



General Certificate of Education

Applied Business 8611/8613

BS03 Financial Planning and Monitoring

Mark Scheme

2009 examination - June 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.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' 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.

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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 raising capital for Surf Rider Ltd by (i) taking out a bank loan and (ii) selling shares in the company. Make a justified recommendation on which source of finance Ginny should choose for her business.
(10 marks)

Level	Descriptor	Marks	Assessment Objective
4	Candidate offers analysis of why a factor(s) is an advantage in context.	6–7	3
3	Candidate explains advantage(s) in context.	4–5	2
2	Candidate explains relevant advantage(s).	2–3	1
1	Candidate identifies relevant advantage(s).	1	

Relevant answers might include the following:

Advantages of a bank loan:

- Ginny (and her mother) may lose control of the business by selling shares – under current plans she would give control to new shareholder(s)
- she should be able to organise the bank loan relatively quickly helping her to meet her September deadline
- the bank manager may offer advice to Ginny on the first months of running her business.

Advantages of selling shares:

- Ginny will not commit her company to a regular interest payment (and interest rates may rise)
- the company will not have to pay dividends on the shares if it is not profitable
- Ginny does not have to offer collateral (and does she have any?) if she opts to sell shares
- a new shareholder may have business experience and be able to advise Ginny as she has not managed a business before
- share capital does not have to be repaid.

Points for evaluation might include the following:

- the question of control is very important and could be the basis of the decision
- is it a question of Ginny just using one method of raising finance? A mix of the two could be optimal offering both sets of benefits.

PLEASE NOTE EVALUATION GRID

See opposite page for AO4.

In addition (and separately) award marks for evaluation using the grid below. Note: A04 also assesses the candidates' quality of written communication. When deciding on the A04 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	4
E1	Candidate offers judgement plus limited justification. Ideas are communicated with some structure evident with occasional use of technical terms. There are some errors in accepted conventions of written communication.	1–2	

2

Total for this question: 26 marks

2(a) Using **Item A**, calculate the forecast profit or loss for Surf Rider Ltd for its first year of trading. (6 marks)

Level	Descriptor	Marks	Assessment Objective
4	Candidate calculates answer correctly.	6	2
3	Candidate makes good attempt at calculation.	5	
2	Candidate makes attempt at calculation demonstrating understanding of concept.	2–4	
1	Candidate shows understanding of profits, for example, by writing down relevant formula.	1	1

Profit = sales revenue – total costs.

Sales revenue = (3 000 x £12.50) + £43 000 = £80 500

Total costs = £31 000 + £42 000 + £10 500 = £83 500

Loss = £80 500 - £83 500 = (£3 000).

2(b) Market research indicated that reducing the hourly rate for surfing lessons from £12.50 to £10.00 per hour would increase sales by 10%. Ginny decided to keep the rate at £12.50 per hour. Explain why Ginny might have reached this decision. (6 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate offers analysis of point(s) in context. Award 5 marks if minor calculation error.	5–6	3
2	Candidate explains point(s) / decision based on incorrect figures.	3–4	2
1	Candidate states relevant points/shows relevant knowledge.	1–2	1

Answers might include the following:

- sales revenue = quantity x price
- revenue declines following a price cut if percentage price change exceeds percentage volume change
- in these circumstances price cut is 20% and volume rise is only 10%
- as a result, revenue from surfing lessons would fall from £37 500 to £33 000.

2(c) Explain **two** ways in which information resources may be of benefit to Ginny while she is planning her business. (4 marks)

Use the grid below twice.

Level	Descriptor	Marks	Assessment Objective
2	Candidate explains relevant benefit.	2	2
1	Candidate identifies relevant way or benefit.	1	1

Relevant answers might include the following:

- information resources include the details of competitors, likely customers and costs of production
- the managers of other surfing schools provided Ginny with information on the difficulties she might face in operating her business thereby helping her to avoid them
- suppliers provided her with information about costs helping her to construct her cash flow and profit forecasts
- the managers of surfing schools offered information on selling prices helping Ginny to calculate expected sales revenue
- the information resources would be an essential part of drawing up her business plan.

2(d) *Ginny thinks that it is important for Surf Rider Ltd to make a profit in its first year of trading. Analyse the case **for** and **against** this view and decide whether or not Ginny is correct. You should justify your decision. (10 marks)*

Level	Descriptor	Marks	Assessment Objective
3	Candidate offers analysis of point(s) in context.	6–7	3
2	Candidate explains point(s) / one-sided argument only.	3–5	2
1	Candidate states relevant points.	1–2	1

Relevant answers might include the following:

Against Ginny’s view:

- new businesses can manage without profits for some period of time – many do not make a profit during their first year of trading as they build a customer base
- Ginny may have had to spend heavily on marketing to establish her business
- it is more important to manage cash in the short term as this is a more likely cause of business failure.

For Ginny’s view:

- Ginny hopes that South Wales will become a more important surfing location – a loss may show that this assumption is wrong
- Ginny is managing a new business with few financial resources and, therefore, profits may be important
- if Ginny takes out a loan the bank manager may expect her business to make a profit from the early stages.

Ideas for evaluation may include:

- it depends on the trend of the business’s profitability over the year – if it is improving it may not matter too much if it is a loss overall
- the business’s performance should be judged against expectations
- the size of the loss would be relevant.

PLEASE NOTE EVALUATION GRID

See opposite page for AO4.

NB: if candidate only discusses one aspect of the question, award maximum level two. In addition (and separately) award marks for evaluation using the grid below. Note: A04 also assesses the candidates' quality of written communication. When deciding on the A04 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	4
E1	Candidate offers judgement plus limited justification. Ideas are communicated with some structure evident and occasional use of technical terms. There are some errors in accepted conventions of written communication.	1–2	

3

Total for this question: 8 marks

3(a) Complete Surf Rider Ltd's cash flow forecast in **Figure 2** by filling in the shaded boxes. (4 marks)

**Surf Rider Ltd – Cash Flow Forecast
September – December 2009**

	September	October	November	December
Cash sales	2 450	2 300	2 500	4 950
Credit sales	650	585	800	2 200
Total cash inflow	3 100	2 885	3 300	7 150
Purchases of stock for shop	3 250	1 950	2 080	2 675
Purchases of equipment	5 000	900	0	0
Rent and insurance	535	535	535	535
Wages	3 500	3 500	3 500	3 500
Other costs, eg marketing	950	400	200	250
Total cash outflow	13 235	7 285	6 315	6 960
Net cash flow	(10 135)	(4 400)	(3 015)	190
Opening balance	10 000	(135)	(4 535)	(7 550)
Closing balance	(135)	(4 535)	(7 550)	(7 360)

Award **one mark** for each correct answer.

3(b) Explain why Surf Rider Ltd might benefit from having an overdraft facility. (4 marks)

Level	Descriptor	Marks	Assessment Objective
2	Candidate explains relevant benefit.	2–4	2
1	Candidate states relevant benefit/demonstrates relevant understanding.	1	1

Relevant answers might include the following:

- an overdraft is a facility that allows a firm to borrow flexibly up to an agreed maximum
- *Surf Rider Ltd* is forecast to have a negative cash balance in its opening months and may be unable to pay its creditors without borrowing
- the flexibility of an overdraft may mean that it is the cheapest option
- the company's net cash flow improves towards the end of the period, so a loan may not be appropriate and could be more costly.

4

Total for this question: 16 marks

Using your pre-examination research and all the information available to you, analyse the case for and against Ginny going ahead with her plans to establish Surf Rider Ltd. Advise her on whether or not she should start the business. You should justify your decision. (16 marks)

Level	Descriptor	Marks	Assessment Objective
5	Candidate offers analysis of both sides of argument in context.	11–12	3
4	Candidate offers analysis in context.	9–10	
3	Candidate offers analysis of point(s) / explains in context.	5–8	2
2	Candidate explains point(s).	3–4	1
1	Candidate states relevant points.	1–2	

Relevant answers might include the following:

In favour of Ginny launching her business:

- she has the ability to offer surfing lessons to a very high standard
- Ginny is a qualified accountant and should be able to manage the financial affairs of her business effectively
- surfing is becoming increasingly popular in the UK
- Ginny has found a location which she expects to become more popular with surfers, but does not have many surfing schools at present
- Ginny's cash position improves over the first few months – she may have a cash surplus before the end of the first year.

Against Ginny launching her business:

- Ginny has no experience of being an entrepreneur
- her business is forecast to make a large loss during its first year – this will be difficult to turn around quickly
- she does not have sources of capital for all the finance she will need to start the business
- she is well paid as an accountant – why give this up to manage a risky business venture?
- more surfing schools may open in South Wales if it becomes a more popular location for surfing.

Possible themes for evaluation:

- this is the right business for Ginny to work in because of her love of the sport – but the business may not be viable
- her expectation about the rising popularity of surfing in South Wales is a vital one in judging this decision
- if she manages to find an experienced shareholder to support her financially and in managing the business, the project could look more secure.

PLEASE NOTE EVALUATION GRID

Turn over for AO4

In addition (and separately) award marks for evaluation using the grid below. Note: A04 also assesses the candidates' quality of written communication. When deciding on the A04 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 use of technical terms. There are occasional errors in accepted conventions of written communication.	3–4	4
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 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	