Level 3 Certificate/Extended Certificate
APPLIED BUSINESS
ABS1

Unit 1 Financial Planning and Analysis

Mark scheme

January 2020

Version: V1 Final Mark Scheme

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 Examiner.

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.

Further copies of this mark scheme are available from aqa.org.uk

Level of response marking instructions

Level of response mark schemes are broken down into levels, each of which has a descriptor. The descriptor for the level shows the average performance for the level. There are marks in each level.

Before you apply the mark scheme to a student's answer read through the answer and annotate it (as instructed) to show the qualities that are being looked for. You can then apply the mark scheme.

Step 1 Determine a level

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptor for that level. The descriptor for the level indicates the different qualities that might be seen in the student's answer for that level. If it meets the lowest level then go to the next one and decide if it meets this level, and so on, until you have a match between the level descriptor and the answer. With practice and familiarity you will find that for better answers you will be able to quickly skip through the lower levels of the mark scheme.

When assigning a level you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best fit approach for defining the level and then use the variability of the response to help decide the mark within the level, ie if the response is predominantly level 3 with a small amount of level 4 material it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

Step 2 Determine a mark

Once you have assigned a level you need to decide on the mark. The descriptors on how to allocate marks can help with this. The exemplar materials used during standardisation will help. There will be an answer in the standardising materials which will correspond with each level of the mark scheme. This answer will have been awarded a mark by the Lead Examiner. You can compare the student's answer with the example to determine if it is the same standard, better or worse than the example. You can then use this to allocate a mark for the answer based on the Lead Examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

Indicative content in the mark scheme is provided as a guide for examiners. It is not intended to be exhaustive and you must credit other valid points. Students do not have to cover all of the points mentioned in the Indicative content to reach the highest level of the mark scheme.

An answer which contains nothing of relevance to the question must be awarded no marks.

SECTION A

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

KEY LIST

01   A – Community interest company   **[1 mark]**
02   C – Delaying paying trade payables (creditors) **[1 mark]**
03   D – Statement 1 is false, statement 2 is true   **[1 mark]**
04   C – Statement 1 is true, statement 2 is false   **[1 mark]**

0	5

Calculate how many units will have to be sold per year for the business to break-even. Show your calculations.

[3 marks]

Fixed costs/contribution(sp-vc) = Break even output. 1 mark for formula if incorrect calculation.
£120 000(1)/£300(1) = 400(1)(ofr)

0	6

What type of cost is the total expenditure on this photocopier? Explain why it is this type of cost.

[3 marks]

1 mark for identifying semi-variable cost.

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

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

This is an example of a semi-variable cost (1). A semi-variable cost has elements of fixed costs and variable costs (1). The annual charge for the lease is a fixed cost that does not change regardless of how many photocopies are made. The charge per 1000 copies is variable(1).

0	7

Explain the difference between revenue expenditure and capital expenditure for Tracey's business.

[3 marks]

1 mark for understanding of revenue expenditure eg revenue incurred on a day-to-day (running expenses) basis. (This may be implicit.)
1 mark for understanding of capital expenditure eg capital spent to acquire or improve a non-current asset. (May be implicit through an example.)

1 mark for contextual example of revenue expenditure (eg purchase of petrol)
1 mark for contextual example capital expenditure (eg purchase of taxi).

Maximum 3 marks

| 0 | 8 | **Use the information above to analyse:** |

0 **8** Use the information above to analyse:
- **one suitable way of financing the start-up**
- **one suitable way of meeting running costs for this business.**

[9 marks]

Level	Descriptor	Marks
3	Uses the information to analyse types of finance that would be suitable to finance start-up **and/or** running costs for this business.	9–7
2	Describes the types of finance that could be used to finance start-up **and/or** running costs for this business.	6–4
1	Demonstrates generic understanding of start-up **and/or** running costs.	3–1

Possible responses include:

Knowledge and Understanding (L1)	Application (L2)	Analysis (L3)
Start-up costs. Costs that must be paid before a business can operate.	Describes: • a loan from the bank (mention of interest without analysis is L2) • leasing the equipment • selling shares (to family and friends).	As L2 plus impact/consequence of chosen type of finance such as: • recognises the effect of paying interest on profit and running costs as well as cash out flows for this business • the impact of a lease on profits of this business • the long-term nature of the financing needed.
Running costs. Costs that must be paid on a day-to-day basis to keep a business operating.	Describes: • bank overdraft • trade credit • minimising drawings until the business is established (retaining profits).	As L2 plus impact/consequence of chosen type of finance such as: • Short term overdraft requirement whilst waiting for sales to rise. • Trade credit saves £750 in the first month • the limit on how much in the way of retained profits she can use (£7000 - (£750+ £1200x3+£800) = £1850. So £1850-£1250 =£600).

Calculations based on the figures could constitute analysis, but would need more than just £50000-£15000

L1   **1 mark** for only 1 of start-up or running costs.
Both 2/3 marks based on answer. An example might be indicative of 3 marks.
L2   **4 marks** for identifying only 1 of start-up **or** running costs.
      5 marks for describing only 1 of start-up **or** running costs.
      6 marks for describing both.
L3   **7/8 marks** for analysing only 1 of start-up or running costs.
      9 marks for analysing both.

| 0 | 9 | **Use the information above to analyse one way in which KT Supplies could solve its cash-flow issue in March and April.** |

[9 marks]

Level	Descriptor	Marks
3	Uses the information to analyse one way which KT Supplies manage its cash-flow.	9–7
2	Uses the information to describe one way which KT Supplies could manage its cash-flow.	6–4
1	Demonstrates generic understanding of the ways of managing cash-flow.	3–1

Possible responses include:

Knowledge and Understanding (L1)	Application (L2)	Analysis (L3)
• Understanding cash-flow e.g. o Cash inflows o Cash outflows o not the same as profit • Sale of assets • Timing of receipts and payments • Leasing rather than buying • Bank loan • Stock control	• Arranging an overdraft. The money would be received straight away but would be subject to interest payments. An overdraft of £100 000 would be sufficient. • Taking longer to pay trade payables. Change days from 30, cash going out more slowly. • Collecting debts faster say 30 days. • Offering cash-discounts for prompt payment which will get cash in more quickly.	How the method would solve the problem; the extent to which it would solve the problem, such as: • Overdraft as L2 plus recognises that an overdraft is suitable as a short-term solution. For example interest charges would only be for two months. • Rescheduling as L2 plus recognising this as a long-term and short-term solution. Changing payment period to 60 days would solve the problem. Collecting debts faster would not help in March but would in April. • Could consider the effect of this approach on relationship with customers and suppliers, e.g. customers may switch to different suppliers.

L1   **One mark** per point (maximum 3)
L2   **4 marks** for stating suitable way (overdraft/increase payment period/reduce collection period.
       5/6 marks for a description set in context of this business.
L3   **7/8 marks** for how the solution would work **or** its impact.
       9 marks for both how the solution would work **and** its impact on business

| 1 | 0 | **Use the information above to analyse the strengths and weaknesses of using only this statement of financial position to help Debbie to interpret the financial performance of the convenience store.** |

[9 marks]

Level	Descriptor	Marks
3	Uses the information to analyse the strengths **and/or** weaknesses of using a statement of financial position to interpret the financial position of the convenience store.	9–7
2	Uses the information to describe the strengths **and/or** weaknesses of using a statement of financial position to interpret the financial performance of the convenience store.	6–4
1	Demonstrates generic understanding of statements of financial position.	3–1

Possible responses include:

Knowledge and Understanding (L1)	Application (L2)	Analysis (L3)
Statements of financial position show the • Value/worth of the business • value of the assets • value of the liabilities • capital of a business at a particular date.	Strengths • Shows that the business is solvent. • There may be some short term liquidity problems (once inventory is deducted from the other current assets *ratios could be used if candidate chooses).* • Shows the book value of the business (£52 000). Weaknesses • Does not show any information about profit. • Return on capital cannot be calculated as there is no profit figure. • Does not show cash flow which would help indicate if the liquidity problem is an issue. • The information is only for one year so trends can't be seen.	Strengths as Level 2 plus answers will show how Debbie can make decisions on buying the business that consider eg • most of the business is tied up in stock. Worth investigating if this stock could actually be sold. • can see that the owner of the convenience store business is asking for more than the book value of the business. Weaknesses as Level 2 plus answers will make it clear that the statement of financial position is insufficient to make the decision eg • it does not explain why the purchase price is greater than the book value of the business. Is it because of the profits? If the profits were say £40 000 the purchase price could be recouped in just after a year. • the inability to calculate key ratios (ROCE and profit margins) means that Debbie

		can't use the information to compare with other convenience store businesses for sale.

L1   **1 mark** for mention of value /assets/liabilities/capital of the business

L2   **4/5 marks** for describing the strengths/weakness. (Quoting a figure accurately would be an example of weak description.)
       6 marks for describing strengths and weakness

L3   **7/8 marks** for analysis of strengths **or** weakness.
       9 marks for analysis of strengths **and** weakness

| 1 | 1 | **Using the financial and market information described in Item A, evaluate whether High Street Movie Theatres should accept the offer from the larger cinema chain.** |

[20 marks]

Level	Descriptor	Marks
5	Uses **Item A** to develop a balanced analytical response. Analyses both financial **and** market information to decide whether HSMT should sell the business. Evaluation supported by analysis.	20–17
4	Uses **Item A** to develop an analytical response. Analyses financial **or** market information to decide whether HSMT should sell the business. Judgement supported by analysis.	16–13
3	Uses **Item A** to develop an explanatory response. Explains financial **and/or** market information when deciding whether HSMT should sell the business. Judgement supported by explanation.	12–9
2	Uses **Item A** to support the response. Describes financial information **and/or** market information in context of the business.	8–5
1	Demonstrates generic understanding of financial information **and/or** market information.	4–1

Characteristics of different levels of answers:

Knowledge (L1):

Ratios measure profitability, solvency/liquidity (gearing) and activity. Financial information shows actual information such as net assets.

Market information includes market trends and market and industry research.

To receive 3–4 marks candidates must demonstrate generic understanding of both financial and market information.

Knowledge in context (L2):

Provides a commentary on the information – is it good or bad eg
- operating profit margin has risen
- the market information suggests that the market is dominated by three chains.

To receive 7–8 marks candidates must describe both financial and market information.

Explanation (L3):

As L2 but explains why this is good or bad eg
- operating profit margin has improved since 2019
- HSMT is a boutique-type cinema and the market information suggests that this is an area of growth.

Only a very simple judgement is sought here – for example, an assertion that HSMT should accept the offer or not.

To receive 11 marks candidates must explain both financial and market information.
To receive 12 marks candidates must explain both financial and market information and make a judgement.

Analysis and Evaluation (L4 and L5):

As L3 but L4 analyses how this will be of value in making the decision eg
- during a period of expansion from 6 to 13 cinemas HSMT has managed to improve its short-term liquidity and with only a small increase in gearing. Operating profit margins also increased. This suggests that the business can manage expansion to 12 more towns. If similar ratios next year the purchase price of £30 million whilst higher than net assets could be considered low.
- HSMT has a business model that seems to be working. Although it does not have the ability to exploit "big screen" technology that 70% of the market can, the boutique market is growing. It is likely that new towns would welcome HSMT to help its high street problem. This suggests that HSMT can repeat its success. The larger independent cinema is probably recognising this in the offer over net asset value, but is it enough?

Note that whilst students are invited to argue from the point of view of accepting the offer and using the £30 million figure, they may choose to analyse why they should continue/or not with the directors plan instead, referencing the financial information. Similarly students can use market information to build a case for continuing with expansion.

Judgement should be supported and based on the analysis of financial **or** market information. However, it will be a one sided judgement in that both sets of information are not analysed.

Level 5 requires analysis of both financial and market information.

Evaluation decision based on analysis. Two marks are reserved for evaluation at Level 5.

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		8	1	
10	1		8	
11			9	11
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**