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# Level 3 Certificate/Extended Certificate Applied Business ABS1

Unit 1 Financial planning and analysis

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**Mark scheme**

January 2018

Version: 1.0 Final



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Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Assessment Writer.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Further copies of this mark scheme are available from [aqa.org.uk](http://aqa.org.uk)

## Level of response marking instructions

Level of response mark schemes are broken down into levels, each of which has a descriptor. The descriptor for the level shows the average performance for the level. There are marks in each level.

Before you apply the mark scheme to a student's answer read through the answer and annotate it (as instructed) to show the qualities that are being looked for. You can then apply the mark scheme.

### Step 1 Determine a level

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptor for that level. The descriptor for the level indicates the different qualities that might be seen in the student's answer for that level. If it meets the lowest level then go to the next one and decide if it meets this level, and so on, until you have a match between the level descriptor and the answer. With practice and familiarity you will find that for better answers you will be able to quickly skip through the lower levels of the mark scheme.

When assigning a level you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best fit approach for defining the level and then use the variability of the response to help decide the mark within the level, ie if the response is predominantly level 3 with a small amount of level 4 material it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

### Step 2 Determine a mark

Once you have assigned a level you need to decide on the mark. The descriptors on how to allocate marks can help with this. The exemplar materials used during standardisation will help. There will be an answer in the standardising materials which will correspond with each level of the mark scheme. This answer will have been awarded a mark by the Lead Examiner. You can compare the student's answer with the example to determine if it is the same standard, better or worse than the example. You can then use this to allocate a mark for the answer based on the Lead Examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

Indicative content in the mark scheme is provided as a guide for examiners. It is not intended to be exhaustive and you must credit other valid points. Students do not have to cover all of the points mentioned in the Indicative content to reach the highest level of the mark scheme.

An answer which contains nothing of relevance to the question must be awarded no marks.

Question	Guidance	Mark
1	D	1
2	B	1
3	B	1
4	A	1
5	<p><b>Calculate how many sets of curtains Tim will need to sell each year to break-even. Show your calculations.</b></p> <p>Fixed costs/contribution (sp-vc) = Break even output (1 mark for formula if no calculation).</p> <p>£5000(1)/£20(1) = 250(1) (ofr)</p>	3
6	<p><b>Calculate the profit Asha will make if she sells 1000 units in a year. Show your calculations.</b></p> <p>TR-TC=Profit (1 mark for formula if no calculation).</p> <p>£60000(1) - (12000+40000)(1) = £8000(1) (ofr)</p>	3
7	<p><b>Using the information above, explain why Berwick Sofas Ltd might offer a discount of 10% for payment on delivery.</b></p> <p>1 mark for demonstrating understanding of discounts/profit impact. 1 mark for identifying that a 10% discount would/could improve cash-flow. 1 mark for explaining impact of discount on cashflow.</p>	3

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**Use the information above to analyse the advantages and disadvantages of one appropriate legal structure that Neil and Martyn could use to operate their business.**

Level	Descriptor	Marks
3	Uses the information to analyse the advantages and/or disadvantages of an appropriate legal structure that Neil and Martyn could use to operate their business.	9–7
2	Uses the information to describe legal structure(s) that Neil and Martyn could use to operate their business.	6–4
1	Demonstrates generic understanding of legal structures.	3–1

**Possible responses include:**

Knowledge and Understanding (L1)	Application (L2)	Analysis (L3)
<p>Partnership allows for two or more owners working jointly with the objective of making a profit.</p> <p>Partners have unlimited liability.</p>	<p>They could also allow members of their families to become partners, so they would not need to use all their savings.</p>	<p>A partnership allows the ownership and control to remain between the brothers and within their families which achieves one of their objectives. However, there are some drawbacks:</p> <ul style="list-style-type: none"> <li>• The business will have unlimited liability which means that if the business fails then they could lose their personal possessions.</li> <li>• There is a limit to the number of partners, so this could limit the amount of capital available. However, this would only really be an issue if the business had ambitious expansion plans.</li> </ul>
<p>Private Limited company. Here capital is divided into shares with 51% representing overall control.</p> <p>Shareholders have limited liability.</p>	<p>Neil and Martyn could sell shares to members of their family.</p> <p>Their liability will be limited to their capital contributions so they will not lose their personal assets beyond the savings that they introduced to the business.</p>	<p>A private limited company allows the ownership and control to remain between the brothers and within their families which achieves one of their objectives. It also helps by:</p> <ul style="list-style-type: none"> <li>• having limited liability which means that if the business fails then they won't lose their personal possessions.</li> <li>• there is no limit on the number of shares they can issue to family and friends so potentially a large source of capital is available to the brothers. But issuing too many shares could affect their control of the business.</li> </ul>

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<b>9</b>	<p><b>Use the information above to analyse why Dave should produce both a profit calculation and a cash budget.</b></p> <table border="1"> <thead> <tr> <th style="text-align: center;">Level</th> <th style="text-align: center;">Descriptor</th> <th style="text-align: center;">Marks</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">3</td> <td>Uses the item to analyse the importance to Dave of having information on cash and/or profit.</td> <td style="text-align: center;">9–7</td> </tr> <tr> <td style="text-align: center;">2</td> <td>Uses the item to describe the relevance of the financial information to Dave.</td> <td style="text-align: center;">6–4</td> </tr> <tr> <td style="text-align: center;">1</td> <td>Demonstrates generic understanding of cash budget and profit.</td> <td style="text-align: center;">3–1</td> </tr> </tbody> </table> <p><b>Possible responses include:</b></p> <table border="1"> <thead> <tr> <th style="text-align: center;">Knowledge and Understanding (L1)</th> <th style="text-align: center;">Application (L2)</th> <th style="text-align: center;">Analysis (L3)</th> </tr> </thead> <tbody> <tr> <td>Profit calculates the difference between income and expenditure/total revenue and total costs.</td> <td>Dave is able to see that the business will make a profit by the end of the first year of £15 000 even after he has taken a salary from the business.</td> <td>By doing the profit calculation Dave can see that he has made a very good return on his initial investment of £10 000 even after paying himself a salary.  This projection would be helpful if he went to investors (eg a bank) if he required to get an overdraft facility or loan to cover his initial cash flow problems.</td> </tr> <tr> <td>The cash budget shows the difference between cash inflows and cash outflows.</td> <td>This cash budget shows that Dave will have cash flow problems in the first three months as he has to pay not only start-up costs but also suppliers before he receives money from customers.</td> <td>The cash budget alerts Dave to the cash flow problem. He knows that his savings are short by £5050 to cover the cash shortfall. This gives him the option to continue saving before he starts his business. Alternatively he could use the budget to show to the bank to help obtain overdraft or loan facility for the first three months as it demonstrates that the issue is over by the fourth month.</td> </tr> </tbody> </table>			Level	Descriptor	Marks	3	Uses the item to analyse the importance to Dave of having information on cash and/or profit.	9–7	2	Uses the item to describe the relevance of the financial information to Dave.	6–4	1	Demonstrates generic understanding of cash budget and profit.	3–1	Knowledge and Understanding (L1)	Application (L2)	Analysis (L3)	Profit calculates the difference between income and expenditure/total revenue and total costs.	Dave is able to see that the business will make a profit by the end of the first year of £15 000 even after he has taken a salary from the business.	By doing the profit calculation Dave can see that he has made a very good return on his initial investment of £10 000 even after paying himself a salary.  This projection would be helpful if he went to investors (eg a bank) if he required to get an overdraft facility or loan to cover his initial cash flow problems.	The cash budget shows the difference between cash inflows and cash outflows.	This cash budget shows that Dave will have cash flow problems in the first three months as he has to pay not only start-up costs but also suppliers before he receives money from customers.	The cash budget alerts Dave to the cash flow problem. He knows that his savings are short by £5050 to cover the cash shortfall. This gives him the option to continue saving before he starts his business. Alternatively he could use the budget to show to the bank to help obtain overdraft or loan facility for the first three months as it demonstrates that the issue is over by the fourth month.	<b>9</b>
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Use the information above to analyse how Ian’s interpretation of variances might help to improve future profits.

Level	Descriptor	Marks
3	Uses the information to analyse how interpreting variances might help to improve future profits.	9–7
2	Uses the information to describe the business’ variances.	6–4
1	Demonstrates generic understanding of variances.	3–1

Possible responses include:

Knowledge and Understanding (L1)	Application (L2)	Analysis (L3)
<p>Income statements show how much profit or loss an enterprise makes.</p> <p>Comparing income statements demonstrates favourable or adverse variances.</p>	<p>By comparing budgeted and actual income statements Ian can see that he has made:</p> <ul style="list-style-type: none"> <li>• £20 000 less sales (A).</li> <li>• £14 000 less operating profit (A).</li> <li>• £5 000 more cost of sales (A).</li> <li>• £11 000 less expenses (F).</li> </ul>	<p>Ian can see that he has an adverse profit variance of £14 000. He has a new business so it is good that he has made a profit of £16 000 even though it is not as much as hoped. Interpretation of individual variances will help Ian identify ways in which profits can be improved.</p> <p>Sales variance is £20 000(A). Ian will have to consider how he can increase sales.</p> <p>Cost of sales variance. Given that sales are lower than expected it might have been expected that cost of sales variance would have been favourable, however it is adverse. This might suggest that the cost of buying inventory was higher than anticipated.</p> <p>Expenses variance is favourable. This impacts profits in two ways: The favourable expenses figure is good so Ian knows that in the first 6 months of trading he is getting something right controlling costs. This way he can continue to ensure that costs are being controlled.</p>

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<b>11</b>	<p><b>Considering the financial information and stakeholder perspectives described in Item A, evaluate whether HMT should select option 1 or option 2.</b></p>		<b>20</b>
<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>	
5	<p>Uses Item A to develop a balanced analytical response.</p> <p>Analyses both financial information <b>and</b> stakeholder perspectives when deciding whether HMT should pursue option 1 <b>or</b> option 2.</p> <p>Evaluation supported by analysis.</p>	20–17	
4	<p>Uses Item A to develop an analytical response.</p> <p>Analyses financial information <b>or</b> stakeholder perspectives when deciding whether HMT should pursue option 1 <b>or</b> option 2.</p> <p>Judgement supported by analysis.</p>	16–13	
3	<p>Uses Item A to develop the response.</p> <p>Interprets financial information <b>or</b> stakeholder perspectives relating to HMT/QDL</p>	12–9	
2	<p>Uses Item A to support the response.</p> <p>Describes financial information <b>or</b> stakeholder perspectives in context of the business.</p>	8–5	
1	<p>Demonstrates generic understanding of financial information <b>or</b> stakeholder perspectives.</p>	4–1	
<p>Possible responses include:</p> <p><b>Understanding (L1):</b></p> <ul style="list-style-type: none"> <li>• <b>Financial Information</b> Ratios measure profitability (ROCE), solvency/liquidity (gearing) and activity. Financial information shows actual information such as net assets.</li> <li>• <b>Stakeholder perspective</b> Stakeholder is anyone who has an interest in a business enterprise.</li> </ul> <p><b>Description (L2):</b></p> <ul style="list-style-type: none"> <li>• <b>Financial information</b> Quotes ratios/financial information as showing profitability and/or solvency.</li> <li>• <b>Stakeholder perspective</b> Key stakeholders for this type of business would be shareholders, employees, charities, suppliers and QDL.</li> </ul> <p><b>Explanation (L3):</b></p> <ul style="list-style-type: none"> <li>• <b>Financial information</b> HMT <ul style="list-style-type: none"> <li>○ Profitable with a profit of £2 540 000 and a ROCE of 28.27% which is a good return when compared to other investments. It suggests that the business could repay a loan from profits.</li> </ul> </li> </ul>			



	<ul style="list-style-type: none"> <li>○ The company is low geared 34.03% so it could take on more debt such as a loan.</li> <li>○ The business has net assets of £8 984 000. This could act as security against loans of £7 000 000 or 4 500 000.</li> </ul> <p><b>QDL</b></p> <ul style="list-style-type: none"> <li>○ Makes more profit than HMT. These profits could be used to service a loan.</li> <li>○ The business has £9 936 000 in net assets. This is lower than purchase price for the business.</li> </ul> <ul style="list-style-type: none"> <li>● <b>Stakeholder perspective</b> Currently all the stakeholders are likely to be happy with HMT as the business looks profitable and solvent. Stakeholders would be uncertain if the current business values would be pursued if the number of shareholders was increased.</li> </ul> <p><b>Analysis (L4 and L5):</b></p> <ul style="list-style-type: none"> <li>● <b>Financial information</b> HMT does seem ready and able to expand Option 1 - The paying back of £7 million over five years means £1.4 million each year which will reduce profits to just over £1million and it will also increase the gearing of the company. The time taken to build the factory will reduce the cash coming into the business and also profits. HMT might also be missing out on lucrative new market. Option 2 - QDL brings with it current profits of £4.114 million, immediately which will provide profits and cash which will support the loan repayment. HMT will be paying over "the odds" for QDL, however will also be buying the business network of shops and restaurant customers.</li> <li>● <b>Stakeholder perspective</b> Option 1 - Employees will be pleased that HMT's approach to employees is likely to remain as there is no new business to integrate with. Shareholders will need to expect lower dividends for the five year period, however the value of their shares may rise. Charities might be concerned that as the business has lower profits there may be less to give; charitable donations and discounts for community groups may fall. Suppliers will be monitoring the situation to see if their payment periods might be effected. In the longer term stakeholders may benefit from the customers that QDL brings. Option 2 -Employees may be concerned that there may be a change in the "look after people" motto as the business takes over a business with a different culture. Suppliers may be concerned that QDL has a different focus to HMT and the possible loss of control due to diluted shareholding may be an issue.</li> </ul> <p><b>Judgement (L3 and L4):</b></p> <ul style="list-style-type: none"> <li>● <b>Financial information:</b> <ul style="list-style-type: none"> <li>○ Issues surrounding profits later v profits now.</li> <li>○ Option 2 is "cheaper".</li> </ul> </li> <li>● <b>Stakeholder perspective:</b> <ul style="list-style-type: none"> <li>○ With Option 1 the culture would stay the same.</li> <li>○ Less profit therefore lower charitable contributions?</li> <li>○ Creditors may be concerned about future business with Option 2.</li> </ul> </li> </ul> <p><b>Evaluation (L5):</b></p> <ul style="list-style-type: none"> <li>○ There is unsatisfied demand and desserts seem to be a growing market so not expanding is not really an option.</li> <li>○ The people first aspect of HMT is really important they would be reluctant</li> </ul>	
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	<p>to compromise this.</p> <ul style="list-style-type: none"><li>○ There is a big cash/profit time lag with Option 1.</li><li>○ Option 2 brings a lot of debt.</li></ul>	
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**Assessment outcomes coverage**

Assessment Outcomes	Marks available in section A	Marks available in section B	Total Mark
AO1: Investigate why business enterprises plan their finances	12 marks 20%	0 marks 0%	12
AO2: Investigate the key elements of financial planning that managers and entrepreneurs must understand.	18 Marks 30%	0 marks 0%	18
AO3: Consider how managers and entrepreneurs monitor the financial performance of a business	10 Marks 17%	8 marks 13%	18
AO4: Assess information to enable stakeholders to make decisions about the financial performance of an enterprise	0 Marks 0%	12 marks 20%	12
<b>Total</b>	<b>40 marks</b>	<b>20 marks</b>	<b>60</b>

Question	Assessment Outcome 1	Assessment Outcome 2	Assessment Outcome 3	Assessment Outcome 4
1	1			
2		1		
3			1	
4	1			
5		3		
6		3		
7		3		
8	9			
9			9	
10		9		
11			8	12
<b>Totals</b>	<b>12</b>	<b>18</b>	<b>18</b>	<b>12</b>

**Assessment objectives coverage**

Question	Knowledge and Understanding	Application	Analysis and Evaluation	Total
1	1			1
2		1		1
3	1			1
4			1	1
5	1	2		3
6	1	2		3
7	1	2		3
8	3	3	3	9
9	3	3	3	9
10	3	3	3	9
11	4	4	12	20
<b>Totals</b>	<b>18</b>	<b>20</b>	<b>22</b>	<b>60</b>