



LEVEL 3 CERTIFICATE/EXTENDED
CERTIFICATE
Applied Business

ABS1 - Unit 1 Financial Planning and Analysis
Mark scheme

June 2018

Version/Stage: 1.0 Final

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

1	D
2	B
3	A
4	B

0 5 Calculate the difference between the actual profit figure and the budgeted profit figure. Show your calculations.

[3 marks]

Profit = TR – TC (accept R – C or S – C). **1 mark** for formula (if calculation is incorrect).

Forecasted profit £60 000 (1) – actual profit £47 000 (1) = £13 000 (1) (ofr)

Profit difference = revenue difference £5 000 (1) + costs difference £8 000 (1) = £13 000 (1)

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.

£440 000(1)/£2000(1) = 220(1)(of)

0 7 What type of cost is the total spending on this delivery van in May? Explain why it is this type of cost.

[3 marks]

1 mark for identifying semi-variable cost.

1 mark for explaining a feature of (semi-variable/variable/fixed) cost.

1 mark for explaining a feature of (semi-variable/variable/fixed) cost in relation to this delivery van.

This is an example of a semi-variable cost (1). A semi-variable cost has elements of fixed costs and variable costs (1). The monthly lease is a fixed cost that does not change regardless of how much is delivered. The charge per mile for use is variable as it increases with the distance travelled (1).

0 8 Use the information above to analyse one suitable way to finance start-up costs and one suitable way to finance running costs Xin could use to operate her business.

Level	Descriptor	Marks
3	Uses the information to analyse why the chosen way(s) is/are suitable.	9–7
2	Describes suitable way(s) Xin could finance start-up and/or running costs to operate her business.	6–4
1	Demonstrates generic understanding of sources of finance/start-up/running costs.	3–1

Possible responses include:

Knowledge and Understanding (L1)	Application (L2)	Analysis (L3)
Finance: Identification of sources of finance		
Start-up costs: Costs that must be paid before a business can operate.	<p>As Xin is already using her own savings and help from friends and family she could try and obtain loan finance which could be paid off over a period of time.</p> <p>She could also explore gaining finance from partners or forming a Limited company.</p>	A loan would be appropriate if the bank (or other lender) would be prepared to give sufficient to this new business. The income and expenditure suggest that the business will be able to repay as the business becomes better known.
Running costs: Costs that must be paid on a day to day basis to keep a business operating.	<p>Ideally finance for running costs should be short term or from internal sources. Examples that might be suitable could be:</p> <ul style="list-style-type: none"> • trade credit for supplies • revenue • bank overdraft. 	The business expects to be making enough to pay running costs. In the longer term this will solve the problem, particularly if trade credit is negotiated.

0 9 Use the information above to analyse how this cash-flow forecast can help Tanvir plan for the contract with the vacuum cleaner manufacturer.

Level	Descriptor	Marks
3	Uses the information to analyse how Tanvir's cash-flow forecast can help him plan for the contract.	9–7
2	Describes the cash-flow implications of the contract on Tanvir's business.	6–4
1	Demonstrates generic understanding/importance of cash-flow and or cash-flow forecasts.	3–1

Possible responses include:

Knowledge and Understanding (L1)	Application (L2)	Analysis (L3)
<p>A cash-flow forecast shows the difference between cash inflows and outflow to identify possible cash-flow problems.</p> <p>A cash-flow forecast helps plan for possible cash-flow problems.</p>	<p>Comments on the cash-flow problem eg</p> <ul style="list-style-type: none"> • buying the machinery will put the business into negative figures • the net cash-flow would be negative for each month • whilst profitable, payments from the new contract will not start until October. 	<ul style="list-style-type: none"> • Extent of the problem eg the business currently has a positive cash-flow. This contract will cause a significant negative cash-flow which will need action on the part of Tanvir. • Timescales eg the benefits of the profitable new contract will not start to be available until October. Tanvir will need to budget for this. • Evidence eg updating this cash budget, demonstrating that the negative cash-flow is a result of setting up a profitable new contract and is temporary, may persuade funders such as a bank to provide loans or overdrafts. • Approaches to acquiring the machine eg should Tanvir lease or seek a loan for the machine. This cash flow can be used as a basis of 'what-if' planning.

1 0 Use the information above to analyse why the bank decided to give Luke the loan.

Level	Descriptor	Marks
3	Uses the financial information to analyse why the bank decided to give Luke the loan.	9–7
2	Describes Luke's financial information the bank would have considered.	6–4
1	Demonstrates generic understanding of relevant financial information.	3–1

Possible responses include:

Knowledge and Understanding (L1)	Application (L2)	Analysis (L3)
Bank loan		
Profit shows the financial success of a business.	Luke is expected to make a profit of £60 000. The loan repayments will be £25 000.	A bank needs to be sure that loans can be repaid. If the information is correct, Luke will be able to repay his loan and will be making even more profits than before after paying off the loan.
Statements of financial position show the value of assets and liabilities of a business at a particular moment in time.	The forecast statement of financial position shows that the business will be worth £298 420. The loan is for £100 000.	A bank needs to be sure that loans are secured. This means that the business will now be worth £436 820 and with a gearing of less than 50% this would be a low risk.

- 1 1** Considering the financial and market information described in Item A, evaluate whether Jack should open a new showroom or sell Classic Carpets Ltd to the chain store.

Level	Descriptor	Marks
5	Uses Item A to develop a balanced analytical response. Analyses both financial information and market information when deciding on the future of Classic Carpets Ltd. Evaluation supported by analysis.	20–17
4	Uses Item A to develop an analytical response. Analyses financial information or market information when deciding on the future of Classic Carpets Ltd. Judgement supported by analysis.	16–13
3	Uses Item A to develop an explanatory response. Explains the meaning of financial information and/or market information to the business. Judgement supported by explanation.	12–9
2	Uses Item A to support the response. Describes financial information and/or market information.	8–5
1	Demonstrates generic understanding of financial information and/or market 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 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 Classic Carpets Ltd or the market for carpets and floor coverings.

Explanation (L3):

- **Financial information**

Classic Carpets Ltd is profitable compared to the previous year with a return on capital of 29.59% compared to a loss the previous year. The business is low geared 24.21% so it could take on more debt. Liquidity issues seem to be improving.

- **Market information**

The market information supports the strategy that Jack has taken by targeting older customers and having a showroom to displays products. This suggests that expansion could be successful.

Analysis (L4 and L5):

- **Financial information**

The financial information supports expansion as all the ratios are improving. Net assets suggest that there is security on the loan and operating profit looks large enough to make loan repayments.

The purchase price is in excess of the book value of the business.

- **Market information**

Market information justifies the focus of Jack's strategy and this could be why the chain store wants to acquire the business. However market information points to competition from specialist chain stores which in the longer term may mean trouble for Classic Carpets Ltd. Specialists seem to already be using fitting services to target Classic Carpets Ltd customers.

Judgement (L3 and L4):

- **Financial information:**

- Issues surrounding cashing in on current success or reduced dividends whilst paying off loan.
- The size of the offer.

- **Market information:**

- Is this the correct market position for the business against possible future competition?

Evaluation (L5):

- The business is doing well. Is the price big enough?
- Will success be able to continue?

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