



ASSESSMENT and
QUALIFICATIONS
ALLIANCE

Specimen Mark Scheme

Applied Business (BS03)

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.

1.

Total for this question is 10

*1 Drawing from your pre-examination research tasks, describe **two** sources of advice that James could use prior to starting his business. In **each** case, you should explain how the source of advice may assist James in starting Home Service. (10 marks)*

Level	Descriptor	Marks	Objective
4	Candidate offers detailed explanation of sources and benefits, including evidence of research.	7–10	AO2
3	Candidate offers explanation, including evidence of research.	5–6	AO1
2	Candidate offers limited explanation of theoretical sources.	3–4	
1	Candidate identifies relevant sources.	1–2	

Relevant answers might include the following:

- Local Chamber of Commerce;
- small business advisor;
- Business Link;
- some explanation of the services they might provide.

Benefits to James including:

- advice on market research;
- support in completing a business plan;
- suggestions on possible sources of finance.

2.

Total for this question is 15

2 Use the information in the **case study** and in **Appendix A** to answer the following questions.

- (a) Explain the difference between fixed and variable costs using examples relevant to Home Service. (4 marks)

Level	Descriptor	Marks	Objective
3	Candidate offers clear distinction with supporting examples	3–4	AO2
2	Candidate offers incomplete distinction with examples or complete distinction without examples.	2	AO1
1	Candidate gives limited explanation of one type of cost	1	

Fixed costs do not change when level of output alters, for example, rent or rates.

Variable costs change directly with the level of output, for example, fuel or raw materials.

- (b) Calculate the number of customers James will need to attract in his first year of trading in order to break-even. (3 marks)

Level	Descriptor	Marks	Objective
3	Candidate calculates break-even correctly.	3	AO2
2	Candidate makes good attempt to calculate break-even.	2	
1	Candidate makes limited attempt to calculate break-even.	1	AO1

Break-even = $\frac{\text{fixed costs}}{\text{contribution per unit}}$

$$\text{Break-even} = \frac{\pounds 21\,000}{\pounds 30 - \pounds 16} = \frac{\pounds 21\,000}{\pounds 14} = \mathbf{1\,500\text{ customers}}$$

(c) Using **Appendix A**, calculate the level of profit or loss James's business will earn in its first year if his forecast of sales is accurate. (4 marks)

Level	Descriptor	Marks	Objective
3	Candidate calculates loss correctly.	4	AO2
2	Candidate makes good attempt to calculate loss.	2–3	
1	Candidate makes limited attempt to calculate loss.	1	AO1

$$\begin{aligned} \text{Revenue} &= £30 \times 100 \times 12 \\ &= £36\,000 \end{aligned}$$

$$\begin{aligned} \text{Costs} &= £21\,000 + (£16 \times 100 \times 12) \\ &= £21\,000 + £19\,200 \\ &= £40\,200 \end{aligned}$$

$$\begin{aligned} \text{Loss} &= £36\,000 - £40\,200 \\ &= (£4\,200) \end{aligned}$$

(d) Assume that the price James is able to charge falls to £28.

Explain how this might affect James's decision on whether or not to go ahead with his business. (4 marks)

Level	Descriptor	Marks	Objective
3	Candidate explains likely effects on the business.	3–4	AO2
2	Candidate offers limited development of point(s).	2	
1	Candidate identifies relevant point(s).	1	AO1

Relevant arguments might include the following:

- it will reduce the contribution per unit to **£12**;
- more units will need to be sold to make a profit;
- break-even has risen to **1750 units**;
- James's sales forecast suggests that the business will make a substantial loss in its first year.

3.

Total for this question is 16

3 *When James carried out some financial planning he discovered that he needed £5000. He is considering taking out a bank loan for this amount.*

Explain the advantages and disadvantages to James of a bank loan for £5000.

You should justify your opinion.

(16 marks)

Level	Descriptor	Marks	Objective
4	Candidate offers full explanation of arguments for and against taking out a bank loan.	9–11	AO3
3	Candidate offers limited explanation of relevant arguments.	6–8	AO2
2	Candidate identifies relevant points for and against taking out the bank loan.	3–5	AO1
1	Candidate identifies relevant points for or against taking out the bank loan.	1–2	

For A04, you should award marks using the scheme below.

Note that 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	Objective
3	Candidate makes judgement with full supporting justification based on own analysis. Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	4–5	AO4 and Quality of written communication
2	Candidate shows judgement with some supporting justification. Ideas are communicated with some structure evident with occasional use of appropriate technical terms. There are some errors in accepted conventions of written communication.	2–3	
1	Candidate shows judgement when describing argument for or against taking out the bank loan. Ideas are communicated in a simplistic way with limited use of technical terms. There are noticeable errors in accepted conventions of written communication.	1	

Arguments in favour of the bank loan:

- James can arrange a fixed interest loan, this will make it easier for him to manage his finances during the tough early days;
- he has prepared financial forecasts which will help him to present a case to the bank;
- James retains full control of his business with a bank loan - this might not be the case with other forms of finance;
- a bank loan can be arranged relatively quickly enabling him to get his business off the ground as soon as possible.

Arguments against a bank loan:

- this may not be the cheapest form of finance available to James, especially if the bank regards him as a risk;
- he is committing himself to fixed monthly payments without really knowing what his earnings might be. His forecasts could prove to be highly inaccurate;
- the bank may ask James for collateral for the loan. If he used his house this could make the venture very risky indeed;
- the bank could recall the loan at any time which might threaten the survival of James's business.

4.

Total for this question is 19

- 4** James has presented his evidence to his bank manager in support of his loan application.
- (a) Using **Appendix B**, assume that James's interest payments on his bank loan rise to £650 in December. Calculate the effect on the closing balance for December. You should show your workings. (3 marks)

New cash outflow figure for December = £3 310

Net cash flow for the month = (£660)

New closing balance = (£715)

Award one mark for each element of the calculation (OFR applies).

- (b) Using all the information available to you, assess the case for and against the bank offering James a loan. Do you think that James should take out a loan for £5000 in these circumstances? Justify your decision. (16 marks)

Level	Descriptor	Marks	Objective
4	Candidate offers explanation for and against providing the loan.	7–11	AO3
3	Candidate offers limited explanation of relevant points.	5–6	AO2
2	Candidate identifies relevant points for and against providing the loan.	3–4	AO1
1	Candidate identifies relevant points for or against providing the loan.	1–2	

For A04, you should award marks using the scheme below.

Note that 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.

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3	Candidate makes judgement with full supporting justification based on own analysis. Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	4–5	AO4 and Quality of written communication
2	Candidate makes judgement with some supporting justification. Ideas are communicated with some structure evident with occasional use of appropriate technical terms. There are some errors in accepted conventions of written communication.	2–3	
1	Candidate shows judgement when describing argument for or against providing the loan. Ideas are communicated in a simplistic way with limited use of technical terms. There are noticeable errors in accepted conventions of written communication.	1	

Relevant arguments might include the following:

Points **against**:

- the break-even analysis and sales forecast suggest that the business will make a loss in its first year;
- the market research was a small sample and all based in one location;
- his cash flow forecast shows that his business is using more cash than it generates steadily moving into a negative cash position.

Points **in favour**:

- contributing 66% of start-up capital from own resources;
- has conducted fair amount of financial planning;
- has allocated funds for further marketing and a cash reserve;
- new businesses are typically short of cash and rarely profitable in early stages.