



General Certificate of Education

Applied Business 8611/8613

BS03 Financial Planning and Monitoring

Mark Scheme

2007 examination - June series

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

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	Assessment Objectives
	The Assessment Objectives represent those qualities which can be demonstrated in candidates' work and which can be measured for the purposes of assessment.
AO1 Knowledge, skills and understanding	Candidates demonstrate knowledge and understanding of the specified content and relevant business skills.
AO2 Application of knowledge, skills and understanding	Candidates apply knowledge and understanding of the specified content and relevant business skills.
AO3 Research and analysis	Candidates use appropriate methods in order to obtain and select information from a range of sources to analyse business problems.
AO4 Evaluation	Candidates evaluate evidence to reach reasoned judgements.
Quality of Written Communication	<p>The quality of written communication is assessed in all assessment units where candidates are required to produce extended written material. Candidates will be assessed according to their ability to:</p> <ul style="list-style-type: none"> • select and use a form and style of writing appropriate to purpose and complex subject matter • organise relevant information clearly and coherently, using specialist vocabulary when appropriate • ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear. <p>The assessment of the quality of written communication is included in Assessment Objective 4.</p>

1

Total for this question: 10 marks

*Drawing on your pre-examination research, select **two** sources of finance that you think Martyn Ltd should use to raise the £7.4 million required to buy the organic farm and launch the new 'Active' range. In each case, explain the benefits to the company of using your chosen source of finance.*

(10 marks)

Apply the marking grid below twice.

Level	Descriptor	Marks	Assessment Objective
4	Candidate offers analysis of source in context.	4–5	AO3
3	Candidate explains benefits of source/develops in context.	3	AO2
2	Candidate develops relevant source.	2	AO1
1	Candidate identifies relevant source.	1	

Relevant answers should include the following:

- the company could take out a bank loan/debenture for some or all of the finance required
 - with a loan a fixed rate of interest might be negotiated
 - this means that the family can retain control of the business
 - the company has assets (the farm or Dundee factory) to use as collateral
 - the company may be regarded as low risk and receive a favourable rate of interest
- the company could use some of its profits
 - these amounted to £3.37 million in the last financial year
 - this is a 'free' source of finance and family members might be prepared to forego dividends
- the company could sell some of its assets
 - it has surplus buildings on its site in Dundee
 - it could sell the entire Dundee site and relocate outside the city – possibly even nearer to the organic farm raising large amounts of capital
 - there would not be a cost in terms of interest rates attached to this source of finance
- the company could change its policy and invite outside investors/sell shares as plc
 - this could bring large sums of money into the business
 - it may also bring in new ideas and expertise
 - the company would not be committed to a fixed interest payment as in the case of loans
- use the services of a venture capitalist
 - provide advice and support for the major project
 - lender of last resort
 - some finance provided in form of shares helping cash flow.

2

Total for this question: 10 marks

(a) Use the information in **Item A** to calculate the forecast profit from the 'Active' range in the financial year 2008–2009. You should show your workings. (6 marks)

Level	Descriptor	Marks	Assessment Objective
4	Candidate calculates answer correctly.	6	AO2
3	Candidate makes good attempt at calculation.	5	
2	Candidate makes attempt at calculation demonstrating understanding of concept.	3–4	
1	Candidate shows understanding of profit, eg by writing down relevant formula.	1–2	AO1

(i) Profit = total revenue – total costs

$$\text{Total revenue} = £2.50 \times 4\,000\,000 = £10\,000\,000$$

$$\text{Total costs} = £2\,200\,000 + (£1.75 \times 4\,000\,000) = £9\,200\,000$$

Profit = £800 000

(ii) Profit = total contribution – fixed costs

$$\text{Total contribution} = (2.50 - 1.75) \times 4\,000\,000 = £3\,000\,000$$

$$\text{Fixed costs} = £2\,200\,000$$

Profit = £800 000

<p>(b) Explain how each of the two information resources listed below might help Martyn Ltd's Board of Directors to take a decision on whether to launch the 'Active' range.</p> <p>(i) Information on the market</p> <p>(ii) Information on suppliers</p>	(4 marks)
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Apply the marking grid below twice.

Level	Descriptor	Marks	Assessment Objective
2	Candidate offers explanation of value of resources.	2	AO2
1	Candidate states value of resources.	1	AO1

Relevant answers might include the following:

Market information:

- the trends of sales for the products in the 'Active' range – low sugar jams, squeezable jars of honey etc will help to forecast production levels
- actions of competitors such as *Wilkin & Sons* might assist with pricing decisions
- expected income levels might help to forecast sales and production.

Supplier information:

- delivery records/reliability for suppliers of jars and other organic fruit will be essential to decide levels of stocks
- delivery records/reliability for suppliers of jars and other organic fruit will be essential to determine production levels
- quality of products supplied will impact on pricing and promotional decisions.

3

Total for this question: 24 marks

(a) Complete Fiona's cash flow forecast in **Item B** by filling in the shaded boxes. (4 marks)

'Active' Range Cash Flow Forecast July to October 2008

	July £	August £	September £	October £
Cash sales	43 250	66 600	70 000	68 100
Credit sales	121 500	334 400	687 500	757 300
Total cash inflow	164 750	401 000	757 500	825 400
Raw materials, eg jars and labels	94 500	97 440	101 050	104 010
Purchases of fruit	165 125	190 900	191 650	186 740
Interest payments	80 000	81 300	83 870	82 000
Wages	246 760	260 700	264 120	264 430
Other costs, eg fuel	93 500	88 420	89 460	91 240
Total cash outflow	679 885	718 760	730 150	728 420
Net cash flow	(515 135)	(317 760)	27 350	96 980
Opening balance	500 000	(15 135)	(332 895)	(305 545)
Closing balance	(15 135)	(332 895)	(305 545)	(208 565)

Award **one mark** for each correct answer (no OFR).

(b) *Some directors think that launching the 'Active' range will cause significant cash flow problems, but Fiona disagrees.*

Analyse the arguments on both sides and state which opinion you think is correct. You should justify your view. (10 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate offers analysis of points in context.	5–6	AO3
2	Candidate provides explanation of points.	3–4	AO2
1	Candidate states relevant points.	1–2	AO1

Relevant answers might include the following:

For the other directors' views:

- the project has a large negative cash figure from the outset despite the injection of £500 000 in July
- the figure is rising in August and remains high in September
- the company will need to make some arrangements to cover this cash imbalance
- this is a forecast and may be optimistic (especially as Fiona is very keen on this project).

For Fiona's view:

- a negative cash figure is not unusual at the start of a new enterprise such as the 'Active' range
- after an initial rise in July and August the negative cash balance starts to fall
- the company is probably offering trade credit to help to launch the 'Active' range and this will distort the figures
- if current trends continue the balance should be positive within a few months.

In addition (and separately) award marks for evaluation using the grid below.

Note: AO4 also assesses candidates' quality of written communication. When deciding on the AO4 level to be awarded, consider the degree to which the candidate orders and communicates his/her ideas.

Level	Descriptor	Marks	Assessment Objective
E2	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.	3–4	AO4 and Quality of written communication
E1	Candidate offers judgement plus limited justification. Ideas are communicated with some structure evident with occasional use of technical terms. There are some errors in accepted conventions of written communication.	1–2	

(c) *Fiona has drawn up a business plan for the farm and the 'Active' range. Explain two benefits that the company might receive as a result of this action. (10 marks)*

Apply the marking grid below twice.

Level	Descriptor	Marks	Assessment Objective
3	Candidate offers explanation in context.	4–5	AO3
2	Candidate offers explanation of possible benefit.	2–3	AO2
1	Candidate identifies relevant benefit.	1	AO1

Relevant answers might include the following:

- this is a new venture for *Martyn Ltd* and compiling the business plan offers the opportunity for in-depth research
- the company is likely to require some external finance, possibly from a bank and so the business plan will be needed as evidence before production takes place
- the plan will indicate in advance whether the project is likely to be profitable and allow comparisons with an alternative project
- the plan is important in advance as it will allow the company to spot possible periods of cash flow problems permitting timely action to be taken
- this is a long-term project and it is important to monitor its progress to see that all progresses as expected
- *Martyn Ltd* produces many products and it will be easy for managers to take their eyes off the 'Active' range – the plan encourages and allows monitoring.

4

Total for this question: 16 marks

A private investor is considering investing £1 million in Martyn Ltd to help to finance the 'Active' range of products.

Examine the case for and against this course of action and recommend whether or not she should make the investment. You should justify your decision. (16 marks)

Level	Descriptor	Marks	Assessment Objective
5	Candidate offers analysis of argument in context.	9–10	AO3
4	Candidate offers analysis of argument or explanation in context.	7–8	
3	Candidate offers explanation/selects appropriate evidence.	5–6	AO2
2	Candidate develops relevant point(s).	3–4	AO1
1	Candidate states relevant point(s).	1–2	

Relevant answers might include the following arguments:

For investing in *Martyn Ltd*:

- *Martyn Ltd* is a long established company and is profitable (£3.37 million before tax last year)
- the company is looking to expand into new (and growing) markets and this could prove to be a good time to invest
- the 'Active' range project is expected to be profitable (OFR) and is forecast to make £800 000 in its first year
- sales of the new 'Active' range are rising strongly over the first few months of production
- the cash situation for the new 'Active' range looks positive in the medium term.

Against investing in *Martyn Ltd*:

- the company is selling in a market which is in general decline as consumers become more health conscious
- the company faces tough competition from *Wilkin & Sons* and *Baxter's* in its most profitable markets
- the company's profits before tax (£3.37m) are relatively low when judged against its turnover
- investing £1 million would not give the investor much say in decisions and the family may be resistant to new ideas
- is the move to health conscious eating a short-term fad and this investment may be unprofitable in the long-term
- much of the financial data available relates only to the 'Active' range of products.

In addition (and separately) award marks for evaluation using the grid below.

Note: AO4 also assesses candidates' quality of written communication. When deciding on the AO4 level to be awarded, consider the degree to which the candidate orders and communicates his/her ideas.

Level	Descriptor	Marks	Assessment Objective
E3	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.	5–6	AO4 and Quality of written communication
E2	Candidate offers judgement plus incomplete justification. Ideas are communicated with some structure evident with occasional use of technical terms. There are some errors in accepted conventions of written communication.	3–4	
E1	Candidate offers judgement plus an attempt at justification. Ideas are communicated in a simplistic way with limited use of technical terms. There are noticeable errors in accepted conventions of written communication.	1–2	