



**General Certificate of Education (A-level) Applied
January 2013**

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 students' 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 students' 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.

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	Assessment Objectives
	The Assessment Objectives represent those qualities which can be demonstrated in students' work and which can be measured for the purposes of assessment.
AO1 Knowledge, skills and understanding	Students demonstrate knowledge and understanding of the specified content and relevant business skills.
AO2 Application of knowledge, skills and understanding	Students apply knowledge and understanding of the specified content and relevant business skills.
AO3 Research and analysis	Students use appropriate methods in order to obtain and select information from a range of sources to analyse business problems.
AO4 Evaluation	Students evaluate evidence to reach reasoned judgements.
Quality of Written Communication	<p>The quality of written communication is assessed in all assessment units where students are required to produce extended written material. Students 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 *Drawing on your pre-examination research, explain the possible benefits to Wade of preparing a detailed business plan before starting his floating hotel business.*

*(You should not spend more than **ten minutes** on this question.) (10 marks)*

Level	Descriptor	Marks	Assessment Objective
4	Offers analysis of benefit(s) of drawing up a detailed business plan in context.	10–9	AO3
3	Explains benefit(s) of a business plan in context.	8–5	AO2
2	Explains relevant benefit(s).	4–3	AO1
1	Offers definition or states relevant points.	2–1	

Relevant answers might include the following:

- Wade has not run a business before and will need to draw up a plan to convince himself that this idea will work before he can persuade others – this will have to be detailed. He has concerns about the viability of his business proposal
- Wade only has a small pension to live on and will rely on this business to provide further income. Detailed planning will help him to decide whether this is a realistic source of future income
- Wade will need some finance either from a bank or other investor. They will be putting in a high proportion of the funds (44%) and will undoubtedly want to see evidence of detailed planning before committing themselves
- although Wade has contacts with suppliers who he has used previously, they will still expect details of business plans if they are to be expected to offer him any trade credit
- a detailed plan would be helpful in these circumstances to help Wade to monitor the performance of his new business should he decide to start it. His financial position is not strong and early warning of any problems would make it easier for him to manage the business
- the process of business planning has brought Wade into contact with business advisers who can offer him assistance and help to overcome his inexperience as an entrepreneur, thereby increasing the chances of his business succeeding should he decide to go ahead.

2

Total for this question: 22 marks

2 (a) Using the information in **Figure 1**, calculate the number of days that the boat will need to be hired **each month**, if Langley Cruises Ltd is to break even. (5 marks)

Correct answer: 15 days per month (5 marks)

Break-even = $\frac{\text{fixed costs}}{\text{contribution per unit}}$ (2 marks)

Contribution per unit = selling price per unit – variable cost per unit (1 mark)

Fixed costs = £750 per month

Contribution per unit = £260 – (1 mark for process of subtracting) £210 (1 mark) = £50 (1 mark)

Break-even = $\frac{£750}{£50}$ (1 mark) = 15 days per month (1 mark)

2 (b) Explain the possible reasons why Wade has decided to form a private limited company to operate the business. (7 marks)

Level	Descriptor	Marks	Assessment Objective
3	Offers explanations in context.	7–5	AO2
2	Explains reasons for forming a private limited company.	4–3	AO1
1	States relevant benefits/shows relevant knowledge.	2–1	

Relevant answers might include the following:

- Wade is able to provide more than 50% of the capital required to start the business giving him the opportunity to have a controlling interest in the organisation
- limited liability could be important to Wade. He was unwilling to use his home as security for the business and forming a company protects this asset
- this gives Wade the opportunity to sell shares to raise the remaining capital. This could be important for the business as it will help to control costs during the critical start-up period.
- forming a company helped to attract investment from Matt Dean as well as allowing the business to benefit from his marketing skills and experience.

2 (c) *Wade's business adviser recommended that the company should set its prices relatively high. Do you agree with the business adviser? Justify your view.*
(10 marks)

Level	Descriptor	Marks	Assessment Objective
3	Offers analysis of point(s) in context.	6–5	AO3
2	Explains point(s) in context.	4–3	AO2
1	States relevant points.	2–1	AO1

Relevant answers might include the following:

Arguments in favour of the business adviser's view:

- Wade is launching a luxury 'floating hotel' which is the best quality provision available and his prices should reflect this
- the market is growing quickly (39% more boats on the canals in three years) and this increasing demand may mean high prices do not put people off using Wade's service
- Wade's business is new and will face considerable start-up costs (especially marketing) and higher prices and revenues may help to offset this.

Arguments against the business adviser's view:

- Wade faces a lot of competition from established rivals in the hotel boat market and customers may simply choose to buy from cheaper rivals despite the luxurious nature of Wade's boat
- Wade has not established a customer base and this will be more difficult to achieve if he charges high prices
- Wade has not conducted any research on consumers' views on prices – therefore this is a risky decision, based heavily on guesswork.

Points for Evaluation might include the following:

- much will depend upon how effectively Wade markets his company's USP – its luxurious boats
- it may depend on how existing rivals react: if they cut prices or increase advertising, Wade's company could face problems
- it would be sensible to conduct more research before making such an important decision
- if Wade wants to make a profit, he must charge high prices.

For **AO4**, you should award marks using the scheme below.

Note AO4 also assesses students' quality of written communication. When deciding on the AO4 level to be awarded, consider the degree to which the student orders and communicates his/her ideas.

Level	Descriptor	Marks	Assessment Objective
E3	Offers developed judgement which is supported well. 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 attempted 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 assertion which has no valid support. Ideas are communicated with some structure evident with occasional use of technical terms. There are noticeable errors in accepted conventions of written communication.	1	

3

Total for this question: 12 marks

3 (a) Use the information in **Item B** and **Figure 2** to complete Wade's revised budget for July by filling in the shaded spaces in the table below. (6 marks)

	Original budget for July	Wade's revised budget for July	
Number of days' cruising sold	24	28	
	£	£	
Sales income	7 200	8 400	(2 marks)
Costs			
Insurance and interest payments	650	650	
Fuel (£18 per day)	432	504	
Wages (£145 per day)	3 480	4 060	(1 mark)
Food (£27 per day)	648	756	(1 mark)
Other costs, eg repairs and maintenance	275	275	
Marketing	480	480	
Total costs	5 965	6 725	(1 mark)
Profit or (loss)	1 235	1 675	(1 mark)

3 (b) *After updating their budget for July, Wade and Matt agreed that it was vital for budgets to be prepared and monitored for Langley Cruises Ltd.*

Explain why they may have felt this way.

(6 marks)

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

Relevant answers might include the following:

- this is a new business and has no past trading records to draw upon. Therefore monitoring income and expenditure budgets to help make better quality decisions will be very important
- the business partners already have plans to expand and monitoring the financial success (or otherwise) of their first boat will help to make this decision. Their expansion plans will require the raising of further capital, and financial records as well as forecasts will be a central part of this process
- their business is expected to be strongly seasonal (though they are not sure to what extent) and therefore it will be necessary to draw up cash flow forecasts to identify and manage times of cash shortage
- controlling costs will be an important part of any financial success that the business enjoys. The process of budgeting will make Wade and Matt consider expenditure plans in advance of taking them and will help to avoid unnecessary expenditure.

4

Total for this question: 16 marks

4 *Using your pre-examination research and all the information available to you, analyse the case **for** and **against** Wade and Matt's decision to start Langley Cruises Ltd. Do you agree with their decision? You should justify your view. (16 marks)*

Level	Descriptor	Marks	Assessment Objective
5	Offers analysis of both sides of argument in context.	10–9	AO3
4	Offers analysis of one side in context.	8–7	
3	Offers explanation in context.	6–4	AO2
2	Explains point(s).	3–2	AO1
1	States relevant points.	1	

Relevant answers might include the following:

In favour of the decision:

- the two business partners have a range of skills which will help their business to be successful: Wade has trained as a chef and has managed a hotel whilst Matt has expertise in marketing. These skills are important in the context of this business
- the market is growing in size at a rapid rate and UK citizens are forecast to increase their expenditure on holidays over the next twenty years. Sales could be buoyant
- the financial forecasts look positive in that the business makes a profit in its third month of trading – by July (in mid season) it is making a modest return for the owners
- the business shareholders are protected against some of the financial consequences of failure as they have formed a private limited company – this limits their losses to the sums invested and protects personal possessions, so the level of risk is not high
- the company has avoided heavy interest charges as it has not been financed through loans – this has assisted in keeping its costs under control and has contributed to early profitability
- if financial forecasts are accurate, the business reaches break-even point easily in the summer.

Against the decision:

- sales for *Langley Cruises Ltd* will be seasonal. The financial forecasts are for the summer months when sales are likely to be high. The budget presented for April to July 2013 could be misleading in this respect
- the company will have to achieve a high level of sales to break even over the year. Initial forecasts suggested 180 days of bookings (out of 365) – given the seasonal nature of this business, this may be difficult to achieve
- cash flow could be a significant problem for this business. Even though the partners recognise this, a forecast has not been drawn up, even though they have decided to go ahead. The winter months could be difficult in terms of managing cash
- this is a strongly competitive market and the company does not know how established rivals may react: cutting prices and increasing advertising could mean that Matt's market research proves to be optimistic and their budgets inaccurate.

Points for Evaluation might include the following:

- much depends on the accuracy of the forecasts – if they are correct, then the business may prosper
- the business partners were clearly hasty as their financial planning is incomplete. They should not have taken this decision
- the risk of this business is relatively low – they can always recoup some of their investment by selling the boat – so why not go ahead? They were right!

For **AO4**, you should award marks using the scheme below.

Note AO4 also assesses students' quality of written communication. When deciding on the AO4 level to be awarded, consider the degree to which the student orders and communicates his/her ideas.

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