



## **General Certificate of Education**

# **Applied Business 8611/8613**

## **BS03      Financial Planning and Monitoring**

# **Report on the Examination**

*2007 examination - January series*

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## General Comments

The general performance of candidates on this paper was pleasing with some scripts receiving very high marks. It also discriminated effectively enabling well prepared and able candidates to demonstrate their knowledge and skills. It was pleasing to see that many centres had responded to the advice offered in last year's reports on this paper. The result was that candidates' examination technique was much improved and that they recognised the differing demands of the questions. There was also some evidence that the pre-release materials had been used to greater effect and this was reflected in the quality of many of the answers.

Despite these encouraging features, there are a number of general weaknesses in the performance of many of the candidates which centres should address. The first is the use of the context. Too many candidates limit their answers to general theoretical arguments and do not consider the specific circumstances of the business described in the scenario. To achieve the highest levels of marks on this paper it is necessary to set arguments in context. The pre-release materials afford an opportunity for candidates to be encouraged to discuss the nature of the business and the particular issues that relate to it and its environment.

It is also important that centres do support and encourage candidates in carrying out the pre-release tasks that are sent out prior to the examination. The point of this activity is to complete the task fully and not to guess at possible questions. This approach will prepare candidates for the questions as well as helping them to understand the context in which the questions will be asked.

Candidates' responses to calculations remain an issue on this paper. A surprising proportion cannot calculate a business's profits and a disappointing number do not take a calculator into the examination. This is a mistake when this paper will always include at least one calculation and usually more than one. Many candidates, and especially those less confident in carrying out business calculations, would benefit from starting their answers by setting out the relevant formula. This not only attracts marks but also guides candidates as to the numbers that will be needed to complete the calculation.

## Question One

This question was based directly on pre-release research task (a).

- (a) The first element was very straightforward for candidates who had completed the research task. Most candidates scored well here although there were two failings by a minority of candidates. Some did not understand the term 'resources' which suggested that their preparation was inadequate. Others did not respond to the command word to 'describe' the resources that might be required. It was disappointing to see a number of candidates simply stating/identifying them or, in some cases, constructing a list.
- (b) This part of question one was not particularly well answered by the majority of candidates. Many saw the potential for cost savings but only a minority of responses developed this in the context of the firm's expansion. It was puzzling to see substantial numbers of candidates discussing this in terms of allocative efficiency. This was an inappropriate concept to use in these circumstances.

## Question Two

This question proved to be a good discriminator. There are a significant number of candidates who cannot distinguish between cash and profit. It was disappointing to read candidates discussing profits when responding to this question. Other weaknesses arose from a lack of knowledge of the causes of cash flow problems.

Better quality responses considered the timing of payments and receipts and issues such as trade credit. The very best answers offered explanations in context. For this question the volatility of the price of nuts on international markets proved to be a particularly fruitful line of argument.

## Question Three

The answers of many candidates here showed a significant improvement on last January's responses to a similar style of question. Candidates appreciated the need to address both sides of the question and most responded (with varying degrees of success) to the request to provide a justified decision on whether or not to float the business. The very best answers used the context, and especially the proposed expansion, as a context against which to construct arguments. The context frequently provides an effective basis for making judgements. Many candidates used the need for finance to support the expansion as a clear justification for the move to become a plc. Others supported the decision to remain as a private limited company because of the family owned nature of *Bagshaw Ltd*.

However, a number of weaknesses were revealed in candidates' answers to this question. Probably the most common one was offering lists of undeveloped points without explaining their pertinence to the question and to the context. It is always better to offer fewer, more developed arguments in order to access the higher levels of the marking scheme. A disappointing number drifted into describing the sources of finance available to a public limited company having started by saying that a benefit of converting to a plc is the ability to sell shares through the Stock Exchange.

## Question Four

- (a) Answers to part (a) of this question were of surprisingly poor quality. The principal error was that candidates included capital expenditure and net cash flow in their responses, showing a lack of knowledge of the components of this type of calculation. Candidates should be encouraged to think about whether all of the data is necessary to complete the calculation or whether some of it is a distracter. A high proportion of candidates made errors in their workings - in some cases this was due to the lack of a calculator. Candidates would benefit from lots of practice at profit and break-even calculations.
- (b) Most candidates were able to make some progress with calculating variances for *Bagshaw Ltd* and many appeared to have relevant knowledge of this area of the specification. There was some confusion about the meaning of positive and negative answers to the calculations and how this related to whether the variance was adverse or favourable, but generally candidates produced the correct figures. Some candidates committed careless errors and used the figures for the wrong month. It is good technique to double check the question before starting the calculation. A minority of

candidates just guessed the type of variance without conducting a calculation. This approach did not receive any credit.

- (c) It was pleasing that so many candidates were able to write knowledgeably about the benefits of drawing up budgets. The majority of candidates scored well here using their knowledge to construct relevant arguments. It was much less common, however, to read responses which placed these arguments in the context of the scenario.

### **Question Five**

The quality of responses to this question was generally disappointing and relatively few candidates (even those who had performed well elsewhere) scored high marks. This is an area on which centres need to carry out further work and one which offers considerable potential for improving marks.

This question was based on the pre-release research task (b) and this meant that candidates should have been well prepared for it. Sadly, many candidates just provided a list of possible sources of finance – sometimes ignoring the type of business in question and frequently ignoring the amount of capital that *Bagshaw Ltd* needed to raise. The important issue in preparing for this type of question was to focus on the most appropriate sources for these circumstances and not to compile a long list. Good responses picked up on the information in the text and suggested selling the London factory and relocating to another cheaper area as a means of raising finance. Often this was developed further by mentioning the possibility of attracting government grants if the company moved to an area of high unemployment and created jobs. Other thoughtful arguments concentrated on the amount the company needed to raise and contended that a single source of finance was unlikely to be sufficient.

Candidates must be discouraged from providing a ‘shopping list’ of possible sources with little or no consideration as to their relevance to the circumstances.

### **Mark Ranges and Award of Grades**

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