Past-paper walk-through

Income statements ▪ 5.3

eXercise

Questions in this set

- 0450/13 N25 Q1 ▪ 20 marks
- 0450/12 J25 Q2 ▪ 20 marks

Reading the mark scheme

- **B1** a mark that stands on its own – the point is either made or not.
- **M1** a *method* mark: the right approach, even if the number is wrong.
- **A1** an *answer* mark, and it usually needs its M mark first.
- **C1** a working mark on the way to the answer.
- // separates answers the examiner accepts equally.
- **ecf** = error carried forward: a later part is marked on your own earlier answer.
- **owtte** = "or words to that effect" – the wording need not match.

Question 1

0450/13 N25 ▪ Q1 ▪ 20 marks

1 KPX manufactures computers. The business imports 60% of its raw materials. The Operations Director is considering ways to use lean production methods in KPX's factory. The Finance Director is reviewing KPX's financial data to calculate the value of its expenses. An extract is shown in Table 1.1.

Table 1.1

Extract from KPX's financial data for 2024 ($ million)	
Revenue	750
Cost of sales	360
Gross profit	390
Profit	90

(a) Identify **two** reasons why a business might import raw materials.

Question 1

Question 1

Question 1

Question 1

Question 1

(b) Calculate KPX's expenses in 2024. Show your working.

Question 1

Question 1

(c) Outline **two** ways KPX's Finance Director could use the financial data in Table 1.1.

Question 1

Question 1

(d) Explain **two** methods of lean production KPX could use.

Question 1

Question 1

Question 1

(e) Explain **two** reasons why profit is important for a business. Which reason is likely to be the most important? Justify your answer.

Solution 1

(a) Mark scheme

- Identify two reasons why a business might import raw
- materials.
- Award 1 mark per reason (max 2).
- Points might include:
- ▪
- Not available/limited supply in own country
- ▪
- Lower cost

Solution 1

- ▪
- Better quality
- ▪
- Wider range of materials
- Other appropriate responses should be credited.
- 2 Only award the first two responses given.

Solution 1

(b) Mark scheme

- Calculate KPX's expenses in 2024. Show your working.
- Award 2 marks for a correct answer. Award 1 mark for
- correct method but incorrect answer.
- Correct answer [2] i.e. $300 million
- Correct method but incorrect answer e.g.
- ▪
- Gross profit – profit [1]
- ▪

Solution 1

- $390m$–90m [1]
- If correct answer given with no working shown, award 2
- marks.
- 2 Award only 1 mark if $300 million is written as part of the
- answer but is not given as the final answer.
- For 2 marks answer must be in millions.
- $ sign not required.
- Max 1 for 300 on own.
- 0450/13
- October/November 2025

Solution 1

- Guidance

Solution 1

(c) Mark scheme

- Outline two ways KPX's Finance Director could use the
- financial data in Table 1.1.
- Award 1 mark for each relevant way (max 2).
- Award 1 mark for each relevant reference to this business
- (max 2).
- Points might include:
- ▪
- Show whether made a profit [k] which is $90m [app]

Solution 1

- ▪
- Calculate profit margin [k] for the factory [app]
- ▪
- Calculate gross profit margin [k] when importing raw
- materials [app]
- ▪
- Help make decisions about whether to continue/stop
- production [k] of computers [app]
- ▪
- To track performance against objectives/time [k]

Solution 1

- ▪
- To compare performance against other businesses [k]
- ▪
- Support a loan application [k]
- Other appropriate responses should be credited.
- 4 To use words from the stem as application, the reference
- must be appropriate (i.e. make sense) in relation to the point
- being made.
- The following words are likely to be appropriate for this
- question:

Solution 1

- ▪
- Computers
- ▪
- Factory
- ▪
- Imports raw materials / 60% of raw materials
- ▪
- Lean production
- ▪
- $750m (revenue)

Solution 1

- ▪
- \$360m (cost of sales)
- ▪
- \$390m (gross profit)
- ▪
- \$90m (profit)
- ▪
- 52% (gross profit margin)
- ▪
- 12% (profit margin)

Solution 1

- ▪
- \$300 m (expenses) OFR applies
- Other appropriate examples can be credited.
- Award ‘Use ratio analysis’ where no specific examples
- given.
- 0450/13
- October/November 2025
- Guidance

Solution 1

(d) Mark scheme

- Explain two methods of lean production KPX could use.
- Award 1 mark for identification of each relevant method
- (max 2).
- Award 1 mark for each relevant reference to this business
- (max 2).
- Award 1 mark for each relevant explanation (max 2).
- Points might include:
- ▪

Solution 1

- Just-in-time (inventory control) / JIT [k] when importing
- raw materials [app] reducing amount of space /
- inventory held / lower storage costs [an]
- ▪
- Kaizen [k] to help eliminate mistakes/errors [an] when
- making computers [app]
- Other appropriate responses should be credited.
- 6 To use words from the stem as application, the reference
- must be appropriate (i.e. make sense) in relation to the point
- being made.

Solution 1

- The following words are likely to be appropriate for this
- question:
- ▪
- Computers
- ▪
- Factory
- ▪
- Imports raw materials / 60% of raw materials
- ▪
- $750m (revenue)

Solution 1

- ▪
- \$360m (cost of sales)
- ▪
- \$390m (gross profit)
- ▪
- \$90m (profit)
- ▪
- 52% (gross profit margin)
- ▪
- 12% (profit margin)

Solution 1

- ▪
- $300 m (expenses) OFR applies
- Other appropriate examples can be credited.
- Analysis can focus on explaining how the method works or
- an advantage of using the method.
- Some points can used as [an] of different methods, but only
- award once e.g. lower cost, fewer mistakes.
- 0450/13
- October/November 2025
- Guidance

Solution 1

(e) Mark scheme

- Explain two reasons why profit is important for a
- business. Which reason is likely to be the most
- important? Justify your answer.
- Award up to 2 marks for identification of relevant points.
- Award up to 2 marks for relevant development of points.
- Award up to 2 marks for a justified decision about which
- reason is likely to be the most important.
- Points might include:

Solution 1

- ▪
- Provides a source of funds [k] as no interest to pay [an]
- ▪
- Reward for risk-taking [k] as owners invest their money
- in hope of making a return on investment / motivate
- them to continue [an]
- ▪
- Represents a return on shareholder/owner's
- investment/enterprise [k] as otherwise they could invest
- elsewhere [an]

Solution 1

- ▪
- Help attract investors/finance [k] which could help the
- business to expand [an]
- ▪
- Measure of success [k] as low profit could suggest the
- business is not worth continuing/starting up [an]
- ▪
- Need for long-term survival [k]
- Other appropriate responses should be credited.
- Justification might include:

Solution 1

- It can provide a source of funds [k] for which there is no
- interest to pay [an]. It is also a reward for risk-taking [k] as
- owners invest their money in the hope of making a return on
- their investment [an].
- Providing a source of funds is most important because if
- successful, this could provide the owners with more profit in
- the future [eval] which may even lead to greater returns for
- owners [eval].
- 6 This is a general question so there are no marks for
- application.

Solution 1

- To access evaluation must discuss two reasons.
- For evaluation to be awarded justification will usually follow
- on from relevant analysis of points.
- Some [an] can be used for more than one reason but only
- award once.
- 0450/13
- October/November 2025
- Guidance

Question 2

0450/12 J25 ▪ Q2 ▪ 20 marks

2 FLD is a furniture retailer. It has 460 shops and 20 000 employees. Internal recruitment is used when recruiting new shop managers. The Managing Director wants to know whether job rotation is the best method of motivation for a large business to use. The Finance Director is reviewing FLD's income statement. An extract is shown in Table 2.1. She is concerned that FLD's gross profit is decreasing.

Table 2.1

Extract from FLD's income statement for year ending April 2025 ($ million)	
Revenue	400
Gross profit	200
Expenses	60
Profit	140

(a) Define 'profit'

Question 2

(a) Define "profit".

Question 2

(b) Identify **two** expenses a business might have.

Question 2

Question 2

Question 2

Question 2

(c) Outline **two** possible reasons why FLD's gross profit is decreasing.

Question 2

Question 2

(d) Explain **two** advantages to FLD of using internal recruitment when recruiting new managers.

Question 2

Question 2

Question 2

(e) Do you think job rotation is the best method for a large business to use to motivate its employees? Justify your answer.

Solution 2

(a) Mark scheme

- Define ‘profit’.
- Award 2 marks for a full definition. Award 1 mark for a partial
- definition.
- ▪
- (Total) income of a business (revenue) less total cost [2]
- ▪
- (Total) revenue minus total costs [2]
- ▪

Solution 2

- Difference between revenue and total cost [2]
- ▪
- Gross profit – expenses [2]
- Partial definition e.g.
- ▪
- Revenue minus costs [1]
- Other appropriate responses should also be credited.
- 2 Max 1 mark if refer to money rather than revenue/income.
- 0450/12
- May/June 2025

Solution 2

- Guidance

Solution 2

(b) Mark scheme

- Identify two expenses a business might have.
- Award 1 mark for each expense (max 2).
- Points might include:
- ▪
- Rent
- ▪
- Rates
- ▪

Solution 2

- Electricity/gas/heating/lighting/water/utilities
- ▪
- Insurance
- ▪
- Interest
- ▪
- Storage
- ▪
- Marketing/advertising
- ▪

Solution 2

- Salaries
- ▪
- Maintenance/repairs
- ▪
- Phone/internet
- Other appropriate responses should be credited.
- 2 Only award the first two responses given.
- 0450/12
- May/June 2025
- Guidance

Solution 2

(c) Mark scheme

- Outline two possible reasons why FLD's gross profit is
- decreasing.
- Award 1 mark for identification of each relevant reason (max
- 2).
- Award 1 mark for each relevant reference to this business
- (max 2).
- Points might include:
- ▪

Solution 2

- Low/fall in amount of sales/demand/customers [k] at its
- 460 shops [app]
- ▪
- Change in price / increase/decrease (selling) price [k]
- for the retailer [app]
- ▪
- Increase in cost of sales /variable cost / increase in cost
- of inventory [k] so gross profit is at $200 million [app]
- Other appropriate responses should be credited.
- 4 To use words from the stem as application, the reference

Solution 2

- must be appropriate (i.e. make sense) in relation to the point
- being made.
- The following words are likely to be appropriate for this
- question:
- ▪
- Furniture or related words e.g. chair
- ▪
- 460 (locations)
- ▪
- Large business

Solution 2

- ▪
- Shop/retailers
- ▪
- 20 000 employees
- ▪
- $400 million (revenue)
- ▪
- $200 million (gross profit)
- Other appropriate examples can be credited.
- Accept decreased revenue where no specific examples

Solution 2

- given e.g. fall in number of sales/change in price.
- 0450/12
- May/June 2025
- Guidance

Solution 2

(d) Mark scheme

- Explain two advantages to FLD of using internal
- recruitment when recruiting new managers.
- Award 1 mark for each relevant advantage (max 2).
- Award 1 mark for each relevant reference to this business
- (max 2).
- Award 1 mark for each relevant explanation (max 2).
- Points might include:
- ▪

Solution 2

- Cheaper/lower advertising costs (than external
- recruitment) [k] so lower/maintain expenses [an] of $60
- million [app]
- ▪
- Already knows the business/how the business works [k]
- so can be productive sooner [an] to help sell furniture

app

- ▪
- Less/no (induction) training needed [k]
- ▪

Solution 2

- Can motivate employees [k] at the 460 locations [app]
- reducing labour turnover/increase employee
- loyalty/increase sales [an]
- ▪
- The business knows the person/their
- ability/reliability/potential/can trust them [k] reducing
- chance of selecting the wrong person [an]
- ▪
- Recruitment is quicker [k] so able to focus on other
- business tasks [an] such as increasing its revenue

Solution 2

- above $400 million [app]
- Other appropriate responses should be credited.
- 6 To use words from the stem as application, the reference
- must be appropriate (i.e. make sense) in relation to the point
- being made.
- The following words are likely to be appropriate for this
- question:
- ▪
- Furniture or related terms e.g. chair
- ▪

Solution 2

- 460 (locations)
- ▪
- Large business
- ▪
- Shop/retailers
- ▪
- 20 000 employees
- ▪
- $60 million (expenses)
- ▪

Solution 2

- \$400 million (revenue)
- ▪
- \$200 million (gross profit)
- Other appropriate examples can be credited.
- 0450/12
- May/June 2025
- Guidance

Solution 2

(e) Mark scheme

- Do you think job rotation is the best method for a large
- business to use to motivate its employees? Justify your
- answer.
- Award up to 2 marks for identification of relevant points.
- Award up to 2 marks for relevant development of points.
- Award up to 2 marks for a justified decision as to whether
- job rotation is the best method for a large business to use to
- motivate its employees.

Solution 2

- Points might include:
- Job rotation:
- ▪
- More flexible/gain new skills [k] leading to higher
- productivity [an]
- ▪
- Can cover/replace others when someone is absent [k]
- so may be able to meet an order on time [an]
- ▪
- Makes the work more interesting/less boring for

Solution 2

- employees [k] so lower absenteeism/labour
- turnover/increase productivity [an]
- ▪
- Increased training needed [k] increasing costs/expenses

an

- ▪
- Workers may not be willing/able to do different tasks [k]
- lowering quality/increasing waste/leading to mistakes

an

- ▪

Solution 2

- Takes time to switch to/learn different tasks [k]
- Other methods might include:
- ▪
- Job enrichment [k] adding more
- responsibilities/challenging work/making workers feel
- more valued/recognised/trusted [an]
- ▪
- Bonus [k] only pay out if target reached [an]
- ▪
- Praise [k] involves no additional cost [an]

Solution 2

- ▪
- Training [k] which provides new skills [an]
- ▪
- Promotion (opportunities) [k]
- Other appropriate responses should be credited.
- 6 This is a general question so there are no marks for
- application.
- To access knowledge candidates must name and not simply
- describe the method.
- For evaluation to be awarded justification will usually follow

Solution 2

- on from relevant analysis of points.
- 0450/12
- May/June 2025
- Guidance
- Justification might include:
- One advantage is the work is less boring for employees [k]
- which can lower absenteeism [an]. Another method is
- increasing wages [k] but this will increase expenses [an].
- Job rotation is best for a large business because lower
- absenteeism would reduce costs of bringing in additional

Solution 2

- employees [eval] which could offset the higher labour costs
- for a large business which is likely to have many employees

eval .

- Guidance