



General Certificate of Education

Applied Business 8611/8613

BS03 Financial Planning and Monitoring

Mark Scheme

2007 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.

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:

(a) Describe **two** major resources which Bagshaw Ltd will need if it is to expand production. (4 marks)

Award one mark for identification and one mark for development (x 2).

Relevant answers might include the following:

- the company is likely to require further premises as its current ones are being utilised fully
- machinery to process and pack the nuts
- staff resources will be needed, for example more production line workers and sales people and those with European language skills
- Bagshaw's may require more IT equipment to deal with the expansion into overseas markets
- financial resources.

(b) Explain the benefits to the company of using minimal amounts of resources. (6 marks)

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

Relevant answers might include the following:

- Bagshaw's will benefit from using a minimum of resources because it is not making large amounts of profits
- using minimal amounts of resources will assist it in times when cash is in short supply
- the company may be able to afford to borrow larger amounts of capital as it will be able to repay larger sums of money if it keeps other costs to a minimum
- the cost of nuts can vary unexpectedly, so a larger profit margin may help Bagshaw's to absorb higher costs for almonds and other essential nuts
- to assist in cost efficient expansion
- possible benefits of leaner organisation.

2**Total for this question: 6 marks**

Explain **two** reasons why *Bagshaw Ltd* might have had problems in managing its cash flow.
(6 marks)

Apply the marking grid below twice.

Level	Descriptor	Marks	Assessment Objective
3	Candidate offers explanation in context.	3	AO2
2	Candidate provides simple development of reason.	2	AO1
1	Candidate states relevant reason.	1	

Relevant answers might include the following:

- the company might have suffered because it has grown steadily over recent years and this always places pressure on cash flow management
- nuts are *Bagshaw's* main cost and the price of this commodity can vary significantly and unexpectedly on world markets, placing a strain on cash flow
- the company has recently purchased the latest production line technology – this may have placed pressure on *Bagshaw's* cash flow
- the company may have forecast sales inaccurately (they have risen in recent years) and underestimated its need for cash
- it may simply be due to poor financial management – is this why *Bagshaw's* appointed a new Financial Director?

3**Total for this question: 10 marks**

Analyse the case **for** and **against** Bagshaw Ltd becoming a public limited company (plc).
Decide whether or not the directors should approve this proposal and justify your decision.
(10 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate offers analysis of points in context.	5–6	AO3
2	Candidate provides explanation of points.	3–4	AO2
1	Candidate states relevant points.	1–2	AO1

NB: if candidate only discusses one side of the question, award maximum Level 2.

For AO4, you should award marks 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 communications.	3–4	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 communications.	1–2	

Relevant answers might include the following:

- becoming a plc will offer the company much greater access to capital (mainly through the Stock Exchange) which will help it to raise funds for expansion
- becoming a plc will raise the company's profile assisting it in negotiating contracts to supply larger supermarkets such as Tesco
- going public may enable *Bagshaw's* to take advantage of the growing market and to expand into the European market
- the process of becoming a plc is very expensive and *Bagshaw's* is not a highly profitable company
- as a plc *Bagshaw's* will be vulnerable to a loss of control if it sells more shares. This may not be attractive to a family-owned business
- trading as a plc may make *Bagshaw's* vulnerable to take-overs
- *Bagshaw's* will have to reveal more financial information which might be of benefit to competitors.

4

Total for this question: 18 marks

(a) Using the data in **Table 1** opposite, calculate Bagshaw Ltd's profit or loss for the financial year ending 31 December 2006. You should show your workings. (5 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate calculates answer correctly.	5	AO2
2	Candidate makes attempt at any relevant calculation.	3–4	
1	Candidate shows understanding of calculation of profits, eg by writing down relevant formula.	1–2	AO1

Profits = sales revenue – total costs (fixed + semi-variable + variable)

$$= 9\,045\,750 - (1\,650\,000 + 340\,000 + 6\,625\,000)$$

$$= 9\,045\,750 - 8\,615\,000$$

$$= \mathbf{\pounds 430\,750}$$

(b) Using the information in **Table 2** opposite, calculate the following variances for Bagshaw Ltd.

In each case you should state whether the variance is adverse or favourable.

- (i) Total sales revenue for November 2006 (3 marks)
(ii) Profits for November 2006 (3 marks)

- (i) Budgeted sales revenue for November is £609 730 whilst the actual figure was £634 827. This gives a variance of £25 097 (Favourable).
- (ii) Budgeted profits for November were £33 595 whilst actual profits amounted to £29 567. This gives a variance of £4 028 (Adverse).

Apply the marking grid below twice.

Level	Descriptor	Marks	Assessment Objective
3	Candidate calculates answer correctly including identifying the type of variance.	3	AO2
2	Candidate calculates answer correctly demonstrating understanding of concept, but does not identify the type of variance.	2	
1	Candidate shows understanding of calculation of variances, eg by writing down relevant formula.	1	AO1

(c) Explain the possible benefits that Bagshaw Ltd might gain from drawing up budgets for the financial year beginning on 1 January 2007. (7 marks)

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

Relevant answers might include the following:

- budgets will help *Bagshaw's* to control and monitor its expenditure. This will be important during a period of expansion when it is notoriously difficult to control expenditure
- operating budgets will help to identify the parts of the expanded business that are performing well financially and those that are not
- drawing up budgets will help *Bagshaw's* in its attempt to raise capital from banks and other investors
- cash flow budgets might help the company to avoid some of the cash flow problems it has experienced in the past.

5**Total for this question: 16 marks**

The directors of Bagshaw Ltd have decided to convert the business into a public limited company (plc) and to expand the company as discussed. They need to raise £5.7 million to carry through their plans.

Using all the information available to you, consider the sources of finance that the company could use and make a justified recommendation as to how the capital should be raised.

(16 marks)

Level	Descriptor	Marks	Assessment Objective
5	Candidate offers analysis in context.	9–10	AO2/AO3
4	Candidate offers analysis or offers explanation in context.	6–8	AO2/AO3
3	Candidate offers explanation of point(s).	4–5	AO2
2	Candidate provides limited explanation of point(s).	2–3	AO1
1	Candidate states relevant point(s).	1	

Relevant answers might include the following:

- the company could use its profits from previous year's trading, though this will only provide a small proportion of the funds required. However, it might be necessary to persuade other investors to put funds into the enterprise
- as the company is to trade as a plc it can use the opportunity to raise funds on the Stock Exchange. However, the Bagshaw family will want to limit the amount raised in this way if it wishes to retain control of the company
- the company has a factory in London on a large site. It could possibly sell some of the surplus land, or sell the site entirely and move to a cheaper location
- one possibility is a bank loan, possibly using the London site as collateral. However, this would be unlikely to provide the entire £5.7 million required
- *Bagshaw's* may be able to negotiate a grant (or possibly a loan) most probably under the SFI scheme. This, however, will require it to locate outside London in less prosperous areas and to create permanent jobs.

Issues for evaluation might include the following:

- this is a large expansion for a fairly small company and will probably require a variety of sources
- the decision to move to become a plc will have been made in part because of the possibility of selling equity through the Stock Exchange. *Bagshaw's* is almost bound to use this to raise a proportion of the finance
- much might depend upon whether the company plans to move from London
- more information is needed.

Please turn over for AO4.

For AO4, you should award marks 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 use of technical terms. There are occasional errors in accepted conventions of written communications.	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 communications.	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 communications.	1–2	