



General Certificate of Education

Applied Business 8611/8613

BS03 Financial Planning and Monitoring

Mark Scheme

2009 examination - January series

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

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

Drawing on your pre-examination research, analyse the advantages of operating The Candy Shop as a sole trader and the advantages of operating it as a private limited company. Make a justified recommendation on which type of legal structure Tom should choose for his business.

*(You should not spend more than **ten minutes** on this question.)*

(10 marks)

Level	Descriptor	Marks	Assessment Objective
4	Candidate offers analysis of advantage(s) in context.	6–7	AO3
3	Candidate explains advantage(s) in context.	4–5	AO2
2	Candidate explains relevant advantage(s).	2–3	AO1
1	Candidate identifies relevant advantage(s).	1	

Relevant answers might include the following:

Advantages as a sole trader:

- Tom is in undisputed control of the business – this is important as he took the risk
- the legal requirements for operating as a sole trader are minimal, not publishing accounts, for example
- Tom will receive all the profits – and the business is starting to be profitable
- Tom is an experienced entrepreneur and has many of the skills to run the business on his own.

Advantages as a private limited company:

- Tom will receive the protection of limited liability – this is important as his house is already at risk
- Tom is thinking about expansion and he will be able to sell shares to raise funds
- bringing other owners into it might relieve the pressure on Tom – he is working long hours and not taking holidays.

In addition (and separately) award marks for evaluation using the grid below.

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

Level	Descriptor	Marks	Assessment Objective
E2	Candidate offers judgement plus full justification. Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	3	AO4 and Quality of written communication
E1	Candidate offers judgement plus limited justification. Ideas are communicated with some structure evident and with occasional use of technical terms. There are noticeable errors in accepted conventions of written communication.	1–2	

2

Total for this question: 21 marks

(a) *Tom reduced the price of a box of 'rock honeycomb' by 10% from £50 per box. Which price would have given him the higher sales revenue? You should support your answer with relevant calculations. (5 marks)*

Level	Descriptor	Marks	Assessment Objective
4	Candidate calculates answer correctly, including stating which is higher.	5	AO2
3	Candidate makes good attempt at calculation.	4	
2	Candidate makes attempt at calculation demonstrating understanding of concept.	3	
1	Candidate shows understanding of sales revenue, eg by writing down relevant formula.	1–2	AO1

Sales revenue at higher price = £50 x 800 boxes = £40 000

Sales revenue at lower price = (£50 x 0.90) x 950 boxes = £42 750

The price reduction results in revenue increasing by **£2 750**.

(b) *Explain **two** possible benefits to Tom's business of using business software. (6 marks)*

Apply the following marking scheme twice.

Level	Descriptor	Marks	Assessment Objective
2	Candidate explains benefit in context.	2–3	AO2
1	Candidate states relevant benefit.	1	AO1

Relevant answers might include the following:

- Tom can keep up-to-date records of his sales and expenditures and will be able to judge the financial position of his business at any time
- Tom will be able to use the software to draw up cash flow forecasts which will help him avoid future cash flow crises
- Tom is working very long hours – business software might help him to reduce his working hours
- suitable business software will help him to be more organised and to manage his time more effectively.

(c) Tom was **not** concerned that his business made a loss in its first few months of trading. Analyse the arguments **for** and **against** Tom's opinion and say whether or not you agree with him. You should justify your view. (10 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate offers analysis of point(s) in context.	6–7	AO3
2	Candidate explains point(s) in context.	4–5	AO2
1	Candidate states/explains relevant point(s).	1–3	AO1

Relevant answers might include the following:

For Tom's view:

- new businesses can manage without profits for some period of time – Tom is an experienced entrepreneur and knows this
- Tom may have had to offer low prices to win customers, reducing the chances of making a profit in the early stages of the business's life
- it is more important to manage cash in the short term as this is a more likely cause of business failure.

Against Tom's view:

- a business may make a loss in its early trading because the product is not suitable – this will be a major problem
- this could be a serious problem for a new business with few financial resources
- if the business is incurring increasing losses this could represent a problem.

Ideas for evaluation might include:

- it depends on the financial resources available to the business and the size of the loss
- it probably did not matter in Tom's case as the company's financial position was improving.

In addition (and separately) award marks for evaluation using the grid below.

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

Level	Descriptor	Marks	Assessment Objective
E2	Candidate offers judgement plus full justification. Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	3	AO4 and Quality of written communication
E1	Candidate offers judgement plus limited justification. Ideas are communicated with some structure evident with occasional use of technical terms. There are noticeable errors in accepted conventions of written communication.	1–2	

3

Total for this question: 13 marks

(a) Using the data in **Table 1** opposite, calculate The Candy Shop's forecast profit or loss for the financial year ending 5 April 2010. You should show your workings. (5 marks)

Level	Descriptor	Marks	Assessment Objective
4	Candidate calculates profit correctly.	5	AO2
3	Candidate makes good attempt at calculation of profit.	4	
2	Candidate makes attempt at calculation of profit demonstrating understanding of concept/calculates total cost correctly.	3	
1	Candidate shows understanding of profit, eg by writing down relevant formula or attempts to calculate costs.	1–2	AO1

Profit = sales revenue less total costs.

Sales revenue = £850 000

Total costs = £250 000 + £142 000 + £420 000 = £812 000

£850 000 - £812 000 = **£38 000 profit**

(b) State and explain **two** possible reasons why Tom decided to draw up a business plan before going ahead with the expansion. (8 marks)

Apply the following marking scheme twice.

Level	Descriptor	Marks	Assessment Objective
3	Candidate explains relevant information in context.	3–4	AO2
2	Candidate explains relevant information.	2	AO1
1	Candidate states relevant information.	1	AO1

Relevant answers might include the following:

- it is likely that Tom will need to attract investors and a bank loan – a business plan will be an essential part of this process
- a business plan will be useful to Tom to help him monitor its progress once the expansion is underway
- a detailed business plan will have helped Tom to make the decision on whether or not to expand
- this is a big programme of expansion and needs to be planned carefully and thought through in detail
- the business plan may help to persuade customers that he will be able to supply larger quantities of his products in the future.

4

Total for this question: 16 marks

*Tom has approached his bank for a loan of £500 000 to help finance his expansion plans. Consider the case **for** and **against** the **bank** agreeing to this loan and make a justified recommendation on whether or not it should grant the loan. (16 marks)*

Level	Descriptor	Marks	Assessment Objective
5	Candidate offers analysis of both sides of argument in context.	10-12	AO3
4	Candidate offers analysis of one side in context.	7-9	
3	Candidate offers explanation of point(s) in context.	5-6	AO2
2	Candidate explains point(s).	3-4	AO1
1	Candidate states relevant points.	1-2	

Relevant answers might include the following:

In favour of the bank agreeing to the loan:

- the business is forecast to make a small profit in its first year of trading and has been making a steadily increasing profit over the past year
- Tom and Ann's skills are both valuable – Ann on the production side and Tom as an entrepreneur and especially in sales
- Tom has developed some new innovative products which will help sales
- part of the expansion plan is that Tom will appoint an office manager which may improve the business's performance in the future and reduce his workload
- Tom intends to buy more efficient production equipment which may help to reduce costs of production.

Against the bank agreeing to the loan:

- although the business is forecast to make a profit, it is very small considering the size of the loan that is required
- the business is forecast to have a substantial negative cash flow (£44 000) during its first year of trading
- the threat of increased cheap imports from China remains and may become greater over time
- Tom has asked the bank to provide a high proportion (50%) of the capital needed for the expansion of the business
- the bank may be discouraged by the track record of the business which has enjoyed limited profits.

Possible themes for evaluation:

- it may depend on the accuracy of Tom's forecasting – will sales and profits be as he expects?
- it may depend upon the business's ability to provide collateral for the loan
- to what extent does the bank consider this loan to be high risk?
- the changes that are expected in the market could offer opportunities for Tom to be innovative and to make profits.

In addition (and separately) award marks for evaluation using the grid below.

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

Level	Descriptor	Marks	Assessment Objective
E3	Candidate offers judgement plus full justification. Ideas are communicated using a logical structure, with some appropriate and technical terms. There are occasional errors in accepted conventions of written communication.	3–4	AO4 and Quality of written communication
E2	Candidate offers judgement plus incomplete justification. Ideas are communicated with some structure evident with occasional use of technical terms. There are some errors in accepted conventions of written communication.	2	
E1	Candidate offers judgement plus an attempt at limited justification. Ideas are communicated in a simplistic way with limited use of technical terms. There are noticeable errors in accepted conventions of written communication.	1	