valid Response.	0	

3

Total for this question: 21 marks

- 3 (a) Complete the following Balance Sheet for *Dan's Diner* as at 31 May 2008 by filling in the shaded boxes below. (3 marks)

Dan's Diner		
Balance Sheet as at 31 May 2008		
	£	£
Fixed assets		
Premises		140 000
Equipment		30 000
		170 000 (1)
Current assets		
Stock	9 000	
Bank	8 000	
Total current assets	17 000	
Less current liabilities		
Creditors	7 000	
Net current assets		10 000 (1)
Net total assets		180 000 (1)
Financed by		
Capital		150 000
Add net profit		30 000
		180 000

Own figure rule applies

- 3 (b)** Dan is considering changing *Dan's Diner* from a sole trader to a limited company. He would then issue shares to investors as an alternative to taking out a bank loan.

Using **Item C** and your answers to **question 3 (a)**, which method of financing the expansion would be better for *Dan's Diner*, a loan from a bank, or issuing shares? Justify your answer. (9 marks)

Relevant answers might include the following:

Bank loan:

- can remain as a sole trader;
- once the loan is paid off the business is still his;
- has to pay interest;
- will need to use assets as security.

Issuing shares:

- no interest to pay;
- as a Ltd Co can bring in more expertise;
- investors may contribute more capital in the future;
- more paperwork (companies house, etc).

Level	Descriptor	Marks	Assessment Objective
2	Candidate explains suitable method of finance for Dan.	3–4	AO2
1	Candidate outlines method of finance.	1–2	AO1
0	No valid response.	0	

In addition and separately award marks for analysis and evaluation using the grid below

Note: AO3 also assesses candidates' quality of written communication. When deciding on the AO3 level to be awarded, consider the degree to which the candidate orders and communicates his/her ideas.

Level	Descriptor	Marks	Assessment Objective
2	Candidate offers judgement with some justification. Ideas are communicated with some structure and use of technical terms. There are occasional errors in accepted convention.	3–5	AO3 and Quality of Written Communication
1	Candidate makes unsupported judgement. Ideas are communicated in a simplistic way with limited use of technical terms. Errors in accepted conventions are noticeable.	1–2	
0	No valid response.	0	

- 3 (c)** Using **Item C**, and your answer to **question 3 (a)**, decide whether or not the bank would be likely to grant *Dan's Diner* a ten year loan for £220 000. Justify your answer. (9 marks)

Relevant answers might include the following:

For:

- at current/expected rate of profit Dan could pay back the loan within the loan period. This does not include any potential profits from the new restaurant;
- he has fixed assets of £170 000 to secure the loan plus the new shop;
- the negative cash-flow is reducing each month;
- ratios show that the business is profitable;
- ratios show that the business is solvent.

Against:

- assumption that the new shop will do as well as current shop. There is not much leeway between the £30 000 profit and the repayments;
- ratios are limited in value, only relevant for year ended/at 31 May 2008;
- profits for the new shop based on estimates.

Apply both grids.

Level	Descriptor	Marks	Assessment Objective
2	Candidate explains reason(s) why the bank would or would not grant the loan to Dan's Diner.	3–4	AO2
1	Candidate identifies reason(s) why the bank would or would not grant the loan.	1–2	AO1
0	No valid response.	0	

In addition and separately award marks for analysis and evaluation using the grid below

Note: AO3 also assesses candidates' quality of written communication. When deciding on the AO3 level to be awarded, consider the degree to which the candidate orders and communicates his/her ideas

Level	Descriptor	Marks	Assessment Objective
2	Candidate makes supported judgement. Ideas are communicated with some structure and use of technical terms. There are occasional errors in accepted convention.	3–5	AO3 and Quality of Written Communication
1	Candidate makes unsupported judgement. Ideas are communicated in a simplistic way with limited use of technical terms. Errors in accepted conventions are noticeable.	1–2	
0	No valid response.	0	

Assessment Grid

Question	AO1	AO2	AO3	Total
1 (a)	4			4
1 (b)		3		3
1 (c)	1	2		3
1 (d) (i)	4	4		8
1(d) (ii)			6	6
2 (a)	2	8		10
2 (b)			5	5
3 (a)	3			3
3 (b)	2	2	5	9
3 (c)	2	2	5	9
Totals	18	21	21	60
Weight (%)	30	35	35	100