



**General Certificate of Education (A-level) Applied
June 2013**

Applied Business

BS03

**(Specification
8611/8613/8616/8617/8619)**

**Unit 3: Financial Planning and Monitoring
(External Test)**

Final

Mark Scheme

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	Assessment Objectives
	The Assessment Objectives represent those qualities which can be demonstrated in students' work and which can be measured for the purposes of assessment.
AO1 Knowledge, skills and understanding	Students demonstrate knowledge and understanding of the specified content and relevant business skills.
AO2 Application of knowledge, skills and understanding	Students apply knowledge and understanding of the specified content and relevant business skills.
AO3 Research and analysis	Students use appropriate methods in order to obtain and select information from a range of sources to analyse business problems.
AO4 Evaluation	Students evaluate evidence to reach reasoned judgements.
Quality of Written Communication	<p>The quality of written communication is assessed in all assessment units where students are required to produce extended written material. Students 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

1	<p><i>Drawing on your pre-examination research, analyse two actions that Jem might take to improve the cash flow position of MT Ltd.</i></p> <p><i>(You should not spend more than ten minutes on this question.) (10 marks)</i></p>
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Level	Descriptor	Marks	Assessment Objective
4	Analyses action(s) in context.	10–8	AO3
3	Explains action(s) in context.	7–5	AO2
2	Explains relevant action(s).	4–3	AO1
1	Identifies relevant action(s) or displays relevant knowledge.	2–1	

Relevant answers might include the following:

- cash flow is the movement of money in and out of a business over time.

Possible themes for application:

- costs of raw materials have risen, sometimes unexpectedly
- suppliers expect payment within a relatively short period of 21 days
- Jem only asks for a 10% deposit and may wait six months for the balance
- customers often take a considerable time to pay the 90% balance – up to 60 days
- the company has a good relationship with its bank, meaning that it may be able to negotiate an increased overdraft on favourable terms.

Possible lines of analysis:

- the company could seek to delay its outflows to suppliers and to speed up inflows from customers which may offer a ‘free’ solution to this problem
- the company can ask for a larger initial payment meaning that it will receive cash inflows earlier, whilst the timing of its outflows should not change
- factoring debts is one way in which the company can ensure cash inflows are received earlier by ‘selling’ debts to a bank, although this will reduce the profit margin
- the company may use a debt collecting agency to seek earlier payment of overdue debts although this may not improve its corporate image
- negotiating an overdraft or an increased overdraft with the bank is possible and, although this may be available quickly, it is likely to be a relatively expensive option.

2

Total for this question: 23 marks

2 (a) Calculate the number of properties that Jem would need to thatch each year to break even, if he produces his own straw. (6 marks)

Correct answer:

8 properties (6 marks)

Break-even output = fixed costs ÷ contribution per unit

Break-even output = fixed costs ÷ (selling price per unit – variable costs per unit)
(Award **2 marks** for either of these formulae in the absence of any relevant calculations).

Contribution = selling price – variable costs (**1 mark**)

Fixed costs = £42 000

Selling price = £18 250

Total variable costs per property = £6 500 + £3 750 + £2 750 (**1 mark**) = £13 000 (**1 mark**)

Break even = £42 000 (**1 mark**) ÷ (£18 250 - £13 000) (**1 mark**)

Break even = £42 000 ÷ £5 250 (**1 mark**) = 8 properties (**1 mark**)

2 (b) Explain why Jem might have been concerned about the amount of resources he would need if he decided to produce his own straw for thatching. (7 marks)

Level	Descriptor	Marks	Assessment Objective
3	Offers explanations in context.	7–5	AO2
2	Explains reasons for concerns.	4–3	AO1
1	States points/shows relevant knowledge.	2–1	

Relevant answers might include the following:

- there is a need for information resources as he knows very little about farming and may need assistance in this regard
- the amount of physical resources required is considerable (£155 000) in relation to his profits last year (£17 000)
- Jem knows 'relatively little' about agriculture and may experience problems in buying suitable equipment at a fair price
- he may also need a temporary employee with knowledge and experience of agriculture, further adding to his costs.

2 (c) Do you think that the use of break-even analysis would help Jem to manage his business more effectively? Use **Item A** to justify your view. (10 marks)

Level	Descriptor	Marks	Assessment Objective
3	Offers analysis of point(s) in context.	6–5	AO3
2	Explains point(s), in context	4–3	AO2
1	States relevant points.	2–1	AO1

Relevant answers might include the following:

- break-even is the level of output at which total costs equal total revenues.

Possible themes for application:

- the price charged for each property thatched varies according to its size
- the bank manager believes that some of the company's costs are semi-variable
- the costs of the newly expanded business are uncertain – he may need to hire a temporary employee, for example.

Possible lines for analysis:

Arguments against the use of break-even:

- if a business does not charge a single price it is difficult to calculate break-even analysis correctly because contribution per unit will vary
- if costs cannot be divided simply into fixed and variable it is difficult to complete the calculation using the formula.

Arguments in favour of the use of break-even:

- this is a simple technique which can be used to judge whether a project is worthwhile
- it is possible to model a number of 'what if' situations if operating in a changing business environment.

See next page for Evaluation.

For AO4, you should award marks using the scheme below.

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

NB: If student only discusses one aspect of the question, award maximum Level 2 (E2).

Level	Descriptor	Marks	Assessment Objective
E3	Offers developed judgement which is supported well. Judgement is coherent in the context of the scenario. Answer has a logical structure with effective use of technical terms.	4	AO4 and quality of written communication
E2	Offers judgement plus attempted justification. Judgement is in the context of the scenario. Evidence of a logical structure and some use of technical terms.	3–2	
E1	Offers judgement which is not supported. Limited evidence of a logical structure and little use of technical terms.	1	

Possible themes for evaluation:

- it may be that break-even analysis is more effective when used in a manufacturing business with standard products and a single price
- perhaps Jem should simply calculate his expected profits if he does produce his own straw
- the business is operating in a changeable environment and break-even is a useful 'rule of thumb' technique in such a situation.

3

Total for this question: 11 marks

3 (a) Complete the cash flow forecast for the 'Wheat Project' below by filling in the blank shaded spaces. (3 marks)

The 'Wheat Project' cash flow forecast, January – December 2014

	January – March £	April – June £	July – September £	October – December £
Sales revenue from grain and surplus straw	0	0	13 050	4 800
Bank loan	155 000	0	0	0
Total cash inflow	155 000	0	13 050	4 800
Purchase of land and equipment	121 000	32 525	2 015	0
Interest and loan repayments	1 780	1 780	1 780	1 780
Wages	1 750	1 600	3 500	2 150
Other costs, eg transport	825	645	1 215	860
Total cash outflow	125 355	36 550	8 510	4 790
Net cash flow	29 645	(36 550)	4 540	10
Opening balance	0	29 645	(6 905)	(2 365)
Closing balance	29 645	(6 905)	(2 365)	(2 355)

Award **one mark** for each correct answer.

3 (b) *Analyse the possible reasons why Jem’s cousin advised Jem to sell shares rather than use a bank loan to raise the funds needed for the ‘Wheat Project’.*
(8 marks)

Level	Descriptor	Marks	Assessment Objective
4	Analyses why Jem should sell shares in context.	8–7	AO3
3	Explains reason(s) in context.	6–4	AO2
2	Explains reason(s).	3–2	AO1
1	States relevant benefit/shows relevant knowledge.	1	

Relevant answers might include the following:

Possible themes for application:

- Jem’s business is a company and he owns 85% of the shares in *MT Ltd*, so control should not be an issue
- Jem’s cousin is keen to invest further
- the cash flow forecast for the ‘Wheat Project’ shows a series of negative balances because loan repayments amount to £1780 a quarter causing cash outflows of £7120 a year.

Possible lines for analysis:

- a bank loan commits a business to regular payments each month, irrespective of how the business is performing
- interest rates can increase raising the cost of this type of finance
- shareholders may only expect a dividend if the business is profitable, reducing pressure on entrepreneurs
- this can be a cost-effective approach for a private company.

4

Total for this question: 16 marks

4	<p><i>Using your pre-examination research and all of the information available to you, analyse the case for and against MT Ltd going ahead with the 'Wheat Project' and producing its own straw for thatching. You should advise Jem on whether he should go ahead with this project and justify your decision.</i></p> <p style="text-align: right;"><i>(16 marks)</i></p>
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Level	Descriptor	Marks	Assessment Objective
5	Offers analysis of both sides of argument in context.	10–9	AO3
4	Offers analysis of one side in context.	8–7	
3	Offers explanation in context.	6–4	AO2
2	Explains point(s).	3–2	AO1
1	States relevant points.	1	

Relevant answers might include the following:

Possible themes for application:

- the cash flow forecast records negative balances from April onwards
- without a bank loan the cash flow forecast would be positive apart from the second quarter (NB: calculation is possible here)
- the demand for long straw thatching is growing in popularity and is supported by some preservation societies and county councils
- some new homes are being built with traditionally thatched roofs
- improved security of supply of long straw for the thatching side of the business
- there is often a shortage of long straw for thatching and prices have been rising
- *MT Ltd* is forecast to break even by replacing fewer roofs if it grows its own straw
- the bank manager was supportive of the project
- Jem's cousin believed that costs and prices relating to this project could change 'significantly'.

Possible lines for analysis:

- the forecast profits or profitability is a vital element of making a decision such as this. If either increases, it may be worth undertaking
- the cash position of the business is a vital indicator of whether the project should go ahead – not simply the balance but whether the trend is improving or otherwise
- the quality of financial planning is an important factor in judging the likely success of a project
- the forecast trend of sales in the relevant market is an important indicator of the likely success of a new enterprise as it reveals expected revenue streams and this has implications for profit levels
- the state of the market helps determine the likely success of a project. If demand is rising for the product then this is likely to provoke higher prices and constant sales
- the reliability of the data is an important factor – otherwise financial forecasts may prove inaccurate.

For **AO4**, you should award marks using the scheme below.

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

Level	Descriptor	Marks	Assessment Objective
E3	Offers developed judgement which is supported well. Judgement is coherent in the context of the scenario. Answer has a logical structure with effective use of technical terms.	6–5	AO4 and Quality of written communication
E2	Offers judgement plus attempted justification. Judgement is in the context of the scenario. Evidence of a logical structure and some use of technical terms.	4–2	
E1	Offers judgement which is not supported. Limited evidence of a logical structure and little use of technical terms.	1	

Possible themes for evaluation:

- this could be a relatively high risk project in that both costs and prices could change significantly
- it is not clear whether the 'Wheat Project' will make a profit, although it should improve the profits of the wider business. The latter is important as *MT Ltd* is only making small profits - £17 000 in the previous year
- the bank manager and Jem's cousin have faith in Jem's abilities and are prepared to put money into his enterprise
- the business faces ongoing cash flow problems (which have become urgent) and this new project may not help to improve liquidity, especially if Jem takes out a bank loan.