



**General Certificate of Education (A-level) Applied
June 2011**

Applied Business

BS03

**(Specification
8611/8613/8616/8617/8619)**

**Unit 3: Financial Planning and Monitoring
(External Test)**

Mark Scheme

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 events which all examiners participate in and is the scheme which was used by them in this examination. The standardisation process 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 standardisation each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, examiners encounter unusual answers which have not been raised 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

1	<p><i>Drawing on your pre-examination research, explain two reasons why Usha might have thought it important to draw up a business plan for Top Flights. Make a justified recommendation as to which of these reasons was the most important.</i></p> <p style="text-align: right;"><i>(10 marks)</i></p>
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Level	Descriptor	Marks	Assessment Objective
4	Offers analysis of reason(s) in context.	7–6	AO3
3	Explains reason(s) in context.	5–4	AO2
2	Explains relevant reason(s).	3–2	AO1
1	Identifies relevant reason(s)/shows understanding of business plans.	1	

Relevant answers might include the following:

- a prime reason is to assess the likely costs and revenues and to judge whether it would be profitable – Usha had some doubts about whether a ballooning business would make profits as the costs of starting up were high
- Usha was not able to provide all of the capital needed to start her business as her capital was limited to £95 000. Any investors would require evidence of the potential financial performance of the business before deciding to support it, especially as this business is operating in what is a competitive market
- setting up a ballooning business is complex (with pilots' licences and Civil Aviation Authority certificates required) as well as staff and a wide range of equipment, so a business plan was essential
- cash flow could be a vital issue for this business as it is seasonal. A business plan would contain a cash flow forecast which would help Usha to judge the extent of this problem and to decide how to deal in advance with it
- Usha intends to manage this business and, as an experienced entrepreneur, she would appreciate that a business plan would allow her to monitor the business's progress. This could be vital to keep an eye on cash flow as well as profitability in the early months.

See next page for Evaluation Grid.

For AO4, you should award marks using the scheme 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	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	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.	2–1	

2

Total for this question: 22 marks

2 (a) Using the information in **Item A**, calculate Top Flights' forecast profits for its first year of trading. (6 marks)

Correct answer: £1 403 (6 marks)

Revenue:	£	
Luxury flights	57 148	} (1 mark for correct selection)
<u>Budget flights</u>	<u>98 425</u>	
Total revenue	155 573	(1 mark)
Expenditure:	£	
Annual fixed costs	60 000	(1 mark)
Wage costs	60 500	
Annual interest payments	16 500	(1 mark)
<u>Other annual costs</u>	<u>17 170</u>	
Total expenditure	154 170	(1 mark)

$$\begin{aligned}\text{Profit} &= \text{revenue} - \text{total expenditure} = \mathbf{£155\ 573} - \mathbf{£154\ 170} \\ &= \mathbf{£1\ 403} \text{ (1 mark)}\end{aligned}$$

Alternative answers:

- (£106 403) – 5 marks
- (£103 597) – 5 marks
- (£33 472) – 4 marks
- £71 528 – 4 marks

Use OFR throughout. Two marks are available for a correct definition or formula for profits.

2 (b) Explain why Usha might have 'favoured the idea of establishing Top Flights as a sole trader'. (6 marks)

Level	Descriptor	Marks	Assessment Objective
2	Explains possible reason(s) in context.	6–4	AO2
1	States relevant reasons/shows relevant knowledge.	3–1	AO1

Relevant answers might include the following:

- a sole trader is a legal form of business with a single owner
- operating as a sole trader, Usha would not have to share the profits (if any) with someone else therefore receiving greater reward for the risk of starting the business. This might be important for Usha as 'profits are very important to her'
- Usha had worked as a sole trader successfully for many years in Norfolk and was used to making decisions alone. She might find difficulty in sharing decisions with someone else – especially on ballooning about which she is passionate
- Usha is clearly a capable entrepreneur and does not need support in managing a small business. Her hotel in Norfolk had most likely been a commercial success as she had received an 'irresistible offer' for the business
- the costs of establishing this business are considerable and Usha would probably wish to avoid anything else which could add to her costs, even the relatively small expense of establishing a private limited company
- ballooning is a highly regulated industry because of the safety issues. Usha may have wanted to avoid any further regulations such as those relating to operating a private limited company.

2 (c)	<i>Usha thinks that calculating the break-even number of flights for her business will be of little value. Do you agree with her? Use Item A to justify your decision.</i>	<i>(10 marks)</i>
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Level	Descriptor	Marks	Assessment Objective
3	Offers analysis of point(s) in context.	7–6	AO3
2	Explains point(s) in context.	5–3	AO2
1	States relevant points/shows understanding of break even.	2–1	AO1

Relevant answers might include the following:

- break even is the level of sales at which total costs and total revenue are equal and neither a profit nor a loss is made.

Arguments in favour of Usha’s view:

- it is apparently difficult for Usha to predict her fixed costs which are a major part of calculating break even. Insurance is a major cost for Usha’s business and if this figure varies significantly her break-even calculations will become inaccurate
- Usha does not sell all of her flights at the same price. Budget flights are £99 per person whilst a luxury flight for up to six people would bring in ten times as much. Break even relies on a single price
- Usha is operating in a competitive market. Rivals might reduce prices and she would have to respond as a new business, affecting her break-even output.

Arguments against Usha’s view:

- Usha needs to raise a large sum of capital (about £105 000) and favours a bank loan. It is likely that a bank would require a break-even forecast as part of her business plan supporting the loan application
- this industry is forecast to experience changes in costs. Break even can be used to assess the impact of these changing variables on the level of sales (flights) required to break even. This would help Usha to monitor the changes that are forecast to occur
- profits are very important to Usha and break even would provide her with a simple measure of whether her business is on target to record a profit.

Points for Evaluation might include the following:

- perhaps it is of less importance for Usha because she has drawn up a detailed business plan including a profit forecast
- monitoring the level of flights needed to break even will be an important management task in the first year of trading.

See next page for Evaluation Grid.

For AO4, you should award marks using the scheme 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	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	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.	2–1	

3

Total for this question: 12 marks

3 (a) *Assuming that Amir becomes a partner in Top Flights, a bank loan will not be needed and monthly interest payments will fall to £65. Complete the table below to show recalculated figures for September and October:*

- *total cash outflow*
- *net cash flow*
- *closing balance.*

(6 marks)

	September £	October £
Total cash inflow	186 550	5 450
Purchase of balloons, etc	178 500	
Interest payments	65	65
Other fixed costs	5 000	5 000
Wages	4 600	4 775
Other variable costs, eg insurance	3 650	1 355
Total cash outflow	191 815	11 195
Net cash flow	*(5 265)	*(5 745)
Opening balance	1 500	(3 765)
Closing balance	*(3 765)	*(9 510)

Award **one mark** for each correct answer. **NB:** *OFR applies.

3 (b) *Analyse the possible benefits that Usha might receive from monitoring the budgets that she has drawn up for Top Flights.* *(6 marks)*

Level	Descriptor	Marks	Assessment Objective
3	Offers analysis of relevant benefit(s) in context.	6–5	AO3
2	Explains possible benefit(s) in context.	4–3	AO2
1	States relevant benefits/shows relevant knowledge.	2–1	AO1

Relevant answers might include the following:

- a budget is a financial plan
- Usha might know quickly if sales are lower than she has forecast if competitors decide to reduce prices, for example
- Usha believes that her costs will fluctuate (for example the cost of fuel) and this would affect her profits. Monitoring budgets will help her to understand the consequences of such changes
- monitoring her budgets will help with decision making – for example, is it worth continuing with the flights in winter?
- monitoring her budgets will help Usha to see which parts of her business are performing best: are luxury flights really more profitable, for example?

4

Total for this question: 16 marks

4	<i>Using your pre-examination research and all the information available to you, analyse the case for and against Amir becoming a partner in Usha's hot air ballooning business. You should advise Amir on whether or not he should become Usha's business partner and justify your advice. (16 marks)</i>
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Level	Descriptor	Marks	Assessment Objective
5	Offers analysis of both sides of argument in context from Amir's perspective.	12–11	AO3
4	Offers analysis in context from Amir's perspective.	10–9	
3	Explains point(s) in context.	8–6	AO2
2	Explains point(s).	5–3	AO1
1	States relevant points/shows relevant knowledge.	2–1	

Relevant answers might include the following:

In favour of Amir becoming a partner in Usha's business:

- Usha has great experience as an entrepreneur and has run a successful hotel business in Norfolk for many years before selling it for a pleasing sum
- Usha and Amir obviously have a good personal relationship and this is particularly important in a small partnership where just two people are making decisions
- the business is forecast to make a profit (£1403) in its first year and this is an encouraging feature as many new businesses initially record large losses
- if Amir invests in the business there might be a significant improvement in the business's forecast cash flow position. This might help it to win new (business) customers by offering more trade credit, for example
- Usha has planned her business carefully using primary market research (and her entrepreneurial experience) and has produced some encouraging financial forecasts. For example, her cash flow is forecast to have a positive figure by the end of the first year of trading.

Against Amir becoming a partner in Usha's business:

- this is a very competitive market that Usha is trying to enter and there are much more financially powerful rivals, such as Virgin, who could take actions to drive Usha (and Amir) out of business
- this is a traditionally seasonal business and Usha seems to be relying heavily on winter flights to make a (tiny) profit. Bad weather could lead to her financial forecasts being highly optimistic
- the forecast cash flow position of the business is worrying. Even with Amir's investment it will be strongly negative and banks have not been very willing to lend Usha £105 000 to start her business. They may have been worried by this too and believe that she may not be able to repay a loan of this size
- Usha has admitted that some of her financial forecasts may be inaccurate because of changes in costs. The proposed business is to be a partnership meaning that Amir will not have the protection of limited liability. These factors increase the degree of risk for Amir.

Points for Evaluation might include the following:

- what is Amir looking for from this business partnership? If it is short-term profits there might be better investment opportunities elsewhere – the return on the first year is tiny. However, there could be good long-term prospects here
- what is Amir's attitude to risk? This is a competitive market and larger competitors, such as Virgin, might react strongly to the new rival. This could make it very difficult for a new business to survive
- this is a business decision and Amir should not be influenced by his relationship with Usha
- is Usha's love of ballooning clouding her business judgements?

For AO4, you should award marks using the scheme 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	Offers judgement plus full justification. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in conventions of written communication.	4	AO4 and Quality of written communication
E2	Offers judgement plus incomplete 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.	3–2	
E1	Offers unsupported judgement. Ideas are communicated with some structure evident with occasional use of technical terms. There are noticeable errors in accepted conventions of written communication.	1	