



General Certificate of Education

Applied Business 8611/8613

BS03 Financial Planning and Monitoring

Mark Scheme

2006 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.

	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, describe **two** items of software that Peter might use to run his business. Explain the benefits of using each software item in constructing Peter's business plan. (10 marks)*

Level	Descriptor	Marks	Assessment Objective
4	Candidate explains benefit in terms of preparing a business plan	4–5	AO2/AO3
3	Candidate identifies benefit to Peter	3	
2	Candidate describes software	2	AO1
1	Candidate identifies relevant items of software	1	

NB: Apply the above mark scheme twice.

Relevant answers might include the following:

- Peter could use a spreadsheet to record a lot of his data. This offers the prime benefit of being able to link the pages and to calculate and update linked information at the touch of a button
- Databases could be used to hold details on customers and suppliers. This offers the benefits of providing a large amount of information that can be searched to, for example, analyse information collected as part of the initial market research
- Software supplied by banks. This software allows entrepreneurs to complete financial and other forecasts electronically. This would help to impress the bank, make it easier for them to assess the plan and would be compatible with their own software.

2.

Total for this question: 24 marks

(a) Explain **two disadvantages** that Peter might suffer as a consequence of choosing to operate as a sole trader. (3 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate offers detailed explanation	3	AO2
2	Candidate offers limited explanation	2	AO1
1	Candidate identifies relevant disadvantage	1	

Apply this marking scheme twice.

Relevant answers might include the following:

- It may be more difficult for Peter to raise finance as he only has his own resources to call upon
- Peter will not have the protection of limited liability should his business fail
- Peter will be running the business on his own as a sole trader and this may put pressure on him – long hours and difficulty in taking holidays.

(b) Peter drew up a cash flow forecast because he knew it was important for new businesses to manage cash carefully.

Complete Peter's cash flow forecast shown below by filing in the shaded boxes. (3 marks)

	October	November	December	January
Sales	1 160	2 325	3 650	3 947
Capital introduced	175 400	50 000	0	0
Total cash inflow	176 560	52 325	3 650	3 947
Purchase and re-fitting of shop	229 500	2 400	0	0
Purchases of fish	450	780	900	845
Interest payments	0	640	640	640
Wages	1 000	1 000	1 250	1 000
Other costs, eg advertising	3 980	1 805	2 100	750
Total cash outflow	234 930	6 625	4 890	3 235
Net cash flow	(58 370)	45 700	(1 240)	712
Opening balance	3 200	(55 170)	(9 470)	(10 710)
Closing balance	(55 170)	(9 470)	(10 710)	(9 998)

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

(c) Explain **one** possible reason why Peter's cash flow forecast might prove to be inaccurate.
(5 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate offers detailed explanation (contextualised)	4–5	AO2
2	Candidate offers limited explanation	2–3	AO1/AO2
1	Candidate identifies relevant factor	1	AO1

Relevant answers might include the following:

- It is difficult to estimate start up costs for a new business and Peter does not have any experience of retailing
- Peter's sales forecasts might be incorrect. He carried out little market research
- Variable costs may alter – the price of fish varies regularly, for example.

(d) *Peter is concerned that his business’s forecast cash flow position is very weak, and is considering what actions he might take.*

*Explain **two** actions that Peter might take to improve his forecast cash flow position. Select the best option and justify your choice. (10 marks)*

Level	Descriptor	Marks	Assessment Objective
3	Candidate offers analysis of action(s) in context	5–6	AO3
2	Candidate offers limited explanation of action(s)	3–4	AO2
1	Candidate identifies relevant action(s)	1–2	AO1

NB: If a candidate only explains **one action** award a maximum of **three marks**.

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

NB 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 use of technical terms. There are occasional errors in accepted conventions of written communication.	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.	2–3	
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	

Relevant answers might include the following:

- An overdraft might be appropriate if the bank is willing to grant it
- Peter may negotiate with his initial bank for more than £50 000; around £60 000 should be sufficient
- Peter could try and negotiate trade credit with his suppliers, though he has little credit history and this is unlikely to provide enough in this case
- He could cut down on some proposed costs, for example marketing
- The plans to decorate and refurbish the shop could be put aside (or simplified) to lessen the cash outflow
- Evaluation might centre on what is most appropriate for **these circumstances**.

3.

Total for this question: 10 marks

(a) Using **Item B**, calculate Peter's forecast profit or loss for his first year of trading. (5 marks)

	£	
Annual sales revenue (£4550 x 12)	54 600	(1)
Annual fixed costs	17 000	(1)
Annual variable costs (£2200 x 12)	<u>26 400</u>	(1)
Total costs	<u>43 400</u>	(1)
Profit	11 200	(1)

In cases of non-standard responses annotate correct figures by use of ticks and apply OFR.

(b) Explain why it is important for Peter to make a profit as soon as possible. (5 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate offers analysis in context	4–5	AO3
2	Candidate offers limited explanation	2–3	AO2
1	Candidate identifies relevant factor	1	AO1

Relevant answers might include the following:

- Peter wants some reward for his hard work, after all he could have continued as a fisherman
- Peter will not be able to pay his bills if he does not make a profit
- Peter is taking a risk in setting up in the business; profit is the reward for taking risks
- The bank will want to see a profit if it is to grant an overdraft or continue to lend Peter money
- If Peter is to attract another shareholder into his business and to establish a company he will need to make a profit.

4.

Total for this question: 16 marks

Peter is considering forming a private limited company by inviting another person to invest £50 000 in return for 20% of the company's shares.

Use all the data available to you to decide whether an investor should purchase shares in Peter's business.
(16 marks)

Level	Descriptor	Marks	Assessment Objective
4	Candidate offers analysis of both sides in context	8–10	AO3
3	Candidate offers explanation of both sides/ Analysis of one side	5–7	AO2
2	Candidate offers limited explanation of one side	3–4	AO1
1	Candidate identifies relevant points	1–2	

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

NB 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 use of technical terms. There are occasional errors in accepted conventions of written communication.	5–6	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.	3–4	
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.	1–2	

Relevant answers might include the following arguments:

For investing in Peter's business:

- Peter's business is forecast to make a profit of £11 200 (NB: OFR) in its first year. This is an encouraging performance for a new business
- With another person helping (if they do so) to run the business it may be possible to increase profits further by expanding the range of services on offer – eg home delivery
- Using share capital rather than loan capital will improve the business's financial performance
- The cash position is improving steadily after a tricky start
- The bank is willing to lend Peter £50 000– it has confidence in his business
- Peter has planned his proposed business carefully, including a full business plan.

Against investing in Peter's business:

- Peter's initial cash position is weak. If he doesn't take out the bank loan, he needs more than £50 000
- £50 000 looks like a lot of money for 20% of Peter's business– is it really worth £250 000?
- All of the financial information is forecast –this is a new business, so there is no track record to go on
- Peter did not carry out much market research, so his figures may be inaccurate
- The shareholder would not have an equal share in the business. Would he or she agree with Peter's decisions?

Issues for evaluation might include the following:

- Peter has a lot of experience of the fishing industry and of business – he might be a good person to work with
- Much depends upon the accuracy of the financial forecast
- Surely it depends on what else the investor could do with £50 000.