# Examiner's Report
# Principal Examiner Feedback

## Summer 2018

Pearson Edexcel GCSE Applied Business
5AB02 Paper 01
Financial Records

**Edexcel and BTEC Qualifications**

Edexcel and BTEC qualifications are awarded by Pearson, the UK's largest awarding body. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information visit our qualifications websites at www.edexcel.com or www.btec.co.uk. Alternatively, you can get in touch with us using the details on our contact us page at www.edexcel.com/contactus.

**Pearson: helping people progress, everywhere**

Pearson aspires to be the world's leading learning company. Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: www.pearson.com/uk

Summer 2018
Publications Code 5AB02_01_Applied Business_55244_1806_ER

## Principal Examiner Report 5AB02
## Staywell Health Club Ltd (SHC)

### Introduction

This was the twelfth and final paper to be sat for the Applied Business qualification (single award). The paper was based on Staywell Health Club Ltd (SHC). 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 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 jeweller, a self-employed photographer, an entertainment company, a company renting hovercraft experiences, a riding centre and this series a health centre.

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 6 and this was indicated by an asterisk (*6).

Centres are also advised to look at the command words at the beginning of each question as many candidates are losing marks through their lack of understanding of these words. For example, 'explain' in question 2b required candidates to explain one reason why calculating its working capital can help SHC manage its business.

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 purposes.

The 60 minutes seemed sufficient time candidates to complete the examiner paper. There were very few gaps and these 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 4b where candidates showed little knowledge of working capital.

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 (e.g. 'see next page' or 'my answer is on the last blank page'). This practice is once again strongly encouraged. Some candidates wrote a great deal for Q6 and therefore needed extra sheets.  Candidates should practice writing more concise answers to this extended question, as the 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 that advises them to use black ink or ballpoint pen.

**Responses to questions**

Q1a to Q1d Overall these multiple-choice questions were answered well and many candidates gained full marks. They lost marks typically by not understanding the purpose of a remittance advice slip.

Q1e SHC is considering expanding the business to offer spa treatments. It understands that this will involve both start-up and running costs.

Q1 (i) Give one example of a start-up cost for SHC.

The question was generally answered well. Most candidates provided an example of a start-up cost but some missed the context of a new spa expansion at SHC and gave ‘gym equipment’ as an answer. As SHC is an established health club it will already own gym equipment therefore these answers cannot be awarded. Many however did apply the scenario well and provide an in-context response e.g. hot tubs, massage tables, initial marketing and brochures. Generic answers such as ‘equipment’ could not be awarded.

Q1 (ii) Outline what is meant by start-up costs.

This question was answered well overall.  Most candidates achieved one mark for outlining what is meant by start-up costs giving answers referring to the costs incurred before trading, but some lost the second mark as frequency of purchase was not mentioned. Many gave further examples of start-up costs but this has already been awarded in 1ei.  Candidates lost marks if they repeated the stem e.g. costs to start up the business, or money you spend at the start.

Q1f (i) Give one example of a running cost for SHC
This question was answered well overall with many relevant examples of running costs for the proposed spa provided e.g. massage oils, toiletries and food for guests. Again, marks could not be awarded for answers that referred to the existing service offered by SHC. Additionally, generic answers such as ‘bills’ could not be awarded.

Q1f (*ii) Outline what is meant by running costs.*

Some candidates struggled to provide a definition of running costs without repeating the stem. Answers should refer to frequency and continuation e.g. running costs are the ongoing costs of the business (1) that are required for the business to continue operating (1).  Many candidates gave further examples of running costs but this has already been awarded in 1fii.  Some candidates limited themselves to one mark as they only gave one point rather than two.

Q2a Identify whether the item listed is a current asset, fixed asset, current liability or long-term liability for SHC.

The question was generally answered well by candidates. The most common misconceptions were that the loan was a current liability rather than a long-term lability, and cleaning equipment was a current rather than a fixed asset.

Q2b Explain one reason why calculating its working capital can help SHC manage its business.

This was one of the weaker responses as candidates displayed little understanding of working capital and few gained full marks. Candidates often gained one mark only for quoting the working capital formula, or for a simple statement about current assets and current liabilities. Candidates who accessed the full range of marks often did so by referring to the use of working capital in relation to the proposed spa expansion, indicating that working capital could be used to see if the business was in debt or could pay off unexpected costs, and to see if money was available for the expansion. Many confused working capital with profits.

Q3a Calculate the invoice
This question was generally answered well with blank responses being rare. Many candidates accessed full marks, showing clear understanding of the calculations required and filling out the invoice correctly. A weaknesses found was using the previous invoice number. Most students entered the address correctly, but it was common to omit the customer name. Some added this underneath the address. The figures were generally used correctly but common errors were adding inaccurate calculation of the 5% discount and 20% VAT figures, and adding the discount and/or subtracting the VAT. Own Figure Rule enabled many of these candidates to score more marks. Learners are encouraged to practise calculating percentages and for centres to reinforce candidate knowledge of adding tax and subtracting discounts. Candidates should also be reminded that the end column for pence requires two figures, whether that be e.g. .00 or .50. Some put numerous digits in the pence column which is not awardable as this would not be acceptable in a professional business accounting document. Figures must have a decimal point followed by two figures for pence.

Q3 (b) Explain why some customers may prefer to use cash rather than a debit card. Candidates frequently struggled to make relevant points as to why some of the customers at SHC would prefer to use cash rather than a debit card. Frequent misconceptions were that customers would need to pay a fee for using debit cards, and that the company may not have a chip and pin machine which was not relevant in the question context. Some candidates obviously confused debit cards with either credit cards or direct debits in their answers. The question was not always read correctly as some candidates referred to the advantages to the business rather than the customers.

A large number of candidates scored zero marks due to them stating that cash was easier/quicker with no consideration of the speed of contactless payments. It appears that many candidates believe that cash is best for smaller payments which in a progressively cashless society is not the case. Others incorrectly stated that 'old people can't use debit cards'.

Candidates who correctly identified the reasons for using cash rather than debit card were usually able to develop their answers well to gain 2 or 3 marks.

A common issue was not making one point and then a linked point to develop their answer, but listing 2 separate reasons that cannot gain full marks. Candidates should be encouraged to focus on the command verb in the question stem, and when asked to 'explain' they should develop one point fully, rather than stating a range of points in their answer.

Q4 Debra has asked you to help construct the Profit and Loss Account (Income Statement) for 2016.

Most candidates completed the profit and loss account (income statement) accurately. Where full marks were not awarded the most common errors were adding the revenue and cost of sales together, placing the cost of sales in the expenses section, totalling the 'total expenses' without including the 'wages and salaries' figure that had already been entered on the statement in their calculation, or failing to write 'net profit' and some added cost of sales to revenue rather than subtracted. Some candidates lost marks through simple calculation errors and all candidates are advised to double-check their answers for accuracy.

Stakeholders of SHC have an interest in the financial statements of the business.

Q5a (i) Identify two of SHC's stakeholders.

Many candidates answered this question well, identifying two relevant stakeholders. A wide range of accurate stakeholders were covered by candidates. A minority of candidates lost a mark by repeating the same stakeholder in their question e.g. 'Shareholder' and 'Owner'.

Q5a (ii) Explain why one of these stakeholders would be interested in the financial statements of SHC.

This question was generally answered well. A few failed to identify the stakeholder or referred to stakeholders in general but most candidates successfully identified a reason for why stakeholders had an interest in the financial statements. Many developed this point further, but many struggled to link the stakeholder interest to an aspect of the financial statements, limiting the marks awarded. Candidates who focussed their answer on the local community, competitors and the government often found it difficult to develop their responses and could often only access one mark for one interest stated. Some candidates correctly identified the customer as a stakeholder, but failed to give a valid interest, often suggesting aspects that would not be provided by financial statements e.g. gives price lists or shows the quality of the customer service. Others gave vague reasons that could not be awarded a mark e.g. 'they want to know how the business is doing'.

Q5 (b) Using the information and the formulae given below, calculate the gross profit margin and net profit margin for 2018.

Candidates could calculate the formulas accurately and very few incorrect responses were seen.

Q5c (i) Outline two possible reasons for the change in gross profit margin between 2017 and 2018.

Most candidates could identify reasons for the change in GPM accurately e.g. 'increase in cost of sales' and 'decrease in sales turnover' and usually gained a second mark by accurately pointing out that the change had subsequently caused the GPM to decrease over the year. Other candidates gained their second mark by outlining that the increase in costs of sales was due to 'increase in cost of supplies/raw materials', in addition to pointing out that sales had decreased due to a 'decrease in memberships/customers at SHC'. In the main candidates that lost marks misinterpreted the data from the table and confused the two years. This led them to believe GPM had increased which was incorrect.

Q5c (ii) Outline one possible reason for the change in net profit margin between 2017 and 2018

Most candidates could identify the reason for the change in NPM e.g. 'lower expenses' and usually gained a second mark by accurately pointing out that this had subsequently caused the NPM to increase over the year. Candidates also frequently stated that the increase in NPM was due to a decrease in lighting/heating/finding cheaper utility deals/cutting staff wages etc. In the main candidates that lost marks misinterpreted the data from the table and confused the two years. This led them to believe NPM had decreased which was incorrect.

Q6 SHC is considering expanding by adding spa treatments to the services it currently offers. It wants to take out a business loan to fund this. SHC knows that the lender will ask to see its annual Profit and Loss Account (Income Statement) and Balance Sheet (Statement of Financial Position). Discuss the importance of these financial statements to the lender in deciding whether to grant the loan.

It was pleasing that there seemed to be very few candidates who did not attempt an answer. Answers were varied, but most candidates could access at least level 2 on this question. Many candidates showed a good knowledge and understanding of the importance of profitability and liquidity to the lender when considering offering a loan. Many candidates however had a better understanding of profit and loss statements than balance sheets.

Candidates at Level 1 provided often only gave generic definitions of the key aspects of Income Statements and Balance Sheets with little or no link to the lender in the question and why they would find these key aspects important to grant a loan.

Candidates frequently were able to access MB2 by accurately developing 2 or 3 points and considering the lenders perspective. Some candidates discussed ratios to support their more developed answers.

Candidates who accessed MB3 usually looked in detail at the lenders need to analyse both of the financial statements and consider the key aspects and conditions in the statements that would make lenders want to grant or refuse the loan. They referred to a number of aspects of the Profit and Loss Account and Balance Sheet e.g. working capital, using fixed assets as collateral, how the business manages expenses etc. Moreover in the higher level responses, a discussion was often present of the need to analyse trends in the financial statements and not just look at them in isolation when granting a loan. More able candidates could also relate the financial statements to the importance of the lender setting their interest rates based on the 'level of risk' involved in the analysis of the statements and often considered 'the available collateral they would see in SHC's balance sheet based on the value of fixed assets in the gym and spa' that could be 'drawn upon in case of a loan default'.

Some learners attempted to assess which document would provide the best information but often concluded a balance of the two plus additional documents would be needed by the bank, and these documents should span the last few years.

Many students ended with a simple statement but no justification.  Any conclusion needs to be justified, as unsupported conclusions cannot be credited. Many candidates concluded with 'I think the bank will want to see both documents before granting a loan'.  This is not a supported conclusion.

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 could fluently structure their answers considering both financial statements 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.

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 e.g. 'Explain…'
- Look for the words in bold in the question e.g. 'Explain one benefit...' means develop one point only, not give a list of benefits.
- Discounts would be deducted from the total, not added
- VAT is added to a total, not subtracted
- Where there are two columns (£ and p) the pence column requires two figures, whether that be e.g. .00 or .50
- If a question has multiple marks one simple statement cannot not gain full marks.
- Answer question parts in the space allocated. If this is not possible e.g. due to deleting a wrong answer in the answer line section, indicate the location of the corrected answer on the paper (e.g. '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.

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:
http://qualifications.pearson.com/en/support/support-topics/results-certification/grade-boundaries.html

Pearson Education Limited. Registered company number 872828
with its registered office at 80 Strand, London, WC2R 0RL, United Kingdom