



Level 3 Certificate/Extended Certificate in Applied Business

Financial Planning and Analysis
Mark scheme

Unit Number: ABS1
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Mark schemes are prepared by the Lead Assessment Writer 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 associates 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 associate understands and applies it in the same correct way. As preparation for standardisation each associate 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, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Assessment Writer.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' 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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MARKING METHODS

In fairness to candidates, all examiners **must** use the same marking methods. The following advice may seem obvious, but all examiners **must** follow it as closely as possible.

- 1 If you have any doubt about how to allocate marks to an answer, consult your Team Leader.
- 2 Refer constantly to the mark scheme and standardising scripts throughout the marking period.
- 3 Use the full range of marks. Don't hesitate to give full marks when the answer merits them.
- 4 The key to good and fair marking is **consistency**.

INTRODUCTION

The information provided for each question is intended to be a guide to the kind of answers anticipated and is neither exhaustive nor prescriptive. **All appropriate responses should be given credit.**

Where literary or linguistic terms appear in the Mark Scheme, they do so generally for the sake of brevity. Knowledge of such terms, other than those given in the specification, is **not** required. However, when determining the level of response for a particular answer, examiners should take into account any instances where the candidate uses these terms effectively to aid the clarity and precision of the argument.

DESCRIPTIONS OF LEVELS OF RESPONSE

The following procedure must be adopted in marking by levels of response:

- read the answer as a whole
- work up through the descriptors to find the one which best fits
- where there is more than one mark available in a level, determine the mark from the mark range judging whether the answer is nearer to the level above or to the one below.

Since answers will rarely match a descriptor in all respects, examiners must allow good performance in some aspects to compensate for shortcomings in other respects. Consequently, the level is determined by the 'best fit' rather than requiring every element of the descriptor to be matched. Examiners should aim to use the full range of levels and marks, taking into account the standard that can reasonably be expected of candidates.

SECTION A**Total for this section: 40 marks**

The following list indicates the correct answers used in marking learners' responses to the multiple choice questions:

KEY LIST

1	C
2	D
3	C
4	A

05 Calculate the break-even output for the business. Show your calculations.

[3 marks]

Fixed costs/contribution (sp-vc) = Break-even output (1 for formula/definition).

$\text{£}7500(1)/\text{£}25(1)-\text{£}15(1) = 750$ (1) (or 3 for correct answer)

2 marks if lower function is correct.

06 Calculate the profit variance between the forecast and the actual profit. Show your calculations.

[3 marks]

1 mark for correct forecasted profit. **£60,000**

1 mark for calculating actual profit. **£64,000**

1 mark for calculating the correct variance. **£4,000 (favourable) OFR here**

3 marks if just £4000 (favourable)

07 What type of cost is the expenditure on the sales force for the car retailer? Explain why it is this type of cost.

[3 marks]

1 mark for identifying semi variable cost.

1 mark for a explaining the features of a (semi variable/variable/fixed) cost.

1 mark for a explaining the features of a semi-variable/variable/fixed cost in relation to the sales force.

This is an example of a semi variable cost (1). A semi variable cost has elements of fixed costs and variable costs (1). The sales force salary is a fixed cost that does not change regardless of how many cars are sold. The commission is variable as it increases with each extra car sold.

08 Use the information above to analyse **two** suitable ways in which Archie might finance the purchase of the extra stock needed to meet sales.

[9 marks]

Level	Descriptor	Marks
3	Uses the information to analyse why selected sources of finance would be suitable for Archie to use to buy the extra stock.	9–7
2	Uses the information to describe which sources of finance would be suitable for Archie to use to buy the extra stock.	6–4
1	Demonstrates generic understanding of sources of finance	3–1

Possible responses include:

Knowledge and Understanding (L1)	Application (L2)	Analysis (L3)
Bank overdraft	As the financing is for a short period of time Archie would be able to pay back the overdraft as soon as sales are made.	Archie would need to negotiate with the bank for an overdraft and as this is a new business start-up £10,000 may be optimistic. He may need to use this source of finance with another type in order to meet the total needed.
Sell shares	The business is a private limited company and can sell shares. Archie will not have to pay interest.	As Scott has redundancy money he may be willing to buy. Archie wants his own business so he would need to ensure that Scott receives less than a 50% share. Scott will also be entitled to a share of profits which will reduce the amount available for Archie. Scott may drive a hard bargain in terms of ownership percentage. Possibly a lot to give away for a short term funding gap.
Archie increase the bank loan	It may be possible to increase the loan and pay off over a longer period.	There is interest to be paid on a bank loan. The existing loan offer is cutting into profits. The interest burden may be too high. The bank may also not wish to increase the loan by such a large amount. The Bank is going to allow the business a loan anyway, so must have some confidence.
Trade credit	Using trade credit is for 30 days, Archie would be able to sell some of the bikes before payment is due	This would be ideal as he would not need to give up ownership or pay interest. There is the issue that this is a new business start up without a credit history. The suppliers may reduce the payment period or there may be a trade off on price. Although this might be acceptable in the short term. This method might be useful if used with another such as a bank

		overdraft.
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09 Use the information above to analyse **one** advantage and **one** limitation of break-even analysis in planning her new business.

[9 marks]

Level	Descriptor	Marks
3	Uses the information to analyse one advantage and one limitation of break-even analysis in planning Martha's new business.	9–7
2	Uses the information in the case to describe one advantage and one limitation of break-even analysis in planning Martha's new business.	6–4
1	Demonstrates generic understanding of the advantages and limitations of break-even analysis.	3–1

Possible responses include:

Knowledge and Understanding (L1)	Application (L2)	Analysis (L3)
Advantages		
Helps to set targets	By calculating break-even output Martha will be able to work out how many burgers she needs to sell to make a profit. Setting targets will be important for a new business. She will be able to estimate how many burgers and buns to buy and how much this would cost.	She can use this information to monitor if targets are being met and can try and control costs or change the price of the burgers if targets are not being met.
What if analysis	Martha can compare different price for the burgers to see different break-even outputs or she can explore the impact of increased costs for different concert venues or for discounts if she buys in bulk.	What if analysis could be useful in taking account of competitors at different festival venues. For example she could see the effect of undercutting competitors. It would be important for a new business to know how to respond to competition.
Limitations		
Costs can vary	Different festival sites will have different costs for example a popular festival might charge more for the rent of a trading	Because costs vary with different venues it misleading when setting prices. What might be suitable for one venue may not be suitable for

	<p>pitch or there may be more travel costs in attending different venues.</p> <p>Martha does not know how many she will sell so does not know if she would be able to reduce costs by buying a bigger quantity of burgers and buns.</p>	<p>others. Some venues may not be viable.</p> <p>Because so extent of many of the costs are unknown it will be difficult to accurately calculate how much to ask to borrow from the bank.</p>
<p>Break-even does not take into account competition</p>	<p>Martha will be able to identify fixed costs such as the rent for the stall but will not be able to control the prices charged by competitors. Competition could vary between festivals.</p>	<p>Martha can make break-even projections and set prices based on this, however this does not mean that people will buy. If a competitor is offering a cheaper product break-even profit may not be reached.</p>
<p>A business would not know how much it would sell.</p>	<p>This is a new business and Martha will have little experience about estimating sales at the various festivals. The problem is complicated by factors such as the weather, size of the festival and competition.</p>	<p>There are implications for incorrectly estimating sales such as wasted food and higher costs or missed selling opportunities by buying too little stock.</p>
<p>A business may sell various items at various prices.</p>	<p>Martha may sell different types of burgers at various prices as the ingredients may vary. This will make it difficult to estimate her revenue and the breakeven point. Martha will have to estimate the prices charged at each venue.</p>	<p>If Martha is incorrect in her estimate of the prices charged, the food stalls may not breakeven. The predicted break-even level of sales is no guarantee Martha will achieve this as she may not provide a product customers want or a competitor may offer a better product.</p>

10 Use the information above to analyse why it might be important for Josh to offer a 10% incentive for the garden centres to pay early.

[9 marks]

Level	Descriptor	Marks
3	Uses the information to analyse why it might be important for Josh to offer an incentive to the garden centres to pay quickly.	9–7
2	Uses the information to describe how the 10% incentive will improve josh's cash position.	6–4
1	Demonstrates generic understanding of profit, cash or other valid point.	3–1

Possible responses include:

Knowledge and Understanding (L1)	Application (L2)	Analysis (L3)
Profit is the difference between income and expenditure during a given period.	According to Josh's calculations his income is greater than his expenditure but this does not mean he can meet his day to day payments. There is a difference between the timing of his receipts and payments. He is paying suppliers straight away however he does not receive income from his customers until at least a month later. During this time he will need to keep buying raw materials. He may need to borrow to do this, paying interest or increasing overdraft facilities. He will be vulnerable to bad debts etc. As he is a sole trader he has unlimited liability.	Buying bulk will increase profits but it will have a negative effect on cash flow. Offering an incentive for early payment would reduce profit, but would not eliminate it. 22% is a high profit margin.
Cash flow is the difference between receipts and payments.		Poor profits/loss and poor cash flow can cause a business to fail. Josh is fortunate that he seems to have a product that will sell and make a profit. His concern, particularly as a business start-up is cash flow and possible over trading. Offering a prompt payment incentive is a way of bringing the two parts together. He sacrifices some profit but gets money in faster leading to a more stable cash flow. As his business becomes established he may be able to negotiate credit terms for his purchases and reducing the 10% to 5% on sales.

SECTION B**Total for this section: 20 marks**

- 11** Considering the financial information and stakeholder perspectives described in **Item A**, evaluate whether Jana should try and secure a contract with the supermarket.

20 marks

Level	Descriptor	Marks
5	Uses Item A to develop a balanced analytical response. Analyses value of both financial information and stakeholder perspective when deciding whether Jana should try to secure the contract with the supermarket. Evaluation supported by analysis.	20–17
4	Uses Item A to develop an analytical response. Analyses value of financial information or stakeholder perspective when deciding whether Jana should try to secure the contract with the supermarket. Judgement supported by analysis.	16–13
3	Uses Item A to develop an explanatory response. Explains value of financial information or stakeholder perspective when deciding whether Jana should try to secure the contract with the supermarket. Judgement supported by explanation.	12–9
2	Uses Item A to support the response. Describes financial information or stakeholder perspectives in context of the business.	8–5
1	Demonstrates generic understanding of financial information or stakeholder perspectives.	4–1

Possible responses include:**Understanding (L1):**

- **Financial Information**
Ratios measure profitability (Operating profit margin and ROCE), solvency/liquidity (acid-test) and activity (Trade payables payment period etc). Ratios are used for comparison.
- **Stakeholder perspective.**
Stake holder is anyone who has an interest in a business enterprise.

Description (L2):

- **Financial information**
Quotes ratios as being indicative of profitability, liquidity/solvency and activity.
- **Stakeholder perspective**
Key stakeholders for this type of business would be Jana, her family/other directors, employees and existing customers.

Explanation (L3):

- **Financial information**

The financial information shows that the business was more profitable in 2016 than 2017, although it is still profitable, so a lender would be happy that the business would be able to pay back loans from current activities. The business is liquid with better figures in 2017, possible suggestion that the business may have struggled in the last phase of growth. The trade receivable (debtor) collection and trade payables (creditor) payment relationship has improved in 2016.

- **Stakeholder perspective**

The business is currently stable and profitable which suits all stakeholders. A successful growth will help with profit sharing etc, but brings risks. Suppliers may be concerned that there may be delays in payment and current customers (other caterers) may worry that they are not a priority.

Analysis (L4 and L5):

- **Financial information**

The financial information presents a mixed picture for growth. The business is profitable (but not as much as 2016) so current profits could support the expansion in the short term. But perhaps there are issue with profitability regarding the deterioration between 2016 and 2017 that need to be addressed first? Liquidity has improved but what will happen if supermarkets take time to pay and also there is going to be capital investment required.

- **Stakeholder perspective**

Currently all the stakeholders have stability; however those that benefit from high profits are not getting as much as the previous year. There is an element of uncertainty about the growth which impacts on all stakeholders. Is the business overstretching itself? Is chilled food the way to go?

Judgement (L3 and L4):

- **Financial information:**

- Currently the financial figures are generally ok but perhaps the business may not be quite ready for expansion or expansion on such a big scale.
- The issue would seem to be short term-solvency.

- **Stakeholder perspective:**

- It is all about risk. This is an established business that does what it does well for many years. Would it be wise to risk this?
- The directors have a responsibility for the employees and do not want to put this in jeopardy.

Evaluation (L5):

- Not pursuing a contract is the less risky option. They could be risking the whole business, this has happened to other businesses in the past.
- Moving into supermarkets might be the only way forward if the restaurant market is saturated. If they don't do it now whilst they are a best curry winner they might not get the chance again.
- The market information might be suggesting that chilled foods is not the way to go.
- Moving into supermarkets is a competitive environment with no guarantee of long-term success.

Assessment outcomes coverage

Assessment Outcomes	Marks available in section A	Marks available in section B	Total Mark
AO1: Investigate why business enterprises plan their finances	12 marks 20%	0 marks 0%	12
AO2: Investigate the key elements of financial planning that managers and entrepreneurs must understand.	18 Marks 30%	0 marks 0%	18
AO3: Consider how managers and entrepreneurs monitor the financial performance of a business	10 Marks 17%	8 marks 13%	18
AO4: Assess information to enable stakeholders to make decisions about the financial performance of an enterprise	0 Marks 0%	12 marks 20%	12
Total	40 marks	20 marks	60

Question	Assessment Outcome 1	Assessment Outcome 2	Assessment Outcome 3	Assessment Outcome 4
1	1			
2			1	
3		1		
4	1			
5		3		
6		3		
7		3		
8	9			
9			9	
10		9		
11			8	12
Totals	12	18	18	12

Assessment objectives coverage

Question	Knowledge and Understanding	Application	Analysis and Evaluation	Total
1	1			1
2			1	1
3		1		1
4	1			1
5	1	2		3
6	1	2		3
7	1	2		3
8	3	3	3	9
9	3	3	3	9
10	3	3	3	9
11	4	4	12	20
Totals	18	20	22	60