Examiners' Report/
Lead Examiner Feedback

May 2014

NQF BTEC Level 1/Level 2 Firsts in Business

Unit 2: Finance for Business (20498_E03)

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Introduction

This report has been written by the Lead Examiner for Unit 2: Finance for Business. It is designed to help you understand how learners performed on this test. The report provides an analysis of learner responses for each question. You will also find example learner responses, with commentary.

The external assessment for this unit is an onscreen, on-demand test. A number of tests are live within the 'test bank' at any one time and learners are allocated tests randomly from those available to be sat. It should be noted that this report refers to the first test retired from the live 'test bank'. Whilst not all learners will have sat this particular test, the Lead Examiner's comments provide valuable feedback, relevant across different tests for this unit.

We hope this will help you to prepare learners for the external assessment for this unit.

Grade Boundaries

Introducing external assessment

The new suite of 'Next Generation' NQF BTECs now include an element of external assessment. This external assessment may be a timetabled paper-based examination, an onscreen on-demand test or a set task conducted under controlled conditions.

What is a grade boundary?

A grade boundary is where we 'set' the level of achievement required to obtain a certain grade for the externally assessed unit. We set grade boundaries for each grade (Distinction, Merit, Pass and Level 1 fallback).

Setting grade boundaries

When we set grade boundaries, we look at the performance of every learner who took the assessment. When we can see the full picture of performance, our experts are then able to decide where best to place the grade boundaries – this means that they decide what the lowest possible mark should be for a particular grade.

When our experts set the grade boundaries, they make sure that learners receive grades which reflect their ability and performance shown in the assessment. We have awarded grade boundaries for the first time for out new Next Generation BTECs, so this means that a learner who receives a 'Distinction' grade on a particular test will have demonstrated similar ability to a learner who has received a 'Distinction' grade on another version of the Unit 2 onscreen test. Awarding grade boundaries is conducted to ensure learners achieve the grade they deserve to achieve, irrespective of variation in the external assessment.

Variations in external assessments

Each test we set asks different questions and may assess different parts of the unit content outlined in the specification. It would be unfair to learners if we set the same grade boundaries for each test, because then it wouldn't take into account that a test might be slightly easier or more difficult than any other.

The grade boundaries for this first retired onscreen on-demand test which has been retired from the test bank are shown below.

Grade	Unclassified	Level 1 Pass	Level 2		
			Pass	Merit	Distinction
Boundary Mark	0	12	22	32	43

General Comments on the Onscreen Test

This test is the first external assessment to be retired from the live 'test bank'. This test has been available for on-demand testing since November 2013.

The test is designed to all learners of all abilities to respond effectively to the questions within it. The test has been written with allowing for less challenging questions towards the beginning and middle of the test to be combined with more challenging and stretching questions towards the middle and the end of the test. Most learners were able to respond effectively to the less challenging questions with some of the more challenging questions providing mixed responses allowing for differentiation to take place. Extended writing questions were also trailed in emails from the Subject Advisor allowing Centres to prepare their learners for the demands of these questions in advance.

As Unit 2 is a vocational Business-related unit, the external assessment seeks to give the learner applied situations through providing them with situations and data to use in their responses. It is essential that centres stress to learners the need to read the stimulus information carefully before they answer questions, and that they are prepared to use that information within their responses where appropriate. Credit will always be given for using data within responses provided and in some cases can act as a means of showing the understanding of the learner of the specification content. It may also act as a means of showing higher level achievement within responses provided.

On the whole there was evidence to suggest that across a number of questions on the paper the subject content has been taught broadly with learners having a sound understanding of the general concepts and knowledge associated with the specification. This breadth of knowledge though was not combined with a depth of understanding of key terms and concepts that underpin the breadth of the subject. Examples could be seen in terms of learners having a general knowledge of what financial statements were but little knowledge of how these were constructed, the calculations that were involved in completing them or the meaning and significance of individual terms within these statements.

One of the main aspects tested by the paper is the ability to carry out financial calculations. It was pleasing to see that a number of learners were able to recall simple formulae and apply these to the data provided. Examples of these include the calculation of total revenue and the simple calculation of profits or losses having being given total revenue and total cost data. Where there were issues were with the application of numerical methods to carry out multistage calculations. On this version of the paper these were represented by the calculation of items within the statement of financial position as well as reordering the break even formula using given data. Centres should be looking to teach learners not only all calculations involved in constructing financial statements but also reordering formulae such as the break even formula which is able to be tested as outlined within Annexe C of the specification.

Centres should also remember that the focus of this examination is on financial issues which face businesses of all kinds. In a number of questions on the paper it was seen that responses included non-finance based content. If this content can be related back to financial considerations then this is likely to gain credit especially in longer responses, however if discussion related to other aspects of the specification content (eg: marketing) then no credit was given for this.

Question 1

**Targeted Specification Area : Learning Aim B1
Understand the planning tools businesses use to predict
when they will start to make a profit**

This is a question which looks to test the learners knowledge of costs and its relationship to the break even point. This question performed reasonably well with over half the learners getting the correct answer. The use of a drop down list is one of many mechanisms that can be used to allow learners to select the answer that they think is correct. Even though this is the first question on the test, learners should take care to ensure that they read all of the responses within the drop down list to ensure that they select accurately the answer that the propose to submit.

Question 2

**Targeted Specification Area : Learning Aim C1
Statement of financial position (balance sheet)**

Another mechanism that can be used to test a learners knowledge of the given subject matter is making a selection from number of given options. This question tested the learner's understanding of sources of external capital. Although the term finance was used in the question, this is an interchangable term with capital in these circumstances and was considered not to be confusing to learners. This question did not perform well, and it was disappoint to see that only approximately a third of learners identified the correct answer from the options given. Centres should focus on ensuring that learners can recognise the different forms of internal and external sources of capital

Question 3

**Targeted Specification Area : Learning Aim A1
Understanding the costs involved in business**

This question seemed to provide few problems for learners as the vast majority of learners attempted this question, and many achieved full marks. Questions of this nature require learners to give a correct definition to the topic being covered and then develop this simplistically in order to achieve the marks on offer. Centres should ensure learners get plenty of opportunity to practice questions of this type before attempting the test. A detailed response which would have achieved full marks for the question is shown below:

> Operating costs are day to day expenses to keep a business running. For example a cafe would need hot water to serve teas and coffees, the cafe would need electricity running to heat the water used to make the teas and coffees.

The first mark would have been achieved for identifying that an operating cost keeps the business running on a day-to-day basis with the second mark being achieved for

the example provided. Whilst this is a detailed response to the question, this does show clearly all of the elements required to achieve full marks. A less detailed response which would also have achieved full marks is shown below:

> an operating cost keeps the business running on a day to day basis, e.g rent, wages.

Whilst not as detailed an answer, both an initial definition with an example had been provided which achieved full marks for the question. This demonstrates that it is not always necessary to write at length in order to achieve all marks available on this type of question.
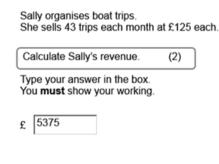
Question 4

<table>
<tr><td>Targeted Specification Area : Learning Aim A2
Understanding how businesses make a profit</td></tr>
</table>

As this is a business finance paper, opportunities will be taken throughout the test to check a learner's ability to carry out calculations relating to topics within finance. In this question learners were required to carry out a calculation to establish the total revenue of a given business. A large number of learners were able to calculate correctly the total revenue for the given business.

Whilst it is good to see so many learners able to provide the correct answer, it was clear that a number of learners were not making use of the working box to illustrate the process they had gone through to provide an answer to the question. If the answer given was incorrect then credit could have been given if learners demonstrated their correct workings in the working box. Learners should get into the habit of using the working box for all questions requiring a calculation.

Below is an example of good practice when answering this type of question. Although the correct answer can be awarded anywhere on the screen, it is good practice to put the worked answer into the answer box. It is also good practice to show the workings used to arrive at the answer. Marks can be awarded for showing the formula in numbers or words even if the final answer given is incorrect.

Sally organises boat trips.
She sells 43 trips each month at £125 each.

| Calculate Sally's revenue. | (2) |

Type your answer in the box.
You **must** show your working.

£ 5375

Working box

$125 \times 43 = 5375$

Show ▶

In this example the learner has put the correct answer in the answer box as well as showing the processes that they have followed when arriving at the answer in the working box

Question 5

This question was a multiple choice question which tested the recall of a simple financial formula which is given within the unit specification. As such three quarters of the learners were able to identify that total cost was equal to fixed cost plus variable cost. Learners should ensure that they read carefully when formulas are given as variations in the formulas were given as options. It is likely that the reason some learners did not get the correct answer was through not reading thoroughly the options available.

Question 6

This question used the same mechanism as Question 5 to establish a learner's understanding of direct costs. A generic business is used, as BTEC Level 2 Next Generation is a vocational qualification. As such simple business situations could be provided to test a learner's understanding of the concept being tested.

By understanding what direct costs are, learners should be able to establish that the cost of flour for making the bread would be the correct response. Centres should be aware that teaching content in a vocational manner would help ensure learners are able to apply their knowledge in a wide range of business situations.
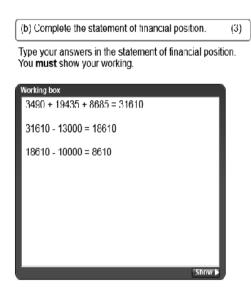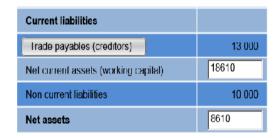
Question 7

This question was aimed at testing a learner's depth of understanding of the statement of financial position. When using accounting terminology in scenarios and situations the current International Accounting Standards (IAS) term will be given first with the UK Generally Accepted Accounting Practice (GAAP) terminology shown in brackets besides it on most occasions. Subsequent uses of the terminology in the question will then use the IAS term.

This question differentiated well between those learners who had a sound understanding of the terminology and structure of a statement of financial position and those who seemed to have had only a basic grasp of the purpose of a statement of financial position.

Part (a) of the question was aimed at being able to identify a definition for trade receivables (debtors). Part (b) of the question was looking to test knowledge of the underlying structure of a statement of financial position by calculating the net current assets (working capital) figure and the net assets figure using given data.

Whilst a good number of learners were able to identify trade receivables from the given list of definitions, few were able to provide correct responses to calculations required in part (b). This underlying understanding of the structure of financial documents is not only important in this question, but will allow learners to have the analytical and evaluative skills required to access the full mark range in some of the extended writing questions. Again credit is given for use of the working box if incorrect answers were seen in the answer boxes. Below is an example of a response to part (b) that achieved full marks:

Common errors that were seen tended to be around the calculation of the net current assets figure. Many learners were able to complete the first part of the calculation in terms of working out the total for current assets but the failed to deduct the current liabilities from this total. By deducting all liaibilities together for the total current assets figure they were still able to arrive at the correct answer for net assets. Centres should ensure learners understand the various calculations that are needed to construct the statement of financial position as this also will improve understanding when it comes to analysing financial documents

Question 8

<table>
<tr><td>**Targeted Specification Area : Learning Aim B2**
Understand the tools businesses use to plan for success –
cash flow forecasting</td></tr>
</table>

This multiple choice question is aimed at identifying reasons why businesses would create a cash flow forecast. The majority of learners were able to achieve one mark for this question although few were able to achieve both marks on offer. It is different from other questions of this type as learners are expected to select two responses from the five available as opposed to one from four. Learners should ensure that they read carefully all of the responses before making their chosen selections. This will allow an informed choice allowing learners to select the most appropriate answers

from the responses given. Centres should ensure that learners have a good understanding of the purpose of all financial planning tools and financial documents that are identified in the specification.

Question 9

<table>
<tr><td>Targeted Specification Area : Learning Aim B2
Understand the tools businesses use to plan for success –
cash flow forecasting</td></tr>
</table>

This is the first of two extended writing questions on this version of the test. It is important that learners carefully read the given case study material as well as the stimulus before the question and the data before answering the question. This will provide the learner with a clear overview as to the material that will need to be considered in their responses.

The number of marks available is a clear indication as to the level of depth that is required from a response. These questions require a high level of application to the scenario and data provided. Centres should ensure that their learners have plenty of practice in writing extended answers in the context of case study material. The average mark for this question was towards the top of Level 1 which implies that learners were able to extract some information from the table but not use this effectively. Centres should develop the skills of data usage in their extended writing practice to ensure that learners are able to access all levels of the marks available. This will allow learners to make full use of all of the materials provided to provide as full an answer as possible.

In the case of this question, learners were required to discuss solutions to problems which exist within the given cash flow forecast, as well as any indicated within the scenario. The mark scheme for these extended writing questions are levelled across three levels with the achievement being determined by the ability of the learner to meet the level descriptors and the indicated outcomes within the appropriate level.

It should be noted that the quality of written communication, although not marked within the test, hindered the achievements of some learners as they were not able to express their thoughts in a clear manner which made it difficult to follow the train of arguement they were making. Most learners were able to state some issues of note or some solutions to these issues, but very few were able to develop these into considered solutions which made good use of the context provided. Centres should develop with their learners the ability to use data within their answers as opposed to just restating it from the data table given. The use of data within answers is likely to allow learners to demonstrate higher levels of skill necessary to develop their answers further.

Below is an example of a learner response which achieved at the top of Level 1 gaining 3 marks. The learner has provided two solutions to issues identified from the data but these have not been developed sufficiently to achieve beyond the top of Level 1. To have achieved at Level 2 the learner could have provided a third solution to a problem within the cash flow forecast or fully developed one of the solutions given by talking about consequences of solutions, limiting factors or any other considered development which shows a full understanding of the situation facing the business.

she is spending more on materials than she needs to.so a solution would be to have a fixed cost price for materials from a supplier.another problem is her outflow is usally much more than her inflow.a solution to that could be her raising website maintenance fees.

Below is an example of a learner response which achieve a mark in the middle of Level 2 gaining 5 marks. In this example the learner has provided three or more solutions to the problems identified within the data and has developed one of these into a solution which fully addresses the issue. To achieve a mark within Level 3, the learner should look to provide a detailed solution to two or more of the problems identified, ensuring that these fully address the issues.

To solve her cash flow problems, Hannah needs to bring up her income/inflows or cut down her expenses/outflows. To do this she could charge more for her services from her customers, this would bring up the revenue and lower the debt she goes int the the end of each month.
She could also hunt around and find cheaper materials to cut down cost of sales, this would mean the total outflow would be less.
Another thing that Hannah could do is review her staff and see if she needs all of the workers she has because this adds £4000 expenses every month as a fixed cost.
Hannah could also consider buying cheaper computer equiptment that does all the jobs she needs but with a lower price.
Hannah could also try and increase sales, she could do this by advertising on other webistes of in magazines etc.

Any of these changes could result in a more positive cash flow forecast, so that she retains more profit throughout the future of her business.

Below is an example of a learner's reponse which achieved a mark at the top of Level 3 gaining 8 marks. In this example the learner has considered three or more issues with relevant solutions given which fully address the issues raised. The solutions are appropriate within the context of the data and make good use of the data to support the solutions given.

Hannah only just has enough money to cover her costs in most months so she is not generating enough revenue. She could maybe reduce her salaries, as they are £4000 each time and in some months her total inflows has been less than what she is paying for the salaries. If she hadn't had £2500 in her bank to start with, her closing balance in July may have been negative because it is only just £500 with the money that she had to start with. Hannah could maybe look into getting cheaper raw materials as well, because in July her cost for materials is £1200. In most months her net cash flow is negative, so she could try and reduce her costs so that she knows that she is always going to have money to cover them. She could also try to increase her revenue because her total inflows are always less than her total outflows. She could do this by trying to advertise her business wherever she can so that she would get more customers and more publicity. If Hannah's business carries on the way that it is, she could end up in loss.

Question 10

This is a two part question whose format is common where learners are tested on their ability to provide their understanding or knowledge of an area of the specification, and then asked to develop an answer to a given issue or business decision.

Where questions ask learners to "state" answers, fully developed sentences are not required. It is possible for learners to provide simple single word answers in order to achieve the marks on offer. When learners are asked to explain then learners need to provide a correct response to the question which is supported by development of the response given.

Most learners were able to provide some responses to part (a) of the question, however part (b) was answered less well with learners not able to develop answers in an appropriate manner to achieve the marks on offer. This development is required in order to access both of the marks on offer for this part.

One common error which was observed for part (a) was that learners gave solutions which were effectively restatements of the solution that had already been given in the question (in this case expanding the product range). Another problem was that some learners provided solutions which did not involve spending money, thus indicating that the learner had not thoroughly read the question. To gain credit learners should have looked to provide two ways in which this business could have spent money in order to help increase revenue.

The example below shows a response that achieved full marks to this part by identifying two ways in which the learner could achieve a revenue increase through spending money.

> Sasha could expand and make her stall bigger so she can hold more stock to sell

> Sasha could advertise her stall with signs and boards so more customers are drawn to it.

Below is an example of a weaker response to this part. One of the common mistakes learners made was to use increasing pricing as a means of spending money to increase revenue. This action does not involve spending money and therefore is an incorrect response.

> higher up the prices of flowers

> advertise more

In part (b) the learner is given a potential solution (in this case expand the product range) and is then asked to explain its effect on the break even point. A large number of learners were not able to explain what effect this had on the break even point, whereas some only identified what might happen to the break even point without explanation (i.e. it would go up or down). Both of these achieved no marks for part (b). Better answers showed the learner able to not only identify the effect on the break even point correctly but also able to explain why this would take place. An example of this can be seen below:

> Sashas breakeven point would go up because she will be buying more stock to sell so she would need to sell more to breakeven or make profit then she was before.

Weaker responses failed to qualify the change to the breakeven position in their responses. A large numbers of learners did not understand the relationship between an increase in the product range and its effect on the breakeven point. An example below illustrates this. Both of these responses achieved no marks. The common theme is that there was a lack of understanding shown beyond the basic concepts relating to breakeven.

> If Sasha will increase the product range she will get more sales therefore the break even might become a profit.

> if she increases the product range it means she will be having a equal expenditure and a equal revenue which means whatever comes in she will be spending to keep having the same products which will just affect or cause a breakeven.

Question 11

This multiple choice question required learners to select two responses from a possible five given and was testing the understanding of opening balances and net cash flow on a cash flow forecast. Most learners were able to understand the concepts and were able to select at least one correct answer. Again this question shows the applied nature of the paper in terms that learners are expected to use the material given to them in order to provide responses to the question.

Question 12

As with previous numerical questions, learners are required to take the data from the stem of the question and in this case calculate the profit or loss that the business has made. It was surprising the number of learners who did not achieve full marks on this question given the simple nature of the calculation. The most common errors seen in responses related to the incorrect use of decimal points in the learner's answer and/or incorrectly adding the two figures together rather than subtracting the total cost from the sales revenue. In the responses seen, there was better evidence of using the working box as some learners were able to state the calculation (either as a formula or as the numbers used in the calculation) but were not able to give the correct answer. This meant that learners were able to be credited with one mark for this even though the final answer was incorrect. Centres should encourage learners to show their workings, particularly where learners have to know the formulae in advance of the test.
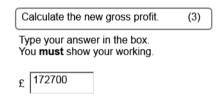
Question 13

Again learners were given a series of statements, this time linked to the purpose of a statement of financial position. Centres should encourage learners to read all of the responses to ensure that they have considered all of the possible options when attempting to answer this question. This question was not particularly well answered and centres should prepare learners in advance of the test to ensure they have a sound understanding as to the purpose of the financial documents identified in the specification.
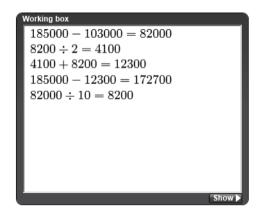
Question 14

As was mentioned earlier, it is important for learners to have a clear understanding of how the various elements of financial statements are made up. This was the case with this question as learners had to understand how gross profit is calculated by subtracting cost of sales from total sales. It was clear that a large number of learners did not understand the difference between gross and net profit, and many learners failed to achieve any marks on this question. This shows the importance of teaching for an understanding of the full specification content.

Even when learners were able to show their understanding of the calculation, there were very few instances of learners being able to carry out the steps necessary to calculate the percentage discount. Centres should ensure that they incorporate some understanding and practice of the mathematical knowledge which is signposted within Annexe C of the specification.

This was another good example of a question where learners should look to use the working box in order to gain credit where correct elements of the calculation were given. This was best evidenced where some learners were able to calculate correctly the current cost of sales (£82 000) but were then not able to complete the remainder of the calculation correctly. The example below shows a good example of how the learner can provide an incorrect answer but still achieve 2 marks out of the 3 marks available by showing their working out:

Calculate the new gross profit. (3)

Type your answer in the box.
You **must** show your working.

£ 172700

Working box

$$185000 - 103000 = 82000$$
$$8200 \div 2 = 4100$$
$$4100 + 8200 = 12300$$
$$185000 - 12300 = 172700$$
$$82000 \div 10 = 8200$$

Show ▶

Question 15

As with similar questions learners are expected to provide an appropriate answer which is then developed further in order achieve both of the marks available for this question. Where learners provided two separate correct points then the maximum mark that could be achieved was 1 mark as the question asked for one way expained, not two ways listed/stated. The illustration below shows how a learner could develop a response which would achieve 2 marks:

> so they know how much money is going in and out of their business at specific periods of time and to see if they are making any profits or losses. they could also see what the value of their business is

The first mark is achieved by the learner identifying that a financial statement is a snapshot of a business at a given moment in time. This is further developed through saying that this can be used to identify whether a business is making a profit or loss, which achieves the second mark. Although the learner in this response gives a second point in their answer, this was not awarded as the question clearly states that only one reason should be explained. This demonstrates the importance of reading the question carefully before answering to ensure that the learner addresses exactly what is required as asked in the question.

Question 16

Targeted Specification Area : Learning Aim C2 Understand how a business can be more successful

This question was not answered well with many learners achieving no marks. There was an clear lack of understanding that capital employed shows the forms of capital that have been used to set up the business. The majority of learners confused capital employed to mean the forms of labour that the business may have employed to carry out the business operations.

This meant that part (a) and part (b) were not answered well. The purpose of this question is to test the deeper understanding of financial statements and, in this case, the statement of financial position. Centres should be aware that this deeper understanding will aid learners, not only when answering specific questions like these, but when carrying out analysis and evaluation in extended writing questions.

Again part (b) is an example of a question which gives learners the opportunity to give a statement answering the question and then developing this point to achieve the second mark on offer. The example below shows how one learner has made a statement about why the business should be worried about the fall in capital employed, and has then developed this for the second mark:

> His capital employed has probably fallen because shareholders have pulled out of the business. He should be worried about this because this means the shareholders think his business isn't worth investing in anymore. This may be because they think he is going to make a loss.

Question 17

Many learners were able to access this question and provide some written responses in relation to the situation given. Most of the learners that attempted this question were able to identify that sales could increase by reducing the selling price. Many learners did not develop this correctly by showing how this would increase profits. Simplistic statements about revenue increasing would lead to profits increasing were made by many but these did not fully address the question. Learners needed to consider the need to cover the increased cost of selling more items (eg: materials cost) and that the increase in revenue must more than cover this in order to access the second mark.

Question 18

The second extended writing question on the paper was designed to give learners an opportunity to write at length on a set of given data where a number of potential viewpoints could be considered. As with any extended writing question, it is expected that learners display a high degree of application in their answer which is achieved through clear use of the case study material. It is important therefore that learners read carefully and understand what the data is showing about the business in question. Again Centres should ensure that their learners are prepared to write in an extended manner prior to the examination.

One issue seen in a number of responses to this question was that answers considered a range of non-financial issues, for example discussion of marketing strategy. No credit can be given to learners if they discuss non-financial considerations in their responses as this is a finance paper and answers should be limited to discussion of this.

Again the quality of written communication hindered the efforts of some learners who were not able to clearly communicate their responses. It is important that Centres practice the skills required when producing extended written answers so that learners can access the full range of marks available for the question.

In this particular question learners were expected to discuss possible impacts on the business if it decided to reduce its product range. A number of learners did not consider this which effectively meant that they were not answering the question. It is important that when learners produce responses to this and any other questions, they ensure that what they are writing answers the question set. The mark scheme again was levelled across three levels with the achievement being determined by the ability of the learner to meet the level descriptors and the indicated outcomes within the appropriate level.

Again it is important to stress that data should be used when providing a response to questions of this nature. The data is there for learners to interpret and use within their responses.Providing an answer using the context and content of the data is important in order to achieve marks in response to the question set. In case of this question there were a number of calculations or elements of manipulating the data which learners could have included within their responses which would enhance the marks achieved as a consequence. One example of where calculations could enhance an answer includes calculating the profits or losses made when removing certain products to support the judgements made by learners in their responses. Centres should practice manipulating data with their learners to develop this skill for future sessions.

Below is an example of a response that achieved a mark at the top of Level 1 achieving 3 marks. The learner has stated three impacts which could apply to the business discussed in the context of the question. The comments that were made are generic in nature and do not make use of the case study data provided. None of the impacts that have been written about have been developed thus limiting the mark that can be awarded. If the learner had developed any of these impacts or there had been some use of the data from the context then this would have put the mark into Level 2.

> If the business cuts down on what products they sell they would not make as much money because they don't have much of a range for people to buy from. their break even would go up so you would always need to be selling all of your products that you buy just to make a profit.
>
> The selling price would have to go up because they would not have a big enough range to sell the products really cheap.

Below is an example of a response that achieved a mark at the top of Level 2 achieveing 6 marks. The learner has considered two different impacts on the business of the decision taken and considered these in reasonable detail. In places there is some imbalance between the different impacts but there is a clear use of the case study material in the answer given, even though figures are not quoted. The difference between Level 2 and Level 3 is the requirement of the learner to have considered a third impact in a similar way and create balance between theimpacts already discussed, makingfull use of the case study and data within it.

> If the product range is decreased then the variable costs and the total costs will go down as there will be less products being made, this could mean the business makes more profit, but it could also lose profit if a toy that has a high revenue is discontinued.
>
> Reducing the product range needs to be reviewed carefully as you only want to get rid of products that are not making you money, for example if you were reducing the product range in this example you would most likely want to consider discontinuing the range of puppets, as its total costs are more than the revenue it brings in each month and it breakeven is high.
>
> If the product range is decreased then the breakeven point will drop to a lower point as there will be less costs to cover, also the fixed costs could be reduced as machines or labourers getting paid to make/or to be run to make these toys will not need to be paid or could be moved onto another toy base to increase the revenue of that instead.
>
> You could use the money that was originally spent on making the other products and use it for advertising or increasing the products made, this could then increase revenue and maximise profit.

Below is an example of a response that achieved a mark at the top of Level 3 , i.e. 8 marks. In this response the learner has considered three different impacts and has shown balance in the discussion between all three. There is a clear link to the context within all of the comments made which has allowed the learner to achieve full marks for the response given.

The puppets are not making the business any money they are acturally costing the business twice as much as the revenue they are producing. the spinning tops are not making any profit or any loss. The toy cars and the action figures are both making a profit. The puppets are the worst of the products because their output is 100 and the amount needed to break-even is 5 times it. If the business wa to stop selling the puppets it would be a benefit to them because the puppets are lossing them £1200 although they may need to be replaced with another product that willmake the business money so it doesn't loss them customers. Again if they was to get rid of the spinning tops it wouldn't affect their profit because they aren't producing a profit or a loss. Although if the business wanted to increase profits they could increase the selling price of the spinning tops and the puppets so that they do make a profit or they could reduce the variable cost per item especially for the puppets that are only being sold at £3 more than it costs to make them. I would not advise this business to stop selling the toy cars or the action figues as they are both making the business a profit and could loss the business customers if they where to remove these products.

Llywodraeth Cynulliad Cymru
Welsh Assembly Government

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