Level 3 Certificate/Extended Certificate
APPLIED BUSINESS
ABS1

Unit 1 Financial Planning and Analysis

Mark scheme

January 2019

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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

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.

SECTION A

The following list indicates the correct answers to be used in marking learners' responses to the multiple choice questions.

KEY LIST

01	C
02	A
03	B
04	C

0 5 **Calculate the profit or loss Jennifer's business will make if she sells 2 900 pairs of jeans in a year.**

Show your calculations.

[3 marks]

Total revenue - total costs = profit/loss. **1 mark** for formula if incorrect calculation.

£72 500 (**1**) - (45 000 + 29 000) (**1**) = (£1 500) (**1**) ofr

Or

45 000 / 15 = 3 000 (**1**)
2 900 – 3 000 ofr = (100) (**1**) ofr
(100) x 15 = (1500) (**1**) ofr

0 6 **Calculate how many units will need to be sold per year to break-even.**

Show your calculations.

[3 marks]

Fixed costs/contribution(sp-vc) = Break even output. **1 mark** for formula if incorrect calculation.

£300 000(**1**) / £3 000(**1**) = 100(**1**) ofr

0 7 **A start-up business aims to collect cash quickly from its customers.**

Explain why collecting cash quickly could help the cash-flow of this business.

[3 marks]

1 mark for demonstrating an understanding of cash-flow.

1 mark for explaining a benefit of collecting cash quickly.

1 mark for explaining the effect of collecting cash quickly to a start-up business eg difficulty in securing an overdraft or trade credit.

| 0 | 8 | **Use the information above to analyse the implications of selling shares to this investor as a source of finance for SCL.** |

[9 marks]

Level	Descriptor	Marks
3	Uses the information to analyse the implications (positive **and** negative) of selling shares to this investor.	9–7
2	Explains how the implication(s) of selling shares to this investor could be positive **or** negative for SCL.	6–4
1	Demonstrates generic understanding of selling shares/sources of finance.	3–1

Possible responses include:

Knowledge and Understanding (L1)	Application (L2)	Analysis (L3)
Private limited companies are financed by selling shares. In return the shareholder receives a dividend and is protected by limited liability.	By selling shares to the investor the business will receive the money needed for expansion but will only need to pay dividends when the business makes sufficient profits. The investor brings experience of expanding into export markets which SCL has little experience. The investor wants a say in the running of the business and a high return on his investment.	The investor brings both experience and finance, which means more chance of the expansion being successful, however the investor wants to be "hands on" in respect to operating the business which may change the ethos of this family run business, for example by moving production abroad.

| 0 | 9 | **Use the information above to analyse the value of break-even to decide what prices Luigi should charge.** |

[9 marks]

Level	Descriptor	Marks
3	Uses the information to analyse how break-even could help Luigi to set prices in his cafe.	9–7
2	Uses the information to describe how break-even could help Luigi's cafe.	6–4
1	Demonstrates generic understanding of break-even or contribution.	3–1

Possible responses include:

Knowledge and Understanding (L1)	Application (L2)	Analysis (L3)
Break-even is the level of output where total revenue = total costs. What if analysis. Helps set targets. Making a contribution to fixed costs.	By calculating break-even output Luigi will have an idea as to how many meals he needs to sell to make a profit. Luigi will have an idea how much food he will need to buy. Luigi could work out the contribution per meal to avoid making losses on individual meals. Break-even could help Luigi decide whether to go ahead with the business.	Competitors may change their prices. It will be difficult for Luigi to set prices higher than the various, often better known, competitors. Break-even only tells Luigi how many he needs to sell at various prices. This does not guarantee that he will be able to meet these targets. This will be dependent on the fierce competition. Luigi may compare prices with competitors and then use break-even to establish whether that would be profitable.

| 1 | 0 | **Use the information above to analyse the benefits to Sophia of interpreting variances to improve the financial performance of her business.** |

[9 marks]

Level	Descriptor	Marks
3	Uses the information to analyse how interpreting variances might help to improve the financial performance of the business.	9–7
2	Uses the information to describe the business' variances.	6–4
1	Demonstrates generic understanding of variances/income statements.	3–1

Possible responses include:

Knowledge and Understanding (L1)	Application (L2)	Analysis (L3)
Income statements show how much profit or loss a business makes. Comparing income statements demonstrates favourable or adverse variances.	By comparing budgeted and actual income statements Sophia can see that she has made: • £40 000 more sales revenue (F) • £16 000 more cost of sales (A) • £11 000 more expenses (A) • £13 000 more overall operating profit (F)	Overall Sophia has a favourable revenue variance of £40 000 and favourable operating profit variance of £13 000. However some variances are adverse so she will need to consider what to do about these. • The cost of sales variance could be largely explained because she will probably have needed to buy more to meet demand. The rise in cost of sales is in proportion to the increase in revenue but should she be benefiting from quantity discounts. She must also be careful not to be left with clothing that is out of fashion if demand falls. • She will need to explore why there is such an increase in expenses. Expenses are likely to go up because sales have increased, for example delivery costs. But it does seem a large amount. She has also underestimated the sales of the business. She needs to review this for the next year. It may give her a more accurate figure for purchases.

SECTION B

| 1 | 1 | **Considering the financial information and the market information described in Item A, evaluate whether BEC Ltd should open its own shops or concentrate on selling online.** |

[20 marks]

Level	Descriptor	Marks
5	Uses **Item A** to develop a balanced analytical response. Analyses how both financial **and** market information can be used by BEC Ltd to decide whether to open its own shops **or** increase its advertising. Evaluation supported by analysis.	20–17
4	Uses **Item A** to develop an analytical response. Analyses how financial **or** market information can be used by BEC Ltd to decide whether to open its own shops **or** increase its advertising. Judgement supported by analysis.	16–13
3	Uses **Item A** to develop an explanatory response. Explains meaning of financial **or** market information in relation to BEC Ltd. Judgement supported by explanation.	12–9
2	Uses **Item A** to support the response. Describes financial information **and/or** market information in context of the business.	8–5
1	Demonstrates generic understanding of financial information **and/or** marketing information.	4–1

Possible responses include:

Understanding (L1):

- **Financial Information**
  Ratios measure profitability (ROCE), solvency/liquidity (gearing) and activity. Financial information shows actual information such as net assets.
- **Market information.**
  Market information includes published accounts of competitors, market trends and market and industry research.

Description (L2):

- **Financial information**
  Quotes the ratios/financial information as being indicative of profitability and/or solvency.
- **Market information.**
  Describes the market information in relation to BEC Ltd or the market for beauty products.

Explanation (L3):

- **Financial information**
  BEC Ltd is less profitable compared to the previous year with a return on capital of 22.67% compared to 23.91% the previous year. The business is higher geared 48.67%. This is worse than the previous year at 44.82%. Liquidity is also improving with a current ratio of 2.11:1

compared to the previous year 1.83:1
- **Market information**
  The market information supports:
  - the opening of its own shops because customers are cautious about buying online and more people will see the brand.
  - increased advertising and continuing selling online as consumers need support in understanding the ethical nature of the products. The demand for buying beauty products online is growing.

Analysis (L4 and L5):

- **Financial information**
  The financial information supports either option given that profits are greater than the loan repayments or the increase in advertising. The gearing ratio suggests that as a result of the loan option gearing will be likely to exceed 50% making the business high geared. The current ratio suggests some flexibility regards day to day expenses.
- **Market information**
  Market information supports either option regarding the important issues of reputation, trust and understanding of the ethical nature of BEC Ltd products.
  - Opening its own shops will make the company more visible in the same way as Superdrug. Consumers who are cautious of online purchasing of beauty products can visit the shops and also ask questions about the ethical nature of the products.
  - Younger customers who try to be more ethical are likely to be interested in ethical products and more likely to shop online. Advertising, making charity donations and sponsoring environmental events are likely to build reputation, trust and awareness.

Judgement (L3 and L4):

- Financial information:
  - Issues surrounding the cost of the two options.

- Market information:
  - Issues surrounding the size of the market.

Evaluation (L5):

- The advertising option is more flexible in that it is easily reduced compared to a loan.
- Which option best addresses the three aspects of reputation, trust and understanding.

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
Total	**40 marks**	**20 marks**	**60**

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
Totals	**12**	**18**	**18**	**12**

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
Totals	18	20	22	60