Examiner’s Report
Principal Examiner Feedback

Summer 2018

Pearson Edexcel GCSE Applied Business
5AB04 Paper 01
Finance Planning and Forcasting

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Principal Examiner Report 5AB04
Isabella Ice Cream Parlour

Introduction

This was the ninth and final paper to be sat for the Applied Business qualification (double award) that is available in June each year. The paper was based on Bella Ice Cream, an ice-cream parlour. 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 some 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 café bar, a farm, a retailer, a bowling alley, a mobile catering service, a kennels, a cleaning business, a business offering party packages and this series an ice-cream parlour. 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. To gain full marks answers that have the command word 'explain' should be developed. Many candidates are submitting a list of bullet points without further development, which cannot gain full marks.

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 although there was some evidence of misreading and/or misinterpretation of the questions and the information provided in some answers. In some cases, it seemed that candidates preferred to write pre-rehearsed answers rather than addressing the exact question set.

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.

Responses to questions

Q1a to Q1d Most candidates answered these multiple-choice questions well, gaining full marks.

Q2a Candidates overall had good knowledge of the meaning of the term 'budget'

Q2b) there was definite problem with budgetary analysis as candidates could not accurately calculate the variances and show them together with the correct sign (+/-). Even where the variances per month were correct the total variance was often added together wrongly as the candidates did not cope well with totaling two favourable and two adverse variances.

Q2c Most candidates identified that *BIC* would need to look at a source of finance to cover the deficit, but although this deficit is shown as only £100 many believed the company would become bankrupt, and many incorrectly believed that simply increasing the budget would solve the issue. Better candidates noted that this was a small amount and as such an overdraft would be the most suitable solution.

Q2d Most candidates answered this question on monitoring of budgets well. Many candidates could fully develop answers and discussed variances and seeking potential remedies. Weaker/wrong answers saw references to it 'stopping overspending' and a great deal of candidates incorrectly stated that using budgets would help 'prevent making a loss', or 'ensuring you make a profit'.

Q2e Most candidates answered this simple multiplication question on a production budget accurately.

Q3a The majority of candidates correctly stated that a cash flow statement shows actual figures whereas a cash flow forecast is a prediction/shows likely figures.

Q3b Although many candidates could complete the blanks in the cash-flow this proved difficult for some. Centres are advised to ensure that candidates have practiced completing both blank and partially completed cash-flow forecast documents.

Q3c The majority of answers gave general, generic uses and benefits of using ICT in business, rather than answering the given question of explaining the benefits to the ice-cream parlour of using ICT for cash flow forecasting. Also as in previous series many candidates made unsupported claims of faster/quicker/easier with no further development. Candidates should be advised that such statements must be clearly supported e.g. 'It is faster than by hand' to gain a mark. Many candidates failed to develop their point further or gave two points and so were limited to one mark. Most answers drew on formulas/automatic recalculation and efficiency to gain marks. It was pleasing to see that some candidates had described modelling and potential for 'what if' formulas.

Q4a Most candidates answered this question well and could explain why the bank would be interested in *BIC's* cash flow forecast before allowing it to borrow money. The majority of candidates could identify that the bank would want to see the forecast as the bank 'would want to know if the business would be able to pay them back'. Some candidates could develop this to explain that poor liquidity would result in it becoming less/more likely for the bank to provide the money. Some candidates made reference to the risk the bank was taking on. Weaker/wrong answers saw references to 'so they can see they are spending on the right things'.

Q4b Venture capital continued to be a problem for candidates as very few scored any marks. Some referenced that *BIC* would lose control, not be able to make own decisions and would lose a percentage stake in the business. Many incorrectly talked about paying them back interest. None stated that the venture capitalist would expect growth or would impose restrictions.

Q5a Many candidates to struggled to differentiate between fixed and variable costs, and few gained full marks. Centres are advised to ensure that candidates have practiced completing similar tables.

Q5b Many candidates drew perfect breakeven graphs but failed to fully label it and so lost marks. A common error was to omit the breakeven point label. The axis were also poorly labeled with 'sales' rather than 'costs and revenues' being used. The title of the graph was often vague and did not refer to BIC e.g. "Break even chart". Some candidates incorrectly circled the break-even point where the fixed costs line crossed the revenue line.

Q5c Most candidates identified that the reduction in price would affect the total revenue and so shift the breakeven point to the right. Some candidates lost marks as they identified the change in the breakeven point but developed this incorrectly by giving a solution e.g. 'so they would have to sell more' rather than outlining the effect on the breakeven point.

Q5d Candidates showed very poor knowledge on margin of safety and the majority failed to gain any marks. Margin of safety was not understood as the amount of sales above the break-even point and before maximum output, most candidates believed that the margin of safety is the point at which you don't make a loss. Candidates are not showing understanding it is there to inform *BIC* on how many sales it could lose before a potential loss. Very few understood the importance of having a 'buffer'.

Q6*This question tested the candidates' ability to **discuss**. Overall this question was answered well, with the majority of candidates falling in level 2. Most candidates attempted to provide a balanced answer by listing advantages and disadvantages of both types of finance then attempting to draw a conclusion, albeit the conclusion was often very weak and unsupported. However the more able candidates were able to access level 3, with answers that had well-justified and balanced conclusions that not only drew out advantages and disadvantages previously discussed but also provided another piece of evidence as support for their choice.

It seems as though a number of candidates failed to read the question correctly, and proposed other options e.g. using venture capital, perhaps carrying this idea over from question 4b.

Common errors were for candidates to confuse leasing and hiring. Leasing was not well understood and candidates are stating that 'you can take them back whenever you like'. Very few understand that leasing is usually a contract for a longer period of time as many are talking of it terms of daily hire. Some candidates confused personal savings and retained profit thus losing marks.

The most common advantage given for taking a lease was to keep the retained profits for other things, and being able to have the vending bikes immediately, with the major disadvantages given being the effect on cash-flow and not owning the vending bikes. Many candidates correctly stated that retained profits would be available immediately without having debt, plus the vending bikes would become a fixed asset. None of the candidates picked up on the problem of branding the leased vending bikes in the context of promoting the ice-cream parlour. Neither did they note the depreciation of the value of the vending bikes as a disadvantage of purchasing.

The most common disadvantages of retained profits given were 'not having enough' or 'not having any money left to spend', and better candidates argued that if they did not have enough they would to also need to find a loan, and that using retained profits may mean that *BIC* may not have any money left as a back-up in case of emergencies.

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. Many candidates need to work on their paragraph structure as responses were completed in 'blocked text', where clear paragraphs were needed.

More able candidates could fluently structure their answers with supported discussion 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. 'Assess...'
- 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
- 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').

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